



**REPUBLIC OF KENYA
COUNTY GOVERNMENT OF MACHAKOS
COUNTY ASSEMBLY OF MACHAKOS**



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**THIRD ASSEMBLY
THIRD SESSION (03)**

**REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF
MUNICIPAL COUNCIL OF MACHAKOS WATER AND SEWERAGE COMPANY
LIMITED FOR YEAR ENDING 30 JUNE 2022**

**BY THE
PUBLIC ACCOUNTS AND INVESTMENTS COMMITTEE**

SEPTEMBER, 2024

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EXECUTIVE SUMMARY

Hon Speaker, this report on the Financial Statements of Machakos Water and Sewerage Company for the year ended June 2022 was received in the Assembly on 10th March, 2023 pursuant to Article 229 (7) of the Constitution. The report was committed to Public Accounts and Investments committee pursuant to Standing Order No. 185 (2) (b) and (c) and the report had a **qualified opinion**. The key queries raised in the audit report include inaccuracies in trade and other receivables, lack of debt policy, excess non-revenue water, long outstanding receivables, use of expired water tariffs, non-compliance with WASREB regulations, weak ICT policy, non-compliance with WASREB regulations, non-disclosures and lack of training needs policy.

The Committee while exercising its mandate scrutinized the queries and noted some issues such as such as lack of supportive reconciliations and ledger schedules, lack of approved debt policy, improvement in reduction of non-revenue water, challenges in recovery of debts especially huge debt from the County Government, difficulties to get new water tariff because of challenges of license and relevant documentations, delay of remittances to relevant bodies and lack of ICT policy among other observations.

In order to address these issues raised from the particular queries the committee recommends observance of accuracy when doing postings, formulating of a debt management policy based on scientific findings, working towards replacing the old meters with smart water meters that cannot be easily tempered with, installing of centralized meters, fast tracking the license renewal process and all other documents required in renewal of the Water Tarrif and the County Government through the County Assembly should ensure that all the pending bills owed to the Water Companies are budgeted and paid.

1.0. INTRODUCTION

1.1 Preface

Hon. Speaker, The Public Accounts and Investments Committee is a Select Committee established pursuant to Standing order No. 185. The Committee is mandated to;

- a) Examine 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) Examine 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

1.2 Committee Membership

Hon. Speaker, the Committee comprises of the following Honorable members;

- | | |
|-------------------------|------------------|
| 1. Hon. Philip Ndolo | Chairperson |
| 2. Hon. Ruth Wanjiru | Vice Chairperson |
| 3. Hon. Raphael Lucky | Member |
| 4. Hon Charles Mbuva | “ |
| 5. Hon. Muoki Musila | “ |
| 6. Hon. Douglas Musyoka | “ |
| 7. Hon. Caroline Mutuku | “ |

1.3 Committee Secretariat

1. Mr. Luke Maingi – Clerk Assistant
2. Mr. Patrick Muange – Clerk Assistant
3. Mr. Joseph Mutiso – Hansard Officer
4. Ms. Miriam Nthoki – Serjeant at arms

1.4 Background

Hon. Speaker,

The Audit report on the Financial Statements of Machakos Water and Sewerage Company for the year ended June 2022 was received in the Assembly on 10th March 2023 pursuant to Article 229 (7) of the Constitution that states that *Audit Reports shall be submitted to Parliament or the*

relevant County Assembly. On receipt of the audit report, it was committed to Public Accounts and Investments committee pursuant to Standing Order No. 185 (2) (b) and (c) and the report had a **qualified opinion**.

The Committee on Public Accounts while exercising its mandate as provided in Standing Order 185 invited the Accounting Officer and conducted interrogation on the audit report on 29th April 2024. This is as per the provisions of Article 226(2) of the Constitution that provides that *the Accounting Officer of a County public entity is accountable to the County Assembly for its financial management.*

1.0. GUIDING LEGAL FRAMEWORK

Hon. Speaker,

In the execution of its mandate the afore-stated, the Committee was guided by core Constitutional and Statutory Laws on public finance management below:

2.1. The Constitution

Article 201(a) (d) (e) provides that;

(a) there shall be openness and accountability, including public participation in financial matters;

(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.

Article 226(2) of the Constitution states that the accounting officer of a county public entity is accountable to the county assembly for its financial management.

Further, Article 229 (5) of the Constitution provides that “*the Auditor-General may audit and report on the accounts of any entity that is funded from public funds.*”

Article 229(8) of the Constitution states that “*within three months after receiving an audit report, the parliament or the County Assembly shall debate and consider the report and take appropriate action.*”

2.2. The Public Audit Act 2015

Section 47 (1) provides that;

12. (1) The financial statements required under the Constitution, the Public Finance Management Act, 2012 (No. 18 of 2012) and any other legislation, shall be submitted to the Auditor-General within three months after the end of the fiscal year to which the accounts relate.

Section 48 (1) states that within six months after the end of each financial year, the Auditor-General shall audit and report, in respect of that financial year, on the accounts specified in Article 229 of the Constitution

2.3 County Assembly of Machakos Standing Orders

- a) Standing Order 185 mandates the Committee on Public Accounts and Investments to Examine reports, accounts and workings of the County Public Investments

3.0. QUERIES IN THE FINANCIAL STATEMENTS

Hon. Speaker, in adherence to Section 48 (1) of the Public Audit Act, 2015, the Auditor General audited the financial Statements of the Machakos Water and Sewerage Company in question as disclosed below. Further, the Accounting Officer in observance of Article 226(2) provided responses to each of the queries as outlined below.

3.1 Accuracy of Trade and Other payables

The statement of financial position and as disclosed in Note 21 to the financial statements reflects trade and other payables balance of Kshs. 119,744,237. However, the ledgers provided in support show a balance of Kshs. 114,145,285 resulting to unexplained variance of Kshs. 5,598,952.

In the circumstances, the accuracy of trade and other payables balance of kshs.119,744,237 could not be ascertained.

3.1.1 Management Responses

As noted by auditor the variation in trade and other payables balance was noted. A reconciliation of the creditors was done and all supporting documents provided, the same was effected in the resubmitted financial statement as contained in note 21.

Thus, the balance of Kshs. 119,744,237 reflects a true and fair view of the actual position of the trade and other Payable balance at the time of reporting. Ledgers in support of trade and other payables have been provided in as shown as in **annexure1**.

3.1.2 Committee Observations

- i. The kshs.119,744,237 reflects the true and actual position of the Company's trade and other payables and the amount represents payment for suppliers, remittance to pension schemes, auditor general and Tanathi Water works Limited.

- ii. An amended financial statement showing reconciliation of the variance of Ksh. 5,598,952 and supporting ledgers for creditors were prepared and submitted to the Auditor General for verification and this was confirmed by the Auditors during the interrogation exercise.

3.1.3 Committee Recommendations

- i. That the Accounting Officer should ensure correct posting of the entries in the financial statements to avoid unnecessary errors which lead to audit queries that would otherwise have been avoided.
- ii. That the Company should for purpose of future reports provide all the documents required by the Auditor during the audit time as provided under section 9 and 47 (2) of the public audit act 2015
- iii. The Accounting Officer should forward invoices for suppliers and schedules for unremitted payments to pension schemes and Tanathi Water Works.

1.2 Lack of a Bad debts Policy

Note 17 to the financial statements discloses an amount of Kshs. 46,379,545 in respect to provision for bad debts. Further, included in Note 9(a) under administration cost is an amount of Kshs. 7,091,565 in respect to bad debts charge in the period under review. However, there is no approved policy on provision of bad debts in place.

In the circumstances, the accuracy and adequacy of the provision sum of Kshs. 7,091,565 could not be confirmed.

3.2.1 Management Responses

Provisions for doubtful & bad debts are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material. The provision for bad doubtful debts amount was estimated by the Board to be 50% of the inactive trade receivables.

Active debts are debts being serviced by the clients while inactive debts are debts outstanding for more than 120 days. As at the time of audit review and approval of the finance manual was in progress and has since been approved by the board for implementation. Provision for bad debts is

well outlined in chapter 5(6) of Machakos Water & sewerage Company Finance Manual, Issue No. 002 of 2022.

Attached on **annexure 2** is an extract of the company Finance Manual Issue no. 002 of 2022 for your reference.

3.1.2 Committee Observations

- i. As at the time of audit, the Company did not have an approved debt policy and therefore the provision for bad debts of Kshs. 7,091,565 was just an estimation by the Board.
- ii. That the Company does not have an approved debt management policy manual but currently uses the finance manual that contains guidelines on provisions for bad debts.

3.2.3 Committee Recommendations

- i. The Company should formulate a debt management policy on scientific findings and analysis of the Company's history of collection of its debts over time in order to arrive at a more realistic percentage of provision of bad debts.
- ii. That declaration of bad debts doesn't necessarily mean that the debts are uncollectable and therefore the Company should put strategies to enforce collection of the debts in order to boost the Company's income.

3.3 Excess Non-Revenue Water

Note 6 to the financial statements discloses an amount of Kshs.126,818,435 in respect to total billed water sales and water Bowser sales during the year ended 30 June, 2022. Review of the water sales records revealed that the Company produced a total of 1,194,030 cubic meters (M³) of water out of which 747,585 were billed to customers with the balance totaling 446,445M³ denoted as Non-Revenue Water (NRW). The NRW was equivalent to 37% of the total production equivalent to Kshs.75,733,804 based on the Company's average selling price of Kshs.169 per M³.

The NRW exceeded the 25% threshold of total production set in the guidelines issued by the Water Services Regulatory Board (WASREB).

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

3.3.1 Management Response

The company has been able to reduce Non-Revenue Water (NRW)/Unaccounted for water from 44% in the previous period to a current NRW of 37%. NRW is attributed to physical and commercial losses. Physical losses are majorly due to pipe burst/leaks caused by vandalism and high-water pressures. The NRW of 37% for the reporting period was due to aged infrastructure and corrosion of galvanized iron pipes by acidic soils.

Current measures put in-place to reduce NRW include but not limited to;

- a.) A dedicated NRW team,
- b.) Formulation of a NRW manual to guide management and reduction of NRW,
- c.) Bench-mark with the best performers in the sector,
- d.) Use of recommended pipe pressures as guided in the pressure map to manage leak/bursts,
- e.) Working hand in hand with other stakeholders i.e road agencies to avoid pipe damage when doing construction works,
- f.) Continuous customer sensitization and creation of awareness on demerits of NRW through open door customer clinic and
- g.) Engagement of County Inspectorate team and County Commissioner to address anomalies of vandalism and theft amongst others

The company is a beneficiary of a water project funded by African Development Bank whose scope entails replacement and extension of the old and dilapidated system. As seen on **Annexure 3**, the project is ongoing at 66% completion stage as shown on page 1 and 2 of the project briefs dated 14th April 2024. The completion will see further reduction of NRW to below set benchmarks.

3.3.2 Committee's Observations

- i. The Company's Non-Revenue Water (NRW) improved from 44% to 37% of the total production from the previous year although this level still exceeds the allowable 25% threshold set in the guidelines issued by the Water Services Regulatory Board (WASREB).
- ii. The Accounting Officer submitted that the NRW was contributed by pipe burst/leaks caused by vandalism during roads and buildings construction, high-water pressures, aged infrastructure and corrosion of galvanized iron pipes by acidic soils.

3.3.3 Committee Recommendations

- i. The Company should follow up with the road construction agencies, private and public developers and Contractors who destroy pipes during construction exercises to ensure that they are held responsible and pay for all the losses arising from the water leakage and the costs associated with replacing the destroyed infrastructure.
- ii. That the Company should have representatives in the buildings' construction approval panel and inspection team in order to ensure that upcoming developments are not constructed on water and sewer lines and that pipes are not destroyed during the construction exercise.
- iii. That the Company's Management should double its efforts in reducing the NRW by putting in place practical measures such as installation of smart meters that cannot be easily tampered with and suing of any individuals found culpable of any illegal connections.
- iv. That the Company should install centralized meters and leakage sensors at strategic distances in order to reduce water losses as a result of illegal connections and pipe leakages.

3.4 Long Outstanding Receivables.

Note 17 to the financial statements discloses an amount of Kshs. 178,626,621 in respect to total trade receivables and a net receivable of Kshs. 132,247,076 during the period under review. The following observations were however made;

- i) As at 30 June, 2022 Machakos County Executive owed the Machakos Water Kshs. 27,523,560.75 in respect to unpaid bills. In spite of several demand notices the County Government had not honored their obligations.
There was an increase in gross trade receivables from Kshs. 159,887,121 in the previous year to Kshs. 178,626,621 in the current financial year. This is indicative of 10% increase and the Company's inability to collect debts for the rendered services.
- ii) Trade Receivables amounting to Kshs.92,759,091 had been long outstanding, for over 120 days. The company did not indicate measures put in place to ensure that amounts owed are received.

In the circumstances, the ability of the company to recover long outstanding receivables could not be ascertained.

3.4.1 Management Response

Economic slowdown during electioneering period, increase in inflation as occasioned by global recession and prolonged drought were the factors that led to a negative impact on businesses and individuals globally the company not excluded. As a result, the ability of the customer to honor their bills as they fell due was adversely affected.

The company also inherited huge debts from the defunct municipal council during water reforms. Challenges in recovering debt due from major consumers especially the Machakos County government had not been forthcoming with outstanding debt amounting to 27.5 million.

In order to enhance revenue collection, the company had employed the following measures.

- I. Use of rapid result initiatives on defaulters.
- II. Issuance of demand notices and follow ups.
- III. Relationship management with various stake holders.
- IV. Use of partial payment plan for defaulters who are not able offset the debt one off.

The company is considering engaging a debt collector to help in recovering of long outstanding debts.

3.4.2 Committee Observations

- i. The Company inherited huge debts from the defunct municipal council during water companies reforms hence the huge amount of long Outstanding Receivables but the Company's trade receivables increased by 10% from Kshs. 159,887,121 in the FY 2020/2021 to Kshs. 178,626,621 in the FY 2021/2022 hence the response from the Accounting Officer was not satisfactory.
- ii. That the Company has been facing a challenge in recovering debt due from major consumers especially the Machakos County government which in the Year under review had an outstanding debt amounting to 27.5 million but the Management submitted that the County Executive is slowly paying the debt.
- iii. The Company has put in place measures towards recovering the trade payables such as use of rapid result initiatives on defaulters, issuance of demand notices and follow ups, relationship management with various stake holders and use of partial payment plan for defaulters who are not able to offset the debt at once.

3.4.3 Committee Recommendations

- i. During the budgeting process, the County Government should factor all the monies owed to the Water Company (pending bills) in order to support the Company in provision of its services.
- ii. That the Company should enforce the practical measures indicated in the response in order to recover all the unpaid water bills.
- iii. The Company should factor the payment of electricity and chemicals done by the County Government when computing water bills for the County Executive.

3.5 Use of Expired Water Tariff

Review of the water Company's tariff revealed that the tariff currently in use is dated 4 July, 2014 and was approved by the Water services Regulatory Board (WASREB) to be utilized between 2014/15 and 2016/17 financial years. However, the Water company has been using the same tariff, five (5) years after its expiry.

In the circumstances, the management was in breach of the law

3.5.1 Management Response

The company commenced the process of reviewing the tariff with the regulator as provided. In the year 2019 there was a delay in approval of the same by the regulator and as a result the company was advised to reapply again in the year 2022.

All the requirements have since been provided, negotiations on the tariff done and soon public participation in order to enhance inclusivity and justify the review. Thereafter gazette of the new tariff by the regulator for implementation. Refer to **annexure 4** for the supporting document on tariff application process.

3.5.2 Committee Observations

- i. The Company is using an expired water tariff because of delay in approval of a new tariff that resulted from failure to have requisite documents for licensing as required by the regulator, WASREB.

Committee Recommendations

- i) The Management should submit all the requisite documents required in the renewal of license to enable processing of the new water tariff by the regulator, WASREB.

3.6 Non-compliance with WASREB and WARMA Fees payments

The statement of profit or loss and other comprehensive income and Note 9 (a) to the financial statements reflects general administration costs of Kshs. 39,375,393. This amount includes WASREB of Kshs. 7,350,685 and WARMA of Ksh. 964,747. Audit review revealed that the Company did not remit the required fees for the financial year 2021/2022. The delay resulted to WARMA charging accrued interest of Kshs. 265,212. Additionally, The Company does not have a water permit which is a requirement by the Water Act 2016
In the circumstance, Management was in breach of the law.

3.6.1 Management Responses

Economic slowdown and challenges as occasioned by high Inflation, 2022 electioneering period and drought has resulted to the company experiencing cash-flow challenges. This has led to increase on company creditors. On this regard, the company has applied to the regulator for a new cost reflective tariff, made proposals for funding and requested for operation support from both the National and Machakos County Government.

On water abstraction permit, the company had initiated the process of obtaining the water permit as provided for in the water act 2016. However, the matter has since been taken up by Tana Athi Water works development Authority since the nature of documents required for approval of the same are not held by the company but the national government. This includes initial dam approval and design as per **annexure 5**.

3.6.2 Committee Observations

- i. During the Year under review, the Company did not remit WASREB and WARMA payments amounting to Kshs. 7,350,685 and of Kshs. 964,747 respectively. The Accounting officer submitted that this was occasioned by economic slowdown and challenges occasioned by high Inflation, 2022 electioneering period and drought resulting to the company experiencing cash flow challenges.
- ii. That the Company's delay in remittance of the stated fees led to accruing of interests amounting to Kshs. 265,212 as the time of audit.

- iii. Lack of important documents such as Maruba dam's initial approval and designs which are still held by the National government (Tanathi Water works) has led to delayed approval of the water permit raised in the query.

3.6.3 Committee Recommendations

- i. The Company relies on Maruba dam as the only water source, this leads to water problems during drought period hence adversely affecting the Company's source of income. The Company therefore should consider developing alternative water sources as a way of increasing its water supply. This will in return increase its income and its ability to pay its liabilities as fall due.
- ii. The Company should consider negotiating with WASREB and WARMA to waive the accrued interest and come up with a payment plan of the settling the amount in question.
- iii. Pursuant to Section 83 of the Water Act, 2016, the Management should liaise with the relevant National Government office to ensure that documents and Assets still held by Tanathi Water Works are transferred to the Water Company for its smooth operation and as a way of empowering it.

3.7 Non-Remittance of deductions to Retirement Benefits Schemes

As disclosed in Note 9(a) to the financial statements, the statement of profit and loss and other comprehensive Income reflects administration costs of Kshs. 39,375,393. This amount includes accrued interest of Kshs.5,588,407. The accrued interest amount is a compound interest of 3% interest on the monthly outstanding retirement benefits. Lapfund amounted to Kshs 9,145, 164, Kshs. 17,078,045 and Kshs. 1,315, 318 respectively as at 30 June, 2022.

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

3.7.1 Management Response

The management has been paying and is committed to clearing outstanding statutory deductions. However, due to cash-flow challenges, arrears have accumulated over time and have not been settled in full. The cash flow challenges have been occasioned by various factors not limited to; delayed approval of a cost reflective tariff, harsh economic conditions, prolonged drought, high inflation.

Additionally, inability to pay bills on time by major consumers notably County Government of Machakos which has outstanding bills of over KSh.20 million, and inadequate anticipated operational and financial support from the National and Machakos County Government. The company is committed to continue remitting the deductions. The company has payment plan agreement with the schemes as per provided samples on **annexure 6**

3.7.2 Committee Observations

- i. The Company has non-remitted deductions to retirement benefits schemes amounting to Ksh.27,538,527. The non-remittance of this amount exposes the Company to serious financial problems as the pending money also accrues interest.
- ii. The Accounting Officer submitted that during the Year under review, the Company was unable to remit its deductions because of cash flow challenges occasioned by delayed approval of a cost reflective tariff, harsh economic conditions, prolonged drought, high inflation and inability to pay bills on time by major consumers notably County Government of Machakos which had outstanding bills of over KSh.20 million.
- iii. That the Company has come up with a payment plan agreement with the schemes on how to settle the pending amount.

3.7.3 Committee Recommendations

- i. The Company should consider developing alternative water sources as a way of increasing its water supply and corresponding sales. This will in return increase its income and its ability to pay its liabilities.
- ii. During the budgeting process, the County Government should factor all the monies owed to the Water Company (pending bills) in order to support the Company in provision of its services.

3.8 Lack of a Training Committee and a Training Needs Assessment Plan

Note 9(a) to the financial statements reflects an amount of Kshs. 39,375,393 as administrative costs. Included in the amount is Kshs.3,009,400 which was incurred on staff training. However, the audit review revealed that the Company did not have a training committee neither did it have a training needs assessment plan despite the Human Resource policy making it a requirement before embarking on any training activities.

In the circumstances, the regularity of expenditure incurred in training activities of Kshs.3,009,400 could not be ascertained.

3.8.1 Management Response

As guided by the auditor general training needs assessment committee has been put in place in.

The responsibilities of the committee include;

- I. Establishing training goals and objectives,
- II. Formulation of an annual training budget and
- III. Development of a training needs assessment plan.

This has since been adhered to in the subsequent years. Further the company is in the process of reviewing the human resource policy in order to include guidelines on staff training and needs identification plan. Budget in staff training in considered in subsequent periods. Refer to **Annexure 7.**

3.8.2 Committee Observations

- i. The Company during the year under review relied on staff advisory Committee that identified the Staff training needs, recommended trainings to the Board and the same approved by the Board subject to availability of funds. The Management has constituted a training needs assessment committee as submitted by the Accounting Officer at the time of interrogation.

3.8.3 Committee Recommendations

- i. The Management should ensure full adherence to the provisions of the institution's guiding policies when making management decisions including matters related to the Staff trainings.

3.9 Irregular Procurement of Motor Bikes

In the statement of financial position under property, plant and equipment vide Note 14, to the financial statements reflects additions of Kshs 953,300 which includes purchase of 2 motorbikes for Kshs 265,000,000 from a firm. The Company used request for quotation instead of a framework agreement as per the circular no. SPDW/SB/023/2020-2021 for supply and delivery of motorcycle from the State Department of Public Works which had identified and recommended approved suppliers for motorbikes to all public institutions.

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

3.9.1 Management Response

The company was beneficiary of conditional liquidity support grant1(CLSG 1) funded by world bank through water sector trust fund. The support was meant to relieve the company from constrains arising from covid 19 pandemic. A financing agreement between the water sector trust fund and the company, and donor funding regulations provided for guidelines on procurement of the various identified and approved interventions.

According to these regulations, the company utilized per-qualification of suppliers in various categories where request for quotation was issued for the purpose of procuring the motor bikes. The process of procurement used was in accordance with public procurement and disposal act 2015 (PPADA (2015)). Upon evaluation the most responsive bidder was awarded to supply and deliver the motor bike. However, the comments by the auditor are noted and will be used when the company is procuring any motor bikes or motor vehicles.

3.9.2 Committee Observations

- i. The company issued quotation for supply and delivery of motorcycle using pre-qualification list of suppliers instead of a framework agreement as per the provided circular which had identified and recommended approved suppliers for supply of motorbikes to all public institutions.
- ii. That the Company's decision to use Quotation was informed by the donor funding regulations which provided for guidelines on procurement of the various identified and approved interventions.

3.9.3 Committee Recommendations

- i. The Laws of Kenya are supreme and therefore when the Company is entering into any funding agreements, the Management should ensure that the donor funding regulations conform to the existing Kenyan Laws.
- ii. Consultations should be done with the relevant state Departments/Ministries and approval sought before decisions on matters where any external regulations contradict the existing Kenyan Laws to avoid irregularities.

3.10 Presentation and Disclosures in the Financial Statements

The financial statements presented for audit revealed that Key Entity information on Corporate Secretary, table of content and Environmental and sustainability reporting (Sustainability strategy and profile, Environmental Supporting, Employee welfare and Market Place practices) were not provided. No justification has been provided for these anomalies.

In the circumstances, the financial statements do not conform to the prescribed reporting format by the Public Sector Accounting Standards Board.

3.10.1 Management Responses

The company Strategic Plan for the period 2021 to 2026 was being formulated and thus could not be used as a performance measurement tool. However, the company has since complied to the reporting template as per the attached, **annexure 8**, extracts of the resubmitted financial Statements for the period ended 30th June 2023 pages xiii, xviii and xxi.

3.10.2 Committee Observations

- i. During the Year under review, the Company prepared financial statements that did not conform to the prescribed reporting format by the Public Sector Accounting Standards Board since the Accounting Officer used reporting template for the previous year hence leaving out some information.
- ii. The Accounting officer confirmed that an amended financial statement was prepared and submitted to the Auditor general for verification.

3.10.3 Committee Recommendations

- i. The Accounting officer should conduct thorough scrutiny of the financial statements before they are submitted to ensure that they are free from errors and that they conform to the current prescribed reporting format by the Public Sector Accounting Standards Board.

3.11 Management of Water Bowser Sales

The statement of profit or loss and as disclosed in Note 6(a) reflects total sales of Kshs.126,818,435. Included in the amount is Kshs.3,351,680 in respect to Water sales through

Water Browsers. It was however observed that there was no documented guideline for price of water bowser sales. In the absence of this price guidelines for pricing of water bowser sales. In absence of the guidelines, the Company may be underpricing on the water browsers revenues. In the circumstances, the basis of the payment for the water bowser sold to the consumers could not be ascertained.

3.11.1 Management Response

The price of water bowser is guided by the tariff structure in use as seen on page 4 of the tariff, refer to **annexure 9** as attached. Water browsers have a tracking system for monitoring operations.

3.11.2 Committee Observations

- i. The price of Water supply by Water Bowser was guided by the tariff provided in the WASREB Notice of Tariff adjustments dated 4th July 2014. However, the tariff had expired and needed to be renewed.

3.11.3 Committee Recommendations

- i. The Management should fast track gazettelement of the new cost reflective water tariff for transparency and accountability in management of the Water Bowser Sales and other Company water sales.
- ii. The Company should develop a policy with clear guidelines on the management of Water Bowser Sales as advised by the office of the Auditor General.

3.12 Weak ICT internal Controls

Review of the IT internal control systems revealed that the IT Policy being used was in draft form as it had not been approved by the Board. Further, it was established that during maintenance of the software, no clear procedure was followed or approval process or restriction to the software developer on access to live environment.

3.12.1 Management Response

The company has formulated a draft IT Policy. This has been presented to the Board and awaits discussion and approval for it to be implemented. This will guide procedure, approval and restrictions of service providers to the live environment on a need basis.

3.12.2 Committee Observations

- i. The Company during the Year under review and even as at the time of interrogation was using unapproved draft IT policy.

3.12.3 Committee Recommendations

- i. The Management should fast track the approval of the draft ICT policy by the Board and forward the same to the Auditor for verification.

4.0 COMMITTEE GENERAL OBSERVATIONS

Hon. Speaker, after considering the queries under the basis of the qualified opinion, the Committee makes the following General observations;

- a) On the query on accuracy of Trade and Other payables, the Committee observed that;
 - i. The kshs.119,744,237 reflects the true and actual position of the Company's trade and other payables and the amount represents payment for suppliers, remittance to pension schemes, auditor general and Tanathi Water works Limited.
 - ii. An amended financial statement showing reconciliation of the variance of Ksh. 5,598,952 and supporting ledgers for creditors were prepared and submitted to the Auditor General for verification and this was confirmed by the Auditors during the interrogation exercise.
- b) On the query on lack of a Bad debts Policy, it was observed that;
 - i. As at the time of audit, the Company did not have an approved debt policy and therefore the provision for bad debts of Kshs. 7,091,565 was just an estimation by the Board.
 - ii. That the Company does not have an approved debt management policy manual but currently uses the finance manual that contains guidelines on provisions for bad debts.

- c) On excess Non-Revenue Water, the Committed observed as follows;
- i. The Company's Non-Revenue Water (NRW) improved from 44% to 37% of the total production from the previous year although this level still exceeds the allowable 25% threshold set in the guidelines issued by the Water Services Regulatory Board (WASREB).
 - ii. The Accounting Officer submitted that the NRW was contributed by pipe burst/leaks caused by vandalism during roads and buildings construction, high-water pressures, aged infrastructure and corrosion of galvanized iron pipes by acidic soils.
- d) On Long Outstanding Receivables, the Committee noted that;
- i. The Company inherited huge debts from the defunct municipal council during water companies reforms hence the huge amount of long Outstanding Receivables but the Company's trade receivables increased by 10% from Kshs. 159,887,121 in the FY 2020/2021 to Kshs. 178,626,621 in the FY 2021/2022 hence the response from the accounting officer was not satisfactory.
 - ii. That the Company has been facing a challenge in recovering debt due from major consumers especially the Machakos County government which in the Year under review had an outstanding debt amounting to 27.5 million but the Management submitted that the County Executive is slowly paying the debt.
 - iii. The Company has put in place measures towards recovering the trade payables such as use of rapid result initiatives on defaulters, issuance of demand notices and follow ups, relationship management with various stake holders and use of partial payment plan for defaulters who are not able to offset the debt at once.
- e) On the query on use of expired Water Tariff, the Committee noted that the Company is using an expired water tariff because of delay in approval of a new tariff that resulted from failure to have requisite documents for licensing as required by the regulator, WASREB.
- f) On the query on non-compliance with WASREB and WARMA Fees payments, it was observed as follows;
- i. During the Year under review, the Company did not remit WASREB and WARMA payments amounting to Kshs. 7,350,685 and of Kshs. 964,747 respectively. The

Accounting officer submitted that this was occasioned by economic slowdown and challenges occasioned by high Inflation, 2022 electioneering period and drought resulting to the company experiencing cash flow challenges.

- ii. That the Company's delay in remittance of the stated fees led to accruing of interests amounting to Kshs. 265,212 as the time of audit.
- iii. Lack of important documents such as Maruba dam's initial approval and designs which are still held by the National Government (Tanathi Water Works) has led to delayed approval of the water permit raised in the query.

g) On the query on non-remittance of deductions to Retirement Benefits Schemes, the Committee observed that;

- i. The Company has non-remitted deductions to retirement benefits schemes amounting to Ksh.27,538,527. The non-remittance of this amount exposes the Company to serious financial problems as the pending money also accrues interest.
 - ii. During the Year under review, the Company was unable to remit its deductions because of cash flow challenges occasioned by delayed approval of a cost reflective tariff, harsh economic conditions, prolonged drought, high inflation and inability to pay bills on time by major consumers notably County Government of Machakos which had outstanding bills of over KSh.20 million.
 - iii. The Company has developed a payment plan agreement with the schemes on how to settle the pending amount.
- h) On the query on lack of a Training Committee and a Training Needs Assessment Plan it was noted that the Company during the year under review relied on staff advisory Committee that identified the Staff training needs, recommended trainings to the Board and the same approved by the Board subject to availability of funds. The Management has since constituted a training needs assessment committee as submitted by the Accounting Officer at the time of interrogation.

i) On Irregular Procurement of Motor Bikes, the Committee observed that;

- i. The company issued quotation for supply and delivery of motorcycle using pre-qualification list of suppliers instead of a framework agreement as per the provided

- circular which had identified and recommended approved suppliers for supply of motorbikes to all public institutions.
- ii. The Company's decision to use Quotation was informed by the donor funding regulations which provided for guidelines on procurement of the various identified and approved interventions.
- j) On presentation and disclosures in the Financial Statements, it was observed that;
- i. During the Year under review, the Company prepared financial statements that did not conform to the prescribed reporting format by the Public Sector Accounting Standards Board since the Accounting Officer used reporting template for the previous year hence leaving out some information.
 - ii. An amended financial statement was prepared and submitted to the Auditor general for verification.
- k) Regarding the query on management of Water Bowser Sales, the Committee noted that the price of Water supply by Water Bowser was guided by the tariff provided in the WASREB Notice of Tariff adjustments dated 4th July 2014. However, the tariff had expired and needed to be renewed.
- l) On weak ICT internal Controls, it was noted that, the Company during the Year under review and even as at the time of interrogation was using unapproved draft ICT policy.

5.0 COMMITTEE GENERAL RECOMMENDATIONS

Hon. Speaker, after considering the above general observations, the Committee makes the following recommendations;

- a) On the query on accuracy of Trade and Other payables, it was recommended that;
- i. That the Accounting Officer should ensure correct posting of the entries in the financial statements to avoid unnecessary errors which lead to audit queries that would otherwise have been avoided.
 - ii. That the Company should for purpose of future reports provide all the documents required by the Auditor during the audit time as provided under section 9 and 47 (2) of the public audit Act 2015

- iii. The Accounting Officer should forward invoices for suppliers and schedules for unremitted payments to pension schemes and Tanathi Water Works.
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- b) On Lack of a Bad debts Policy the committee recommends as follows;
 - i. The Company should formulate a debt management policy on scientific findings and analysis of the Company's history of collection of its debts over time in order to arrive at a more realistic percentage of provision of bad debts.
 - ii. That declaration of bad debts doesn't necessarily mean that the debts are uncollectable and therefore the Company should put strategies to enforce collection of the debts in order to boost the Company's income.
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- c) On Excess non-revenue Water, it was recommended that;
 - i. The Company should follow up with the road construction agencies, private and public developers and Contractors who destroy pipes during construction exercises to ensure that they are held responsible and pay for all the losses arising from the water leakage and the costs associated with replacing the destroyed infrastructure.
 - ii. The Company should have representatives in the buildings' construction approval panel and inspection team in order to ensure that upcoming developments are not constructed on water and sewer lines and that pipes are not destroyed during the construction exercise.
 - iii. The Company's Management should double its efforts in reducing the NRW by putting in place practical measures such as installation of smart meters that cannot be easily tampered with and suing of any individuals found culpable of any illegal connections.
 - iv. The Company should install centralized meters and leakage sensors at strategic distances in order to reduce water losses as a result of illegal connections and pipe leakages.
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- d) On Long Outstanding Receivables, the committee recommended that;
 - i). During the budgeting process, the County Government should factor all the monies owed to the Water Company (pending bills) in order to support the Company in provision of its services.

- ii). The Company should enforce the practical measures indicated in the response in order to recover all the unpaid water bills.
 - iii). The Company should factor the payment of electricity and chemicals done by the County Government when computing water bills for the County Executive.
- e) On Use of Expired Water Tariff, the committee recommends that the Management should submit all the requisite documents required in the renewal of license to enable processing of the new water tariff by the regulator, WASREB.
- f) On Non-compliance with WASREB and WARMA Fees payments, it was recommended that;
- i. Since the Company relies on Maruba dam as the only water source, the Company should consider developing alternative water sources as a way of increasing its water supply. This will in return increase its income and its ability to pay its liabilities as fall due.
 - ii. The Company should consider negotiating with WASREB and WARMA to waive the accrued interest and come up with a payment plan of the settling the amount in question.
 - iii. Pursuant to Section 83 of the Water Act, 2016, the Management should liaise with the relevant National Government office to ensure that documents and Assets still held by Tanathi Water Works are transferred to the Water Company for its smooth operation and as a way of empowering it.
- g) On non-remittance of deductions to Retirement Benefits Schemes, it was recommended that;
- i. The Company should consider developing alternative water sources as a way of increasing its water supply and corresponding sales. This will in return increase its income and its ability to pay its liabilities.
 - ii. During the budgeting process, the County Government should factor all the monies owed to the Water Company (pending bills) in order to support the Company in provision of its services.

- h) On Lack of a Training Committee and a Training Needs Assessment Plan it was recommended that the Management should ensure full adherence to the provisions of the institution's guiding policies when making management decisions including matters related to the Staff trainings.
- i) On Irregular Procurement of Motor Bikes, the committee recommended that;
- i. The Laws of Kenya are supreme and therefore when the Company is entering into any funding agreements, the Management should ensure that the donor funding regulations conform to the existing Kenyan Laws.
 - ii. Consultations should be done with the relevant state Departments/Ministries and approval sought before decisions on matters where any external regulations contradict the existing Kenyan Laws to avoid irregularities.
- j) In regard to the query on presentation and disclosures in the Financial Statements, the committee recommended that the Accounting Officer should conduct thorough scrutiny of the financial statements before they are submitted to ensure that they are free from errors and that they conform to the current prescribed reporting format by the Public Sector Accounting Standards Board.
- k) On the query on Management of Water Bowser Sales, it was recommended that;
- i. The Management should fast track gazettelement of the new cost reflective water tariff for transparency and accountability in management of the Water Bowser Sales and other Company water sales.
 - ii. The Company should develop a policy with clear guidelines on the management of Water Bowser Sales as advised by the office of the Auditor General.
- l) On the query on Weak ICT internal Controls the committee recommended that the Management should fast track the approval of the draft ICT policy by the Board and forward the same to the Auditor for verification.
- m) Pursuant to section 53 (1) of the public audit act 2015, the accounting officer should within 90 days after approval of this report take the relevant steps to implement the

recommendations in this report or give an explanation in writing as to why the report is not implemented.

6.0. CONCLUSION AND ACKNOWLEDGEMENT

Hon. Speaker, the Audit report on financial statements of Municipal Council of Machakos Water and Sewerage Company for the year ended 30 June 2022 is Qualified Opinion. This implies that the report fairly represents the financial position of the Company in the year under review. It indicates well that if the matters raised by the Committee are considered in addition to proper internal controls, compliance and observance of disclosure of information, a positive shift in preparation of good financial statements will be realized.

Hon. Speaker, the Committee on Public Accounts and Investments is grateful to your office for facilitating this committee to undertake its mandate, the Managing Director for honoring committee invitation to respond on queries raised, the Office of the Auditor General for the advisory given and Members of the Committee and the Secretariat for commitment and effort throughout the process of report writing.

It is therefore my privilege and pleasure on behalf of Public Accounts and Investments Committee to table before this Honorable House the report on Financial Statements of Municipal Council of Machakos Water and Sewerage Company for the Financial Year ended 30 June, 2022 for discussion and adoption.

Thank you, Honorable Speaker.

CONFIRMED BY:

 3-9-2024

HON. PHILIP NDOLO

CHAIRPERSON, PUBLIC ACCOUNTS AND INVESTMENTS COMMITTEE