



OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability



AUDITOR-GENERAL'S REPORT ON WATER COMPANIES 2021 - 2022

REPORT

OF

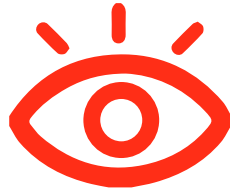
THE AUDITOR-GENERAL

ON

WATER COMPANIES

FOR

THE YEAR 2021/2022



VISION

Making a difference in the lives and livelihoods of the Kenyan people



MISSION

Audit services that impact on effective and sustainable service delivery



OUR CORE VALUES

Integrity • Credibility • Relevance •
Accountability • Independence

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Foreword by the Auditor-General

This report, referred to as the Water Book, is a compilation of the audit reports of Water Service Providers (WSPs) for the year ended 30 June, 2022.

The Auditor-General is mandated by the Constitution of Kenya, 2010, under Article 229, to audit and report on the use of public resources by all entities funded from public funds. These entities include the National Government, County Governments, the Judiciary, Parliament, Statutory Bodies/State and County Corporations, Commissions, Independent Offices, Public Debt, Political Parties funded from public funds, other government agencies and any other entity funded from public funds. The mandate of the Auditor-General is further expounded by the Public Audit Act, 2015.

Water and sanitation services are important resources for quality life and a catalyst for economic growth and prosperity. Indeed, the United Nations Sustainable Development Goal 6 requires Member States to ensure, by 2030, availability and sustainable management of water and sanitation for all. Further, Article 43(1) (b) & (d) of the Constitution recognizes access to reasonable standards of sanitation and to clean and safe water in adequate quantities as an economic and social right of every person.

Management of water resource is a shared responsibility between the National and County Governments. The WSPs, as county entities and as provided for in the Water Act 2016, are critical in improving access, quality, availability and sustainability of water supply and waste management services in Kenya. This report has identified a number of cross-cutting issues which require urgent attention as they have significant implications on sustainability of provision water and sanitation services by the WSPs.

Article 229 (7) of the Constitution requires the Auditor-General to audit and submit reports to Parliament or the relevant County Assembly within six (6) months after the end of the financial year. However, Section 164(4) of the Public Finance Management Act, 2012, reduces the timeline to three (3) months by giving entities leeway up to the end of September to prepare and submit financial statements for audit. This reduces the duration for audit and reporting from six (6) months given by the Constitution to three (3) months. This has been adversely affecting the timelines for reporting, leading to backlogs and affecting the efficiency and effectiveness for oversight by Parliament and the County Assemblies.

Further, as previously reported, an effective mechanism for follow up on implementation of audit recommendations is lacking and as such most audit queries recur in subsequent audit reports due to lack of requisite action. The Public Finance Management Act, 2012 does not provide sanctions to a county government entity that fails to address issues raised by the Auditor-General, to the satisfaction of the Auditor-General.

However, despite numerous reports indicating lack of accountability and documents to support the legality and effectiveness in the use of public resources, the lack of the requisite sanctions and consequences has resulted to some Accounting Officers not adequately accounting for the management and use of public resources with impunity. Lack of action and sanctions has also led to fiscal indiscipline including misallocations, wastage of resources, lack of value for money in implementation of projects and loss of public funds, thereby impacting negatively on development programmes. This in turn threatens economic growth and sustainability of service delivery to citizens. There are instances where some Accounting Officers are in breach of Section 62 of the Public Audit Act, 2015 by failing to adequately prepare for audit which is exhibited by numerous inaccuracies in financial statements presented for audit, lack of requisite supporting documents, several revisions of financial statements and, in some cases, reluctance to cooperate with the auditors during the audit process.

The Office of the Auditor-General has been continuously improving on the effectiveness and quality of the audit process to ensure that the results of audit and the recommendations thereof are credible, relevant, reliable and value adding. This is geared towards influencing improved decision making and positive impact on the lives and livelihoods of citizens and other stakeholders. Provision of quality and effective audit services and confirmation of the lawfulness and effectiveness in programme implementation requires comprehensive scrutiny and evaluation of supporting documents. Most critical is the physical confirmation of the existence and utilization of projects or programmes implemented throughout the country. To achieve this, therefore, requires an independent and well-resourced audit Office with guaranteed adequate funding to enable efficient, effective and timely execution of the audit cycle as well as retention of optimal staffing to ensure continuous, quality and sustainable audit operations.

The Office continues to seek financial independence and support from Parliament and The Executive through The National Treasury for enhancement of resources to enable it build technical capacity, expand its presence in the counties, widen the scope and comprehensiveness of audit and motivate staff. We continue to devolve our services closer to the people through establishment of regional offices and construction of office premises to accommodate our staff in order to address the audit needs at the grassroot level. During the year under review, we established the Upper North Regional Office in Isiolo and the North Western Regional Office in Kitale. We have so far constructed regional offices in Garissa, Kakamega and Eldoret, while construction works in Embu is almost complete. Plans for construction of our Headquarters in Nairobi, which is currently at the design stage, has been delayed by lack of funding. However, the Office continues to make appeals to Parliament and The National Treasury for adequate funds to enable us perform our functions and achieve our mandate in enhancing accountability across

government, both at the national and county levels, and in all other entities funded from public funds.

The audit scope has been expanding over the years due to the expansion of government programs to ensure sustainable development and delivery of continuous and quality services to the citizens. This has led to growth in the national budget and formation of additional entities that I am required to audit and report on. All the over nine thousand (9,000) Public Secondary Schools were from 30 June, 2022 required to prepare and submit financial statements to the Auditor-General for audit and quite a number have complied. In addition, I am required to audit and report on financial statements for all the three hundred and fifty-eight (358) Level 4 hospitals and fourteen (14) Level 5 hospitals separately. In the current financial year, I am also required to audit a total of two hundred and eighteen (218) Technical and Vocational Education and Training (TVET) Institutions and the number could increase as we are currently undertaking an evaluation exercise with the State Department for Technical, Vocational Education and Training to identify all institutions funded by the Exchequer including the Community Vocational Training Institutions that are estimated to be over one thousand and two hundred (1,200) Institutions. In addition, new projects and funds have been created that require timely oversight.

Specific reports together with my opinion for each entity are contained in the respective WSPs audited financial statements for the year ended 30 June, 2022, which I have already submitted to Parliament and to each Accounting Officer. A summary highlighting key cross-cutting audit findings will be submitted separately. I have also issued a performance audit report on Implementation of the Kenya Towns Sustainable Water Supply and Sanitation Programme in which ten (10) WSPs are beneficiaries of the Programme. The report gives additional challenges to sustainability of water supply and sanitation facing WSPs.

I wish to sincerely thank the entire staff of the Office of the Auditor-General for their commitment, passion and professionalism in carrying out their duties despite the challenges posed by lack of adequate funds. Special appreciation goes to the team that prepared this Summary Water Book.

I wish to appreciate my clients or auditees for their cooperation they accorded my staff during the audit.


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

19 January, 2024

REPORT OF THE AUDITOR-GENERAL ON WATER COMPANIES FOR THE YEAR 2021/2022

Introduction

1.1 Constitutional Mandate of the Auditor-General

The Auditor-General is mandated by the Constitution of Kenya, 2010, under Article 229, to audit and report on the use of public resources by all entities funded from public funds. These entities include; the National Government, County Governments, the Judiciary, Parliament, Statutory Bodies/State Corporations, Commissions, Independent Offices, Public Debt, Political Parties funded from public funds, other government agencies and any other entity funded from public funds. The mandate of the Auditor-General is further expounded by the Public Audit Act, 2015.

The Constitution requires the Auditor-General to audit and submit the audit reports of the public entities to Parliament and the relevant County Assemblies by 31 December, every year. In carrying out the mandate, the Auditor-General, is also required, under Article 229 (6) to assess and confirm whether the public entities have utilised the public resources entrusted to them lawfully and in an effective way.

Further, the objects and authority of the Auditor-General, as outlined in Article 249 of the Constitution, are: to protect the sovereignty of the people; to secure the observance by all State Organs of democratic values and principles; and, to promote constitutionalism. The Auditor-General has also been given powers by the Constitution, under Article 252, to conduct investigations, conciliations, mediations and negotiations and to issue summons to witnesses for the purpose of investigations.

1.2 Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) as prescribed by the Public Sector Accounting Standards Board (PSASB), and for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Management is also responsible for maintaining an effective internal control environment necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for the assessment of the effectiveness of internal control, risk management and governance.

Further, Management is required to ensure that the activities, financial transactions and information reflected in the financial statements, are in compliance with the law and other relevant or applicable authorities, and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how each entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

1.3 Auditor-General's Responsibility

My responsibility is to conduct an audit of the financial statements in accordance with the International Standards of Supreme Audit Institutions (ISSAIs), and to issue an auditor's report. The audit report includes my opinion as provided by Section 48 of the Public Audit Act, 2015, and the report is submitted to Parliament in compliance with Article 229(7) of the Constitution.

In addition, Article 229(6) of the Constitution requires me to express a conclusion on whether or not, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the law and other authorities that govern them, and that public resources are applied in an effective way. I also consider the entities' control environment in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems, in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015.

I am independent in accordance with Article 249(2) of the Constitution of Kenya and ISSAI 130 on the Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of public entities in the Republic of Kenya.

1.4 Reporting Structure

The reporting structure of my report address the reporting requirements of Article 229(6) of the Constitution of Kenya, which requires that an audit report shall confirm whether or not public resources have been applied lawfully and in an effective way. Section 7(1) (a) of the Public Audit Act, 2015 also requires that I provide assurance on the effectiveness of internal controls, risk management and overall governance.

In addition, the International Standards of Supreme Audit Institutions (ISSAIs), require the incorporation of Key Audit Matters in the report on the financial statements, which are those matters that I determine in my professional judgment, are of most significance in the audit of the financial statements as a whole, for the year under review.

In order to address these requirements, my audit reports contain the following:

- i. **Report on Financial Statements**, in which I give an audit opinion on whether the financial statements present fairly, in all material respects the financial position and performance of the entity.

- ii. **Report on Lawfulness and Effectiveness in Use of Public Resources**, in which I give a conclusion on whether or not public resources have been applied lawfully and in effective way.
- iii. **Report on Effectiveness of Internal Controls, Risk Management and Governance**, in which I give a conclusion on whether internal controls, risk management and overall governance were effective.
- iv. **Report on Other Legal and Regulatory Requirements** is included where applicable, especially for the entities that are registered under the Companies Act, 2015 and any other enabling legislation or authorities that require such disclosure.

1.5 Audit Opinions

I have expressed different types of audit opinions based on the following criteria:

a) Unmodified /Unqualified Opinion

The books of accounts and underlying records agree with the financial statements and no material misstatements were found. The financial statements present fairly, in all material respects, the operations of the entity. The financial statements with Unmodified Opinion are listed in Appendix A.

b) Qualified Opinion

Financial transactions were recorded and are to a large extent in agreement with the underlying records, except for cases where I noted material misstatements or omissions in the financial statements. The issues though material, are not widespread or persistent. The financial statements with Qualified Opinion are listed in Appendix B.

c) Adverse Opinion

The financial statements exhibit significant misstatements with the underlying accounting records. There exists significant disagreement(s) between the financial statements and the underlying books of accounts and/or standards. These problems are widespread, persistent and require considerable interventions by the management to rectify. The financial statements with Adverse Opinion are listed in Appendix C.

d) Disclaimer of Opinion

The financial statements exhibit serious and significant misstatements that may arise from inadequate information, limitation of scope, inadequacy or lack of proper records such that I was not able to form an opinion on the financial operations. The financial statements with Disclaimer of Opinion are listed in Appendix D.

The key findings noted during the audit of the financial statements for the year ended 30 June, 2022 are highlighted in the ensuing pages.

1.6 Audit Findings

A list of Water Companies and the type of opinion given on their financial statements are contained in the ***Appendices A to D***.

The key audit findings noted during the audit of the Water Companies financial statements for the year ended 30 June, 2022 are presented in the following section.

MOMBASA COUNTY – NO.1

MOMBASA WATER SUPPLY AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1. Going Concern

The statement of profit or loss and other comprehensive income reflects a loss before tax of Kshs.20,165,380 (2021: a loss of Kshs.78,891,997) which brought the Company's accumulated loss to Kshs.2,097,527,856 as at 30 June, 2022 (2021: Kshs.2,077,362,476). Further, the current liabilities of Kshs.1,900,432,450 exceeded the current assets of Kshs.299,149,040, resulting to a negative working capital of Kshs.1,601,283,410 as at 30 June, 2022. The negative liquidity position was an indication of the existence of a material uncertainty on the Company's ability to continue as a going concern.

The financial statements, however, were prepared on a going concern basis on the assumption that the Company will continue to receive financial support from the County Government of Mombasa and its creditors. Management did not disclose the material uncertainty related to going concern or measures taken to mitigate this.

In the circumstances, the Company is technically insolvent and may not be able to meet its current obligations as and when they fall due and may continue to depend on the support from the County Government and creditors.

2. Cash and Cash Equivalents

The statement of financial position reflects bank and cash balances of Kshs.145,146,852 as disclosed in Note 17 to the financial statements. Included in the balance is an amount of Kshs.139,515,445 held in various bank accounts, out of which Kshs.200,494 was not supported with bank reconciliations, cash books and bank confirmation certificates.

Further, an amount of Kshs.4,273,251 held in Posta Pay was not supported by a certificate of bank balance, bank statements and cash book.

In the circumstances, the accuracy and completeness of the cash and cash equivalent balances of Kshs.145,146,852 could not be confirmed.

3. Unconfirmed Share Capital

As previously reported, the Company was incorporated on 18 March, 2011 to take over services of the defunct Mombasa Water Supply and Sanitation Company Limited which had an authorized share capital of Kshs.5,000,000. However, the old Company was not liquidated and no shares had been transferred to the new Company as at 30 June, 2022. Further, out of the new Company's authorized share capital of 5,000

ordinary shares of Kshs.1,000 each, only twelve (12) shares valued at Kshs.12,000 were allotted but not paid for, leaving a balance of 4,988 shares un-allotted.

Further, Note 18 to the financial statements reflects issued but not paid 5,000 ordinary shares of par value of Kshs.1000 each and twelve (12) ordinary shares of par value of Kshs.20 each, which is more than the authorized ordinary shares of 5000.

In the circumstances, the accuracy and completeness of the share capital balance of Kshs.5,000,240 could not be confirmed.

4. Trade and Other Payables - Long Outstanding Payables

The statement of financial position reflects trade and other payables balance of Kshs.1,900,432,450 as disclosed in Note 24 to the financial statements. Included in this balance is an amount of Kshs.1,359,931,219 relating to trade payables, out of which Kshs.1,320,840,700 was outstanding for more than ninety (90) days. Further, Kshs.123,304,711 of the payables related to debts owed to Coast Water Services Board. Although supporting invoices for the balance were provided for audit review, the Agency's records indicated an outstanding debt of Ksh.1,615,500,114, resulting in an unreconciled variance of Kshs.1,492,195,403.

In the circumstances, the accuracy of trade and other payables balance of Kshs.1,900,432,450 could not be confirmed. In addition, the Company may be exposed to penalties, fines and unquantified litigation costs due to late payments.

Other Matter

5. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.1,007,942,202 and Kshs.898,247,106 respectively, resulting to an under-collection of Kshs.109,695,096 or 11% of the budget. Similarly, the Company spent Kshs.918,412,486 against an approved budget of Kshs.958,683,989, resulting to an under-expenditure of Kshs.40,271,503 or 4% of the budget.

Revenue under-collection may have adversely affected implementation of planned activities, negatively impacting on service delivery to the public.

6. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised. However, the Management did not resolve the issues and did not provide any explanation for the failure to resolve them. In addition, the prior year audit issues were not disclosed in the financial statements as required by the Annual Financial Reporting Template (Revised June, 2022.)

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

7. Irregular Engagement of Casuals

The statement of profit or loss and other comprehensive income reflects general and operation expenses of Kshs.428,418,764 as disclosed in Note 10 to the financial statements. Included in this amount is Water and Sanitation Development Project expenditure of Kshs.31,544,536 out of which Kshs.3,350,701 was spent on casual wages. However, approval by the Mombasa Water Board was not provided for audit. Further, the casual workers were engaged for more than three months and without signed contracts contrary to Section 37(b) of the Employment Act, 2007 which provides that where a casual employee performs work which cannot reasonably be expected to be completed within a period, or a number of working days amounting in the aggregate to be equivalent of three months or more, the contract of services of the casual employee shall be deemed to be one where, wages are paid monthly and Section 34(1)(c) shall apply of that contract of services.

In the circumstances, the regularity and completeness of Kshs.3,350,701 spent on casual wages could not be confirmed.

8. Non-Compliance with a One Third (1/3) of Basic Pay Rule

Review of payroll records for nine (9) months sampled indicated that members of staff earned net salaries that were less than one third of their basic pay.

This was contrary to Section 19(3) of the Employment Act, 2007 which stipulates that, the total amount of all deductions which under the provisions of subsection (1), may be made by an employer from the wages of his employee at any one time shall not exceed two-thirds of such wages.

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

9. Non-Revenue Water

The statement of profit or loss and other comprehensive income reflects operating revenue of Kshs.808,423,371 which includes water sales of Kshs.656,413,235 as disclosed in Note 6 to the financial statements. However, records provided revealed that the Company purchased 11,904,294 cubic meters of water, out of which only 5,856,293 cubic meters (or 49%) were billed to customers at Kshs.656,413,235. The balance of 6,048,001 cubic meters or approximately 51% of the total volume represented Unaccounted for Water (UFW).

The percentage of unaccounted for water was above the rate set by the Water Services Regulatory Board of 25%. The Unaccounted For Water of 6,048,001 cubic meters may have resulted to an estimated loss of Kshs.677,376,112 based on an estimated rate of Kshs.112 per cubic meter. It was further noted that the tariff used was for 2017/2018 which had expired.

The significant level of Non-Revenue Water is an indication of inefficiency and ineffectiveness in the use of public water resources, which may negatively impact on the Company's profitability and its ability to sustain services.

10. Irregular Procurement of Laptops Computers, Printers and LCD Projector

The statement of profit or loss and other comprehensive income reflects general and operation expenses of Kshs.428,418,764 and as disclosed in Note 10 to the financial statements. This amount includes Water and Sanitation Development Project expenditure of Kshs.31,544,536, out of which Kshs.4,912,602 was paid to a supplier for supply of eleven laptop computers, printers and LCD projector. However, the evaluation report indicated that three firms were evaluated, out of which two firms shared postal addresses.

A letter referenced MWSSC/MD/019/VOL IV/14 indicated that the Management accepted a request made by the supplier for change of the laptop computer brand from HP450 ProBook Corei7 originally quoted in the bid document to Dell lat-3520-004 black corei7. However, Management did not provide evidence to confirm that the process was taken back to the Evaluation and Negotiations Committee for consideration.

In the circumstances, the Company may not have achieved value for money spent in the procurement of the equipment at a cost of Kshs.4,912,602.

11. Irregular Procurement of Maintenance of Sewerage Services

The statement of profit or loss and other comprehensive income reflects general and operation expenses of Kshs.428,418,764 as disclosed in Note 10 to the financial statements. This amount includes maintenance of sewerage services expenditure of Kshs.7,709,782, out of which Kshs.2,998,739 was paid to a company for provision of sewer network. However, the evaluation report indicated that three firms were evaluated, out of which two firms shared postal addresses.

In the circumstances, the independence of the firms evaluated could not be confirmed and value for money spent on maintenance of sewerage services at a cost of Kshs.2,998,739 may not have been achieved.

12. Engagement of Staff in Non-Existing Positions

Review of human resource records revealed staff who served in the positions of Legal Assistant, Revenue Manager and Old Debt Manager which were not in the Company's Organogram.

In the circumstances, it was not possible to confirm whether Management adhered to the approved Company structure in regard to human resource management.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

13. Weaknesses in Sewerage and Sanitation Management in Mombasa City

Review of the Company's records and audit inspection revealed weaknesses in the management of sewerage and sanitation services within Mombasa City. The Company transported waste from customers who were not connected to its sewer networks using exhausters without a license from the National Environment Management Authority to carry out the service. Further, raw sewerage from Mombasa Island and West Mainland was emptied into the ocean due to lack of sewer treatment plants.

In addition, the sewer treatment plants at Kizingo and Kipevu have not been operational for the last twenty (20) and seven (7) years respectively. Also, nine sewer networks collapsed (five in old town, two in Mambwe and two in West Mainland) while all the eight pump stations (four in West Mainland and four on the Island) were not working.

In the circumstances, Management was in breach of Regulations 10 and 11 of the Environmental Management and Co-ordination (Waste Management) Regulations, 2006 which requires an operator to have a license for the transportation of waste and to operate a waste disposal site or plant among others. Further, the untreated waste posed health hazard to the residents of Mombasa City.

KWALE COUNTY – NO.2

KWALE WATER AND SEWERAGE COMPANY LIMITED

REPORT ON FINANCIAL STATEMENTS

Basis for Qualified Opinion

14. Unsupported Capital Reserves

The statement of financial position reflects capital reserves of Kshs.36,719,864 as disclosed in Note 20 to the financial statements. However, a schedule indicating details of the capital reserve was not provided for audit review.

In the circumstances, the accuracy and completeness of the capital reserves balance of Kshs.36,719,864 could not be confirmed.

15. Material Uncertainty Related to Going Concern

The statement of profit or loss and other comprehensive income reflects an operating loss after tax of Kshs.15,283,795 (2021: a loss of Kshs.15,088,834). Further, the total current liabilities balance was Kshs.420,946,039 while total current assets balance was Kshs.414,887,984, resulting in negative working capital of Kshs.6,058,055. This is an indication that the Company may not be able to settle its obligation as and when they fall due. The conditions indicate the existence of a material uncertainty, which cast doubt on the Company's ability to continue as a going concern, and further implies that the Company's existence is dependent on continued support from the County Government of Kwale, shareholders and creditors. Management did not disclose the material uncertainty related to going concern or measures taken to mitigate this assumption.

In the circumstances, the company's ability to continue as a going concern could not be confirmed.

Other Matter

16. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects a final revenue budget and actual on comparable basis of Kshs.1,083,439,512 and Kshs.663,501,544 respectively, resulting in a revenue shortfall of Kshs.419,937,968 (or 39%) of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.1,081,714,138 and Kshs.681,085,339 respectively, resulting in an under expenditure of Kshs.400,628,799 (or 37%) of the budgeted amount.

In the circumstances, the under-funding and under-performance affected planned activities and may have negatively affected on service delivery to the public.

17. Unresolved Prior Year Matters

In the audit report of the previous year, a number of paragraphs were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public

Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management has not resolved the issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

18. Use of Expired Water Tariff

Review of tariffs approved by the Water Services Regulatory Board revealed that, tariffs in use by the entity during the financial year ended 30 June, 2022 expired on 30 June, 2020. This was contrary to Section 72(1)(b) of the Water Act, 2016 which provides that the powers and functions of the regulatory board includes to evaluate and recommend water and sewerage tariffs to the County Water Service Providers and approve the imposition of such tariffs in line with consumer protection standards.

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

19. Non-Revenue Water

The statement of profit or loss and other comprehensive income reflects revenue of Kshs.181,948,355 as disclosed in Note 6 to the financial statements. However, the financial statements indicates that the Company's total quantity of bulk water received amounted to 5,085,218 cubic meters, out of which only 2,178,882 cubic meters or 43% were billed to customers for Kshs.181,948,355 at Kshs.83.50 per cubic meter.

The balance of 2,906,336 (57%) cubic meters or Kshs.242,679,056 was gross Non-Revenue Water (NRW), which is higher than 25% loss allowable by the Water Service Regulatory Board (WASREB) guidelines. After allowing for the allowable loss by WASREB of 25%, the estimated net NRW amounts to Kshs.58,223,474 or (32%) of water sales of Kshs.181,948,355.

In the circumstances, the Company may not be able to achieve its objective of providing sufficient water to the public.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

20. Undisclosed Current Ownership of the Company

The Company's Articles of Association indicates that Kwale Water and Sewerage Company Limited is owned by the Town Council of Kwale (1,998 Shares), The Honorable Chairman of the Town Council of Kwale (1 share) and the Town Clerk of the Town Council of Kwale (1 share). However, the Articles do not reflect the current ownership of the Company by the County Government of Kwale.

In the circumstances, the articles of association do not reflect the current ownership status of the Company.

KILIFI COUNTY – NO.3

KILIFI MARIAKANI WATER AND SEWERAGE COMPANY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

21. Operating Revenue - Unbilled Customers

The statement of profit or loss and other comprehensive income reflects Kshs.599,239,060 in respect of water sales being an increase of Kshs.75,546,647 (15%) from the Kshs.523,692,413 reported in the previous financial year. Audit review of the customer billing records indicated a customer base of 38,103 as per the Company's water meter inventory. Out of these, 27,078 water meters (customers) were active while the balance of 11,025 were either terminated, inactive or had been disconnected. However, Management discussion and analysis report indicated a total number of connections of 26,631, thereby leading to a variance (unbilled customers) totalling to four hundred and forty-seven (467). The variance has not been explained nor reconciled.

In the circumstances, the accuracy and completeness of operating revenue of Kshs.599,239,060 could not be confirmed.

22. Unsupported Board of Directors Expenses

The statement of profit or loss and other comprehensive income reflects Board expenses of Kshs.16,959,270. Audit of the records provided indicated that expenditure of Kshs.2,620,581 in respect of travel and accommodation, workshops and seminars was not supported by evidence of travel to and attendance of the workshops/seminars by the beneficiaries.

Further, two members of the Board who were beneficiaries of the payments were appointed on 05 August, 2021 as per key information and Management disclosure in the financial statements. However, the appointment letters of the two (2) members were not produced for audit review.

In the circumstances, the accuracy and regularity of Kshs.2,620,581 on board expenses could not be confirmed.

23. Overpayment of Security Services

The statement of profit or loss and other comprehensive income reflects general and operational expenses of Kshs.448,330,587 as disclosed in Note 12 to the financial statements. Included in the amount is Kshs.11,756,114 in respect of security services expenditure. Documents provided for audit review indicates that the Management entered into a contract on 10 January, 2020 with a local company for provision of security and alarm services for a period of three (3) years. The contract provided for a sum of Kshs.11,070,000 for provision of forty-five (45) guards and Kshs.87,000 for alarm

services totalling to Kshs.11,157,600 per annum. However, the Company paid a total of Kshs.11,756,114 resulting to overpayment of Kshs.598,514 which has not been explained.

Further, the services were to be provided for forty (40) stations, of the company's premises/properties. However, the Management only provided evidence of work sheet attendances for provision of guard service at the Kilifi office and therefore no evidence was provided to confirm that services were rendered in the other thirty-nine company stations

In the circumstances, the accuracy and regularity of expenditure of Kshs.11,756,114 on security services could not be confirmed.

24. Non-Current Assets

The statement of financial position reflects total non-current assets of Kshs.548,394,653 as disclosed in Note 20 to the financial statements. Audit review of the assets register, and other supporting documents and information revealed the following anomalies.

24.1 Inaccuracies in Property Plant and Equipment

The financial statements reflects property, plant and equipment cost of Kshs.354,460,738 as disclosed in Note 20 to the financial statements. However, the fixed assets register provided for audit reflects assets with a total cost of Kshs.137,445,157 and indicate the last acquisition date as 26 June, 2020. The fixed assets amount therefore varied with the assets cost of Kshs.354,460,738 reflected under Note 20 by Kshs.217,015,581 which has not been reconciled.

In addition, the Management did not provide ownership documents for the land with a valued at Kshs.3,445,000.

In the circumstances, the accuracy, existence and valuation of property plant and equipment cost of Kshs.354,460,738 could not be confirmed.

24.2 Work-In-Progress

The financial statements reflects Work-In-Progress (WIP) of Kshs.233,256,184 as disclosed in Note 20 to the financial statements in respect of ablution blocks (Kshs.15,132,046) and Mtwapa and Kilifi pipeline (Kshs.218,124,138). The Management provided interim certificates for three (3No.) projects with a contract sum of Kshs.1,517,131,340 whose executed works were valued at Kshs.243,748,410 and uncertified works of Kshs.279,936,354. However, the following observations were made.

- i) The WIP as per the interim certificates totalled to Kshs.243,748,410 which differed with the amount disclosed in the financial statements of Kshs.233,256,184 resulting in unexplained variance of Kshs.10,492,226.
- ii) One of the contactors had executed works valued at Kshs.144,289,436 as per interim certificate No.5. However, the Management had not recovered any amount

of advance out of the Kshs.170,000,399 advanced for the contract. No explanation was provided for non-recovery of the advance.

- iii) Management did not provide evidence of advance guarantee from financial institutions being security of the advanced amount in case of default by the contractors.

In the circumstances, the accuracy, existence and valuation of work in progress of Kshs.233,256,184 could not be confirmed.

24.3 Un-Categorised Addition to Water Infrastructure – Pipeline

The financial statements reflects assets additions of Kshs.48,027,950 out of which Kshs.22,470,883 was in respect of water infrastructure pipeline. Review of the of the payment vouchers provided in support of the expenditure indicated that Kshs.15,879,743 was in respect of casual labourers digging trenches for extension of pipeline to various areas within the company’s jurisdiction. However, the works were not categorised and cost for each extension cumulated to specific identifiable projects/pipelines to enable recognition of specific verifiable asset in the fixed assets register.

In the circumstances, the accuracy and cost of water infrastructure pipeline additions of Kshs.22,470,883 could not be confirmed.

25. Trade and Other Receivables

The statement of financial position reflects trade and other receivables of Kshs.455,640,150 as disclosed in Note 24 to the financial statements. Review of the general ledger and other supporting documents revealed the following anomalies;

25.1 Unidentified Debtors

The financial statements reflects other receivables balance of Kshs.15,237,445. The balance was not supported by an analysis of what it comprised of and details of who owed the Company the amount. The Management explained that this is a carried forward balance from prior years and have not been able to identify the actual debtors owing the Company.

In the circumstances, the accuracy and recoverability of other receivables of Kshs.15,237,455 could not be confirmed.

25.2 Non-Confirmation of Trade Receivables

The financial statements reflects trade receivables balance of Kshs.439,515,822 being an increase of Kshs.62,795,282 (17%) from the Kshs.376,720,540 reported in the previous financial year. The increase is an indication of Management’s laxity in collection and implementation of strategies to recover outstanding debtors. Further, the outstanding amount was not supported by debtor’s confirmation balances and statements.

In addition, the Management did not provide for audit review an age analysis for the individual reported debtors and lumped sum of all debtors’ balances in the age analysis.

In the circumstances, the accuracy and recoverability of Kshs.439,515,822 trade receivables could not be confirmed.

25.3 Unrecovered Prepayments

The financial statements reflects opening prepayments balance of Kshs.761,899 which includes a balance of Kshs.210,990 in respect to rent prepayments. As previously reported, included in this balance is an amount of Kshs.126,000 in respect of outstanding prepaid honoraria made in the year 2013. However, no explanation was provided for failure to recover the prepayment.

In the circumstances, the recoverability of Kshs.126,000 could not be confirmed.

26. Unconfirmed Liability

The statement of financial position reflects a Coast Water Works Development Agency liability of Kshs.248,543,712 as disclosed in Note 28 to financial statements. The balance was not supported with any documentary evidence to confirm its status.

In the circumstances, the accuracy and completeness of Coast Water Works Development Agency liability totalling to Kshs.248,543,712 could not be confirmed.

27. Non-Current Liabilities

The statement of financial position and Notes 30, 31 and 32 to the financial statements reflects total non-current liabilities balance of Kshs.945,540,888. The following observations were made.

27.1 Lack of Agreement for Non-current Balance of Bulk Water

The financial statements reflects bulk water (debt) relating to total outstanding bulk water liability of Kshs.341,281,263 as disclosed in Note 30 to the financial statements comprised of Kshs.322,900,423 and Kshs.18,380,840 balances of non-current liability and current liability respectively.

However, Management did not provide for audit any agreement between the Company and Coast Water Works Development Agency for confirmation of Kshs.322,900,423 payment/settlement postponement beyond one year to be classified as a non-current liability.

In the circumstances, presentation and disclosure of bulk water non-current balance of Kshs.322,900,423 as non-current liability could not be confirmed.

27.2 Lack of Agreement for Non-current Balance of Licensee Fees

The statement of financial position and reflects licensee fees balance of Kshs.344,191,836 as disclosed in Note 31 to the financial statements comprising of Kshs.324,653,127 and Kshs.19,538,709 for non-current liability and current liability respectively.

However, Management did not provide for audit any agreement between the Company and Coast Water Works Development Agency for confirmation the Kshs.324,653,127

payment/settlement postponement beyond one year to be classified as a non-current liability.

In the circumstances, presentation and disclosure of the license fees balance of Kshs.324,653,127 as non-current liability could not be confirmed.

27.3 Un-Explained Coast Water Works Development Agency's Liability Variance

The statement of financial position reflects liabilities amounting to Kshs.945,540,888 due to Coast Water Works Development Agency (CWWDA) under various account item heads. However, Coast Water Works Development Agency's financial statements indicated that the Company owed the Agency an amount of Kshs.912,748,862, resulting in unexplained difference of Kshs.2,792,026.

In the circumstances, the accuracy and completeness of the amount of Kshs.945,540,888 owed to Coast Water Works Development Agency could not be confirmed.

Other Matter

28. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.734,916,152 and Kshs.663,694,536 respectively resulting to a revenue shortfall of Kshs.71,221,616 (or 10%) of the budget. Similarly, the Management expended Kshs.749,547,993 against an approved budget of Kshs.622,334,987 resulting to an over-expenditure of Kshs.127,213,005 or (20%) of the budget.

29. Unresolved Prior Year Matter

The audit report for the year ended 30 June, 2021 raised a matter relating to balances reflected in the financial statements. The progress made in resolving the issue has not been confirmed by the Management.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

30. Unapproved Over Expenditure

Review of documents confirmed that there was no evidence that the net over expenditure of Kshs.127,213,006 was approved by the County Executive Member for Water as per Section 46(1) of Public Finance Management Act, 2012. The Management did not provide evidence to confirm that the County Executive Member for Water was informed of the circumstances likely to cause the budget variation, contrary to Section 46.(1) of the Public Finance Management Act, 2012 which states that, 'The Accounting Officer shall inform his or her responsible County Executive Committee Member immediately of any circumstances that are likely to affect materially the budgetary results either through revenue and expenditure or other receipts and payments of the County Government entity'.

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

31. Dormant Bank Account

The statement of financial position reflects bank and cash balances of Kshs.12,767,798 as disclosed in Note 25 to the financial statements. Included in the balance is Kshs.39,108 in respect of a dormant account held in a local bank. Audit review of the bank statements indicated that there were no transactions for over two years and the balance had been depleted by Kshs.4,320 being bank charges for the year. The Management did not explain why the bank account had not been closed resulting in wasteful expenditure in respect of bank charges and the Company's value for money was not received.

In the circumstances, failure to close the bank account resulted in ineffective use of public resources incurred in respect of bank charges.

32. Non-Revenue Water

Review of records provided for audit revealed that the Company received 10,880,179 cubic meters of water from Coast Water Works Development Agency, out of which 6,024,481 cubic meters (55%) was billed to its customers for Kshs.599,239,060. The balance of 4,855,698 cubic meters (45%) represents Unaccounted for Water (UFW) which is 20% percentage points above the allowable threshold of 25% set by the Water Service Regulatory Board (WASREB).

The unaccounted-for water may have resulted to loss of revenue estimated at Kshs.482,996,280 at the Company's average selling price of Kshs.99.47 per cubic meter and is a pointer to possible revenue leakages.

In the circumstances, Management was in breach of the WASREB guidelines.

33. Failure to observe One Third of Basic Salary Payment Rule

Audit examination of payroll data submitted for the year under review, indicated that one hundred and fifty-seven (157) employees of the company had several instances of over-deductions made against their salaries exceeding the required two thirds (2/3) of their basic salary contrary to Section C.1(3) of the Human Resource Policies and Procedures Manual for the Public Service, May, 2016 states that "Public officers shall not over-commit their salaries beyond two thirds (2/3) of their basic salaries and Heads of Human Resource Units should ensure compliance."

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

34. Lack of Gender and Ethnic Diversity

During the year under review, the total number of employees was two hundred and forty-seven (247) out of which two hundred and one (201) or 81% of the total number were male. Section B.22(2) of the Human Resource Policies and Procedures Manual for the Public Service, May, 2016 states that "The Government will endeavour to have a gender balanced Civil Service by ensuring that not more than 2/3 of positions in its establishment are filled by either gender."

Further, the total number of employees were two hundred and forty-seven (247) out of which two hundred and one (201) or 81% of the total number were members of the same ethnic community in the county. This is contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that all public offices shall seek to represent the diversity of the people of Kenya in employment of staff and that no public institution shall have more than one third of its staff establishment from the same ethnic community.

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

35. Unsettled Tax Expenses

As previously reported, Note 33 to the financial statements reflects tax liabilities totalling to Kshs.18,300,794 for prior year assessment, out of which Kshs.8,480,175 relates to fines and penalties. The Company was audited by Kenya Revenue Authority in 2016/2017 financial year for compliance with tax laws and found not to have complied with various aspects of tax regulations.

The tax assessed amounted to Kshs.35,800,794 and comprised Kshs.27,325,619, principal taxes defaulted and Kshs.8,475,175 in penalties and interest. The Company did not settle the assessed tax obligation which may lead to further penalties and interest and result in wasteful use of public funds.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

36. Weaknesses in Inventory Management

A physical verification of the inventory receipt and issue system in the stores department revealed that the Company maintained manual stores records through the use of stock cards. The records maintained did not indicate details of the persons/officers requesting for inventory issue, point/location of issue and customers (in case of meters) to enable tracing of the issued inventory. Further, the system did not provide for ways of determining utilizations, reorder levels and obsolete inventory held in the store.

In addition, the stock take done on 30 June, 2022 as per the stock take report was signed by three (3) employees all of whom were responsible for stores management. As a result, the stock take report could not be verified to be objective.

In the circumstances, the inventory management system is weak and prone to misuse, pilferage and manipulation.

37. Defined Benefits Retirement Obligations

The Company had a defined benefit scheme under which Fund Managers normally determine liabilities and advise the employer to pay from time to time. However, there is no disclosure in the Note of any advice to the Company regarding any liability despite the

disclosure that some members have not been contributing to the scheme. This indicates that the Scheme's level of funding has not been established to determine its adequacy.

In the circumstances, the funding level of the scheme may result in a material liability to the Company.

38. Failure to Maintain Water Meters Register

Review of the billing records indicated that out of the company's 38,103 customers base, 10,933 water meters were indicated as disconnected or terminated. However, the Management did not maintain a physical stock register of the meters to show returned to store, reissued or held in store of the meters after disconnection/termination. Physical count of the disconnected meters held in store indicated that only 977 meters were held in the store while the difference of about 9,976 meters was not accounted for. The unaccounted-for meters would have generated an estimated reconnection fees of Kshs.9,976,000 based on the reconnection charges of Kshs.1,000 per meter.

Further, the Management did not have in place a control to ensure that disconnected customers with material/huge bills were not issued with new meters which would be cheaper than settling the huge outstanding bills. This exposed the company to losses.

In the circumstances, the Company lacked adequate procedures and controls for managing disconnection/termination of water supply and managing returned meters exposing it to losses.

MALINDI WATER AND SEWERAGE COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

39. Unexplained Variance in Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.892,007,701 as disclosed in Note 34 to the financial statements which includes a balance of Kshs.514,747,473 owed to Coast Water Works Development Agency. However, review of records maintained by the Agency indicates that the amount owed by the Company to the Agency is Kshs.510,377,647, thus resulting in a variance of Kshs.4,369,826 which has not been explained nor reconciled.

Further, according to debtors' circularization the Company owed Water Services Regulatory Board (WASREB) an amount of Kshs.54,619,286 while the supporting schedule indicated an amount payable of Kshs.39,388,333 to the Board, resulting in an unexplained and unreconciled variance of Kshs.15,230,953.

In the circumstances, the accuracy and completeness of trade and other payables of Kshs.892,007,701 could not be confirmed.

40. Understated Inventories

The statement of financial position reflects inventories balance of Kshs.50,630,902 as disclosed in Note 23 to the financial statements. However, excluded from the inventories balance is water and chlorine valued at Kshs.134,893,680 and Kshs.8,967,559 respectively, all totalling to Kshs.143,861,239.

In the circumstances, the accuracy and completeness of inventories balance of Kshs.50,630,902 could not be confirmed.

41. Trade and Other Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.321,668,714 as disclosed in Note 24 to the financial statements. However, thirteen (13) debtors with balances amounting to Kshs.16,3783,545 had no current meter readings despite the accounts being allocated meters, eight (8) of the debtors totalling to Kshs.8,629,667 had their last billing dates ranging between 2012 and 2018 while two (2) debtors had no billings for almost one year even though they had been allocated meter numbers.

In the circumstances, the accuracy and completeness of the trade and other receivables balance of Kshs.321,668,714 could not be confirmed.

42. Unutilised Assets

The statement of financial position reflects property, plant and equipment balance of Kshs.566,406,019 as disclosed in Note 20 to the financial statements. Included in the balance is plant and machinery balance of Kshs.142,491,278, out of which assets worth Kshs.20,349,000 as detailed below were unutilised:

Description	Tank Type	Capacity in Cubic Meters	Status	Value (Kshs.)
Kanyumbani	Ferro Tank	50	No water	630,000
Marafa	Steel Elevated	100	Not In Use	2,400,000
Gis	Ferro Tank	50	Not In Use	630,000
Kadzandani	Bluescope	1250	Broken Down	11,500,000
Kadzandani	Old Tanks	150	Broken Down	1,620,000
Kadzandani	Old Tanks	22	Broken Down	277,000
Kadzandani	Primary Sch Tank	88	Broken Down	1,267,000
Shirika	Not Specified	30	Broken Down	378,000
Shirika	Not Specified	25	Broken Down	315,000
Bidhimba	Not Specified	30	Broken Down	540,000
Watala	Not Specified	22	No Pipeline	396,000
Kakuba	Not Specified	22	No Pipeline	396,000
Total				20,349,000

Other than depreciation, the assets have not been impaired to reflect the loss value arising from the disused, breaking down or lack of complimentary installations to make them useful.

In the circumstances, the valuation of the listed assets could not be ascertained.

43. Failure to Transfer Ownership of Assets

The statement of financial position reflects property, plant and equipment of Kshs.566,406,019 as disclosed in Note 20 to the financial statements. The balance includes motor vehicles and motor cycles worth Kshs.25,421,708 owned by Coast Water Works Development Agency which had not been transferred at close of the year. Management did not explain why the ownership of the assets has not been transferred to the Agency.

In the circumstances, the valuation and ownership of the motor vehicles and motor cycles worth Kshs.25,421,708 could not be confirmed.

Other Matter

44. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.843,564,675 and Kshs.729,053,388 respectively, resulting in an under-funding of Kshs.114,511,287 or 14% of the budget. Similarly, the Company expended Kshs.785,828,127 against an approved budget of Kshs.843,564,675, resulting in an under-expenditure of Kshs.57,736,548 or 7% of the budget.

The underfunding and underutilization of approved budget affected the planned activities and may have negatively impacted service delivery to the public.

45. Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2022. Although Management has indicated that the issues have either been resolved or partially resolved, no evidence or explanation was provided to support that assertion.

In the circumstances, the issues remained unresolved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

46. Non-Revenue Water

The statement of profit or loss and other comprehensive income reflects operating revenue of Kshs.456,455,929 as disclosed in Note 6 to the financial statements which consists of water sales of Kshs.440,170,229. Review of records revealed that the Company produced 7,173,382 cubic meters of water during the year under review out of which 5,063,398 cubic meters (or about 71%) was sold to consumers. The variance of

2,109,984 cubic meters of water (or 29%) represents non-revenue water, which is above the acceptable threshold of 25% set by the Water Service Regulatory Board (WASREB)

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

47. Officer Serving in Acting Capacity Beyond Stipulated Period

Records provided for audit review indicated that the Deputy Technical Manager was appointed as the Acting Manager Sanitation with effect from 1 June, 2021 vide letter dated 26 May, 2021. It was stated in the letter that the acting appointment would be for six (6) months without allowances. However, at the time of audit in January, 2023, or nineteen (19) months after appointment, the officer was still serving in the same capacity. No explanation was provided for the acting appointment beyond the stipulated period and for the failure to confirm the officer in the position or to substantively fill it.

In the circumstances, the existence of effective human resource policy guideline to manage and deploy staff could not be confirmed.

TANA RIVER COUNTY – NO.4

TANA WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

48. Presentation and Disclosure of Financial Statements

Review of the financial statements submitted for audit revealed the following anomalies:

- i. They were not signed by the chairman of the Board of Directors and the Head of Finance.
- ii. The passport size photographs for the Management team were not appended in the relevant section of the financial statements.
- iii. A schedule of transfers from other Government entities was not included under appendices section of the financial statements.
- iv. Guidance notes provided in the financial reporting template were not customized or deleted where not applicable while some pages in the financial statement were blank.
- v. Cross referencing of the disclosure notes to the statement of financial position and statement of cash flows was not correctly done as summarized below:

Item	Corresponding Note as Per Financial Statements	Correct Note Reference
Statement of Financial Position:		
Retained Earnings	36	-
Taxation	261	26
Statement of Cash Flows:		
Customer Deposits	15	24
Trade and Other Receivables	13	16
Creditors	14	23

In the circumstances, the financial statements did not comply with the financial reporting templates issued by the Public Sector Accounting Standards Board.

49. Incorrect Opening Balances

Review of the financial statements revealed variances between the opening balances in the current year financial statements and the balances reflected in prior year audit certificate for the year ended 30 June, 2021 as summarized below:

Component	Comparative Balance in the 2021/2022 Financial Statements (Kshs.)	Closing Balance in the 2020/2021 Financial Statements (Kshs.)	Variance (Kshs.)
Casual Wages	7,524,500	7,997,100	427,600
Depreciation	1,515,383	18,889,557	17,374,174
Trade and Other Receivables	3,381,443	3,415,373	33,930
Grant	29,501,460	53,008,061	23,506,601
General and Operating Expenses	26,169	51,422,567	51,396,398
Maintenance Expenses	11,320,164	3,570,427	(7,749,737)
Depreciation and Amortization	1,659,640	18,889,557	17,229,917
Staff Costs	8,222,034	8,238,534	16,500
Property, Plant and Equipment	24,002,094	368,845,964	344,843,870
Trade and Other Receivables	53,009,475	53,316,882	307,407
Cash and Cash Equivalents	957,758	1,537,316	579,558
Share Capital	5,000,000	100,000	(4,900,000)
Development Grants	62,441,881	424,897,677	362,455,796
Retained Earnings	3,989,042	(8,036,758)	(12,025,800)
Trade and Other Payables	3,381,443	3,415,373	33,930
Taxation	606,111	-	(606,111)

In the circumstances, the accuracy of the opening balances reflected in the financial statements could not be confirmed.

50. Non-Submission of Prior Years Financial Statements

According to the certificate of incorporation, the Company was incorporated in the year 2006. However, Management has not submitted to the Auditor-General the financial statements for fourteen (14) financial years from 30 June, 2007 to 30 June, 2020. This was contrary to the provisions of Section 47(1) of the Public Audit Act, 2015 which states that the financial statements required under the Constitution, the Public Finance Management Act, 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.

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

51. Lack of an Approved Budget

The statement of comparison of budget and actual amounts reflects total revenue and recurrent expenditure budget of Kshs.55,000,000. However, Management did not provide evidence of approval of the budget by the County Executive Member for Water, the County Executive Member for Finance and the County Assembly as required by Section 149(2)(j) of the Public Finance Management Act, 2012, which provides that an accounting officer shall, in respect of the entity concerned submit the estimates of an entity, which is a county corporation, to the Executive Committee Member responsible for

the entity who, after approving it, shall forward it to the County Executive Committee Member for Finance.

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

52. Revenue

52.1 Under Collection of Revenue

The statement of comparison of budget and actual amounts reflects actual revenue of Kshs.38,391,693 against final budget of Kshs.55,000,000, resulting to an under collection of Kshs.16,608,307 or 30% of the budget.

The under collection may have negatively affected implementation of the Company's planned programs.

52.2 Excessive Non-Revenue Water

Review of records revealed that the Company produced a total of 2,034,457 cubic meters of water. However, only 600,000 cubic meters of water were billed to customers. The balance of 1,434,457 cubic meters representing 70% of the total volume of water produced were not billed hence considered as Non-Revenue Water. This was above the limit of 25% recommended by Water Service Regulatory Board Guidelines. The 1,434,457 cubic meters of Non-Revenue Water may have resulted into an estimated loss of Kshs.54,509,366 at the price of Kshs.38 per cubic meter.

It was also noted that the Company operated without a master meter and therefore the accuracy of quantities of water produced could not be confirmed.

In the circumstances, the effectiveness of controls on water production and billing could not be confirmed.

52.3 Weak Controls in Revenue Collection

During the year under review, the Company operated without an approved tariff from the Water Service Regulatory Board (WASREB). In addition, revenue was collected through a manual system and the Company did not have a billing system with necessary controls to facilitate effective revenue collection and reporting.

In the circumstances, the existence of effective systems and processes of revenue collection and reporting in the Company could not be confirmed.

53. Unsupported Staff Costs

The statement of profit or loss and other comprehensive income reflects staff costs of Kshs.9,150,309 as disclosed in Note 9 to the financial statements, which includes casual workers wages and interns allowances of Kshs.8,053,200. However, the supporting ledger reflected Kshs.8,197,855, resulting to an unreconciled difference of Kshs.144,655. In addition, the Management did not provide documentary evidence to support recruitment of the contractual employees.

In the circumstances, the accuracy and regularity of casual wages expenditure of Kshs.8,053,200 could not be confirmed.

54. Unsupported General and Operations Expenses

The statement of profit or loss and other comprehensive income reflects general and operations expenses of Kshs.28,871,298 as disclosed in Note 10 to the financial statements. However, review of records revealed the following unsatisfactory matters:-

54.1 Unsupported Expenditure

Included in the general and operations expenses of Kshs.28,871,298 are expenditures of Kshs.2,493,043 in respect of five (5) account balances for which the payment records and the supporting documents were not provided for audit review.

In the circumstances, the accuracy and completeness of expenditure amounting to Kshs.2,493,043 could not be confirmed.

54.2 Unsupported Electricity Expenses

Included in the general and operations expenses of Kshs.28,871,298 is electricity expenses of Kshs.19,100,016. However, the supporting schedule provided for audit reflected Kshs.740,813, resulting to unreconciled variance of Kshs.18,359,203. In addition, supporting documents such as invoices from Kenya Power and Lighting Company were not provided for audit review.

In the circumstances, the accuracy and completeness of electricity expenses of Kshs.19,100,016 could not be confirmed.

54.3 Unsupported Domestic Travel and Subsistence

Included in the general and operations expenses of Kshs.28,871,298 is domestic travel and subsistence allowances of Kshs.2,391,960. However, payments of Kshs.890,400 lacked supporting documents such as attendance registers, signed payment schedules, motor vehicle work tickets, imprest warrants and certificates of participation.

In the circumstances, the accuracy and regularity of domestic travel and subsistence allowance of Kshs.890,400 could not be confirmed.

55. Unsupported Expenditures on Maintenance of Plant and Equipment

The statement of profit or loss and other comprehensive income reflects maintenance expenses of Kshs.6,534,194 as disclosed in Note 12 to the financial statements. However, items for plant and equipment maintenance worth Kshs.301,720 and pipes and fittings worth Kshs.1,470,650 were not received vide S13 and taken on charge on the stores' ledger. In addition, Management did not provide for audit review inspection and acceptance committee report for the delivered items.

In the circumstances, the accuracy and completeness of maintenance expenses of Kshs.1,772,370 could not be confirmed.

56. Unsupported Trade and Other Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.51,484,791 as disclosed in Note 16 to the financial statements. However, the Management did not provide for audit review an updated debtors ledger with proper age

analysis. In addition, demand notes were not issued to customers with long outstanding water bills and provision for bad and doubtful debts was not made.

In the circumstances, the accuracy and recoverability of the trade and other receivables balance of Kshs.51,484,791 could not be confirmed.

57. Unsupported Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents balance of Kshs.484,111 as disclosed in Note 17 to the financial statements. The Company operated four (4) bank accounts during the year under review. However, bank reconciliation statements, bank statements, cash books and certificates of bank balances for the four (4) accounts were not provided for audit review. In addition, the names of the bank accounts were not disclosed in Note 17 to the financial statements.

In the circumstances, the accuracy of cash and cash equivalents balance of Kshs.484,111 could not be confirmed.

58. Unsupported Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.6,181,710 as disclosed in Note 23 to the financial statements. However, the balance was not supported with invoices, local service orders/local purchase orders and creditor's statements. In addition, the aging analysis for the payables was not prepared. Further, employee payables balance of Kshs.1,030,200 included in the trade payables was not supported with a list of employees and the amounts owed.

In the circumstances, the accuracy and completeness of the trade and other payables and customer deposit balances of Kshs.6,181,710 could not be confirmed.

59. Unsupported Customer Deposits

The statement of financial position reflects customer deposits balance of Kshs.1,483,110 as disclosed in Note 24 to the financial statements. However, the Management did not provide the supporting documents for the deposits.

In the circumstances, the accuracy and completeness of customer deposit balance of Kshs.1,483,110 could not be confirmed.

60. Lack of Share Certificates and Variance in Ordinary Share Capital

According to the Certificate of Incorporation and Memorandum and Article of Association, the Company was incorporated in the year 2006 with issued and paid-up share capital of Kshs.100,000 divided into 5,000 shares of Kshs.20 each. The shares were previously issued to the defunct County Council of Tana River. However, the shares were never transferred to the County Government of Tana River after the advent of devolution. In addition, the Company had not revised its Memorandum and Articles of Association in line with the Water Act, 2016 and Water Regulation, 2016.

Further, the statement of changes in equity reflects ordinary share capital of Kshs.5,000,000 as at 30 June, 2022 resulting to unreconciled variance of Kshs.4,900,000.

In the circumstances, the accuracy and completeness of ordinary share capital balance of Kshs.5,000,000 could not be confirmed.

61. Material Uncertainty Relating to Going Concern

The statement of profit or loss and other comprehensive income reflects deficit of Kshs.7,797,091 decreasing the revenue reserves balance by Kshs.7,797,091. This condition indicates existence of a material uncertainty, which may cast significant doubt on the Company's ability to continue as a going concern. The material uncertainty relating to going concern and the measures put in place to improve the Company's financial performance were not disclosed in the financial statements.

In the circumstances, the Company's going concern is doubtful and its continued operations is dependent on the support from the County Government of Tana River and grants from development partners.

62. Lack of Audit Committee and Internal Audit

During the year under review, the Company operated without an Audit Committee and an internal audit department to support the accounting officers with regard to their responsibilities for issues of risk control, governance and associated assurance. This was contrary to Section 155(5) of the Public Finance Management Act, 2012 which provides that a County Government entity shall ensure that it has appropriate arrangements for conducting internal audit according to the guidelines issued by the Accounting Standards Board.

In the circumstances, it was not possible to confirm existence of effective governance structure in the Company.

63. Lack of Risk Management System

During the year under review, the Company did not have a Risk Management Policy in place. Further, Management did not carry out risk assessment during the year under review. This was contrary to Regulation 158(1) of the Public Finance Management (County Governments) Regulations, 2015 which states that the accounting officer shall ensure that the County Government entity develops risk management strategies, which include fraud prevention mechanisms and develop a system of risk management and internal control that builds robust business operations.

In the circumstances the Management could not be able to identify, assess and control threats that may affect achievement of the Company objectives.

64. Lack of Staff Establishment and Scheme of Service

During the year under review, the Company did not have in place an approved staff establishment and scheme of service. It was therefore not possible to confirm whether the Company was operating within optimal staff levels. This was contrary to Paragraph 3.9 of the Corporate Governance Guidelines for the Water services Sector, 2018 which requires that the Board of Directors shall ensure that it has a staff establishment showing in-post and vacancies based on sector standard competencies.

In the absence of the two documents, it was not possible to confirm the existence of effective internal controls on staff recruitment and promotions in the Company.

65. Lack of Debt Management and Bad Debt Policies

During the year under review it was noted that the Company did not have a debt management policy as well as a policy on provision for bad and doubtful debts.

In the circumstances, the effectiveness in the monitoring and recovery of the trade and other receivables could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

66. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

67. There were no material issues relating to effectiveness of internal controls, risk management and governance.

LAMU COUNTY – NO.5

LAMU WATER AND SEWERAGE COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

68. Non-Compliance with the Prescribed Reporting Template

Review of the financial statements prepared and submitted for audit revealed the following instances of non-compliance with the prescribed template:

- i. The disclosure information on the Board of Directors did not include the directors' age, key academic/professional qualifications and work experience.
- ii. It was not indicated whether the directors were independent or executive and the committees they were chairing where applicable.
- iii. The pages containing the statement of directors' responsibilities and statement of financial position did not contain page numbers.
- iv. The statement of financial performance was not signed by the Head of Finance as required by the Financial Reporting Template (Revised June, 2022) issued by the Public Sector Accounting Standards Board.

In the circumstances, the financial statements did not fully comply with the Annual Financial Reporting Template (Revised June, 2022) issued by the Public Sector Accounting Standards Board.

69. Inaccuracies in the Comparative Balances

The statement of profit or loss and other comprehensive income reflects opening balance of general and operational expenses of Kshs.30,383,492. However, the prior year audited financial statements reflected a balance of Kshs.32,471,085 resulting in an unreconciled difference of Kshs.2,087,593. In addition, the statement reflects loss before taxation of negative Kshs.7,271,075 while the prior year audited financial statements reflected loss of negative Kshs.9,358,668 resulting in an unreconciled difference of Kshs.2,087,593. Further, comparative balances for operating revenue, other income, finance income and general operations expenses do not agree with the referenced notes.

In the circumstances, the accuracy of the opening balances for general and operational expenses and loss before taxation could not be confirmed.

70. Variances Between the Trial Balance and the Financial Statements

Comparative analysis of the trial balance and the financial statements revealed unreconciled variances as tabulated below:

Component	Balance as Per Trial Balance (Kshs.)	Balance as Per Financial Statements (Kshs.)	Variance (Kshs.)
Retained Earnings	22,134,617	27,929,537	(5,794,920)
Buildings	9,667,504	38,596,358	(28,928,854)
Computers and Related Equipment	88,000	6,703	(81,297)
Office Equipment, Furniture and Fittings	281,553	202,753	(78,800)
Trade Receivables (Customers Debtors)	10,682,071	10,710,071	(28,000)
Statutory Deductions	216,200	188,200	28,000

In the circumstances, accuracy of balances reflected in the financial statements could not be confirmed.

71. Variance in Domestic Travelling and Subsistence

The statement of profit or loss and other comprehensive income reflects general and operation expenses of Kshs.43,240,233 as disclosed in Note 11 to the financial statements which includes domestic travelling and subsistence of Kshs.14,584,805. However, the ledger supporting the balance reflected an amount of Kshs.14,719,805 resulting to unexplained and unreconciled variance Kshs.135,000.

In the circumstances, the accuracy of domestic travelling and subsistence expenditure of Kshs.14,584,805 could not be confirmed.

72. Property, Plant and Equipment – Lack of Ownership Documents

The statement of financial position reflects property, plant and equipment balance of Kshs.40,139,564 as disclosed in Note 15 to the financial statements. However, review of the Company's asset register revealed that it included six unvalued parcels of land for which the Company did not have ownership documents. In addition, included in the asset register were seven (7) motor vehicles whose logbooks were in the name of Coast Water Works Development Agency.

In the circumstances, ownership of the Company's land and seven motor vehicles could not be confirmed.

73. Unsupported Trade and Other Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.13,710,071 which includes trade receivables (customer debtors) of Kshs.10,710,071 as disclosed in Note 16 to the financial statements. However, the trade receivables ledger reflected a balance of Kshs.26,312,655 resulting to unreconciled variance of Kshs.15,602,584. In addition, the ledger did not disclose balances brought forward, amount accrued for the current period and the ages of the running balance as at the end of the financial year. Further, Management did not make a provision for bad and doubtful debts.

Finally, included in the trade and other receivables balance is shareholders receivables/contribution of Kshs.3,000,000 which has never been paid up since the inception of the water company.

In the circumstances, the recoverability, accuracy and completeness of trade and other receivables balance of Kshs.13,710,071 could not be confirmed.

74. Unsupported Cash and Bank Balances

The statement of financial position reflects bank and cash balance of Kshs.13,072,190 as disclosed in Note 17 to the financial statements. However, the cash book, bank statements and bank reconciliation statement for Mokowe Household Sanitation Project bank account with a reported balance of Kshs.7,013,949 were not provided for audit verification.

In the circumstances, the accuracy of cash and bank balance of Kshs.7,013,949 could not be confirmed.

75. Failure to Transfer Shareholding

The statement of financial position reflects ordinary share capital of Kshs.3,000,000 as disclosed in Note 18 to the financial statements. The balance comprises 3,000 ordinary shares of Kshs.1,000 par value amounting to Kshs.3,000,000. Lamu Water and Sewerage Company Limited was incorporated under the Company Act (Cap, 486) on 3 February, 2006 under the ownership of the defunct County Council of Lamu. Following the establishment of the County Government of Lamu in 2013, Management was expected to transfer the ownership of the Company to the County Government of Lamu. However, the ownership of the Company still remains in the name of the defunct County Council of Lamu Contrary to Section 77(1) of the Water Act, 2016 that states that County Governments shall establish water services providers.

In the circumstances, the ownership of the Company as 30 June, 2022 could not be confirmed.

76. Unsupported Long-Term Payables

The statement of financial position reflects long term liabilities of Kshs.7,770,210 as disclosed in Note 19 to the financial statement. However, the balance was not supported by ledgers and the balance had not indicated any movement over the last three years. In addition, the terms and condition of repayment have not been spelt out or provided for audit review.

In the circumstances, the accuracy of long-term liabilities balance of Kshs.7,770,210 could not be confirmed and the Company's ability to settle the outstanding amount is doubtful.

77. Unsupported Deferred Grant Income

The statement of financial position reflects deferred grant income of Kshs.52,016,968 as disclosed in Note 20 to the financial statements. However, Management did not maintain

a ledger in support of the balance. In addition, the balance has not indicated any movement over a duration of two years and therefore it is not known when it will be realized as income.

In the circumstances, the accuracy and completeness of the deferred income balance of Kshs.52,016,968 could not be confirmed.

78. Trade and Other Payables

78.1 Unsupported Non-Remittance of Mandatory Fees, Sacco and Pension Deductions

The statement of financial position reflects trade and other payables balance of Kshs.32,064,184 as disclosed under Note 21 to the financial statements. However, Management did not provide aging analysis for audit verification. In addition, included in the balance is Kshs.12,283,291 in respect of unremitted mandatory fees payable to Coastal Water Works Development Agency (CWWDA) and Water Services Regulatory Board (WASREB) and Water Resource Authority (WRA). Further, the balance included an amount of Kshs.5,036,587 in respect of unremitted deductions to Saving and Credit Cooperative Organization (SACCO) and pension schemes and which were not supported by appropriate ledgers.

In the circumstances, the accuracy and completeness of trade and other payables of Kshs.32,064,184 could not be confirmed and the Company's ability to settle the outstanding amounts is doubtful.

78.2 Unsupported Customer Deposits

The statement of financial position reflects trade and other payables balance of Kshs.32,064,184 which includes refundable customer deposits of Kshs.763,603 as disclosed in Note 21 to the financial statements. However, the detailed schedules/ledger supporting the reported balance and movements during the year were not provided for audit review. In addition, the customer deposit account held at Kenya Commercial Bank reflected a balance of Kshs.1,441,716 resulting to an unexplained difference of Kshs.678,113.

In the circumstances, the accuracy and completeness of customer deposits balance of Kshs.763,603 could not be confirmed.

78.3 Non-Disclosure of Material Uncertainty Relating to Going Concern

The statement of profit or loss and other comprehensive income reflects a loss of Kshs.5,794,920 (2021; in 2021 loss of Kshs.7,271,075 and in 2020 loss of Kshs.9,350,113), decreasing the revenue reserves to negative Kshs.27,929,537. In addition, the statement of financial position reflects current assets of Kshs.26,782,261 against total current liabilities of Kshs.32,064,184, resulting to a negative working capital of Kshs.5,281,923. This condition indicates existence of a material uncertainty, which may cast significant doubt on the Company's ability to continue as a going concern. The material uncertainty relating to going concern and the measures put in place to improve

the Company's financial performance have not been disclosed in these financial statements.

In the circumstances, the Company is technically insolvent and its continued operations is dependent on the continued support from the creditors and County Government of Lamu.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

79. Staff Costs

79.1 Irregular Payment of Top Up Allowances

The statement of profit or loss and other comprehensive income reflects staff costs of Kshs.35,843,251 which includes top up allowances of Kshs.2,018,000 as disclosed in Note 10 to the financial statements. Review of records revealed that the expenditure was in respect of seconded staff from the County Executive of Lamu. However, Management did not provide for audit review the evidence of approval of the top up allowance by the Salaries and Remuneration Commission (SRC) as required by Article 230 (4)(b) of the Constitution of Kenya, which states that the powers and functions of Salaries and Remuneration Commission shall be to advise the national and county governments on the remuneration and benefits of all public officers.

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

79.2 Double Payment of Casual Employee Wages

The statement of profit or loss and other comprehensive income reflects staff costs of Kshs.35,843,251 which includes an amount of Kshs.2,250,000 in respect of wages for casuals as disclosed in Note 10 the financial statements. Audit review of the muster roll for casuals revealed that Management paid its casual employees wages amounting to Kshs.670,000 and Kshs.820,000 in the months of September, 2021 and March, 2022, respectively. However, examination of payrolls revealed that the same casual employees were paid by the County Executive of Lamu.

In the circumstances, the regularity of wages for casual employees of Kshs.1,490,000 in the year ended 30 June, 2022 could not be confirmed and the expenditure may be considered wasteful as interpreted by Section 2 of the Public Finance Management Act, 2012.

79.3 Unsupported Procurement of Fuel

The statement of statement of profit or loss and other comprehensive income reflects general and operations expenses balance of Kshs.43,240,233 which includes fuel of Kshs.2,973,280 as disclosed in Note 11 to the financial statements. However, audit review revealed that payments totalling to Kshs.393,280 were not supported with Electronic Tax Receipts (ETR) from the Kenya Revenue Authority as required by Regulation 93(2) of the Public Procurement and Asset Disposal Regulations, 2020 which states that any

procurement under paragraph (1) shall be supported by the original Kenya Revenue Authority Electronic Tax Receipt (KRA ETR Receipt) duly signed by the person undertaking the low value procurement of goods, works or services.

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

79.4 Non-Remittance of Statutory Dues

Examination of Company records revealed that the National Social Security Fund and Kenya Revenue Authority deductions amounting to Kshs.295,600 and Kshs.339,879 respectively were not remitted to the respective organizations. This was contrary to Section 19(4) of the Employment Act, 2007 that states that an employer who deducts an amount from an employee's remuneration in accordance with subsection (1)(a), (f), (g) and (h) shall pay the amount so deducted in accordance with the time period and other requirements specified in the law, agreement court order or arbitration as the case may be.

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

79.5 Irregular Procurement of Repair and Maintenance Services

The statement of profit or loss and other comprehensive income reflects maintenance expenses of Kshs.8,962,271 as disclosed in Note 13 to the financial statements. Review of payment vouchers and procurement files revealed that an amount of Kshs.1,687,235 was paid to a local company for supply, delivery and installation of inverters at Kizingitini Water and Sanitation Project.

Management used direct procurement method to acquire the works. However, evidence that the five conditions for use of direct procurement as set out under Section 103(2) of the Public Procurement and Asset Disposal Act, 2015 were met to justify use of direct procurement method was not provided for audit review.

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

79.6 Excessive Non-Revenue Water

During the year under review, the Company produced 548,534 cubic meters of water and out of which 276,762 cubic meters was billed to customers. The balance of 240,272 cubic meters (44%) of produced water worth Kshs.39,644,880 tabulated using the gazetted water company's highest tariff of Kshs.165 per cubic meter of water represents Non-Revenue Water (NRW) which is 19% over and above the limit of 25% set by the Water Services Regulatory Board.

The significant level of Non-Revenue Water may be an indication of inefficiency and ineffectiveness in the use of public and water resources, which may negatively impact on the Company's profitability and its ability to sustain services.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

80. Weak Controls in Revenue Collection

The statement of profit or loss and other comprehensive income reflects operating revenue for the year of Kshs.26,334,820 as reflected in Note 6 to the financial statement. The amount is a sharp decline from the previous financial year ended 30 June, 2021 balance of Kshs.40,566,341. A review of bank statements, receipt books, monthly meter readings revealed that the Company used manual revenue collection system. A manual revenue collection system is prone to abuse and un-authorized adjustments.

In the circumstances, it was not possible to confirm existence of strong and effective internal controls in revenue collection.

81. Weaknesses in Internal Controls on Processing of Payments

The statement of profit or loss and other comprehensive income reflects total expenses amounting to Kshs.90,717,198. Review of records revealed that payment vouchers were not numbered and therefore specific physical payment vouchers could not be traced in the expenditure schedules supporting the financial statements. In addition, payment vouchers were not authorized by the Finance Manager. Further, payment vouchers were not examined and vote book certificate completed as required.

In the circumstances, it was not possible to confirm existence of strong and effective internal control in processing of payments.

82. Incomplete Payroll Records

Payrolls for permanent employees maintained did not include all the relevant details. Data on ethnic codes, county of origin, persons with disability status and gender, Kenya Revenue Authority Personal Identification Number, marital status, date hired, date of birth of all employees were not indicated in the payroll.

In the circumstances, it was not possible to confirm the completeness of information processed from the payroll.

83. Lack of Risk Management Policy

During the year under review, the Company did not have a Risk Management Policy. It was further noted that Management did not carry out risk assessment during the year. Section 158 (1)(a) and (b) of the Public Finance Management (County Governments) Regulations, 2015 requires the accounting officer to develop risk management strategies, which include fraud prevention mechanism and internal control that builds robust business operations.

In the absence of a risk management policy, the Company may fail to identify and respond to risks in order to minimize or prevent their impact.

TAITA/TAVETA COUNTY – NO.6

TAVEVO WATER AND SEWERAGE COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

84. Unsupported Bank and Cash Balances

The statement of financial position reflects bank and cash balances of Kshs.159,544,572 as disclosed in Note 20 to the financial statements which include a bank balance of Kshs.3,092,301 in respect of Posta Pay. However, the balance was not supported with bank reconciliation statements, bank statements and a certificate of bank balance. Further, Management did not provide the approval to operate the account for audit review.

In the circumstances, the accuracy and completeness of the bank and cash balances of Kshs.159,544,572 could not be confirmed.

85. Unsupported Customer Deposits

The statement of financial position reflects customer deposits of Kshs.33,475,516 as disclosed in Note 27 to the financial statements. However, no listing of the persons owed the deposits was provided for audit review.

In addition, the customer deposits bank account reflected a balance of Kshs.1,115,257 as at 30 June, 2022 resulting to a variance of Kshs.32,360,259 between the customer deposits balance and the bank statement that was not reconciled.

In the circumstances, the accuracy and completeness of the customer deposits balance of Kshs.33,475,516 could not be confirmed.

86. Non-Revenue Water

The statement of profit or loss and other comprehensive income reflects operating revenue of Kshs.259,350,715 as disclosed in Note 6 to the financial statements which includes water sale of Kshs.247,082,575. Review of the Company's annual report noted that 5,420,914 cubic meters of water was produced and out of which 3,450,338 cubic meters (or 64%) was billed to customers. The unbilled amount of 1,970,576 cubic meters of water (or 36%) represented Non-Revenue Water which is more than the maximum allowable loss of 25% by the Water Services Regulatory Board (WASREB).

In addition, the calculated amount of the billed water of 3,450,338 cubic meters was equivalent to Kshs.287,679,949 as compared to revenue collections of Kshs.247,082,575, resulting in an unexplained variance of Kshs.40,597,374.

In the circumstances, the accuracy and completeness of water sales of Kshs.247,082,575 could not be confirmed.

87. Unexplained Variance in Coast Water Works Development Agency Payables

The statement of financial position reflects Coast Water Works Development Agency (CWWDA) payables balance of Kshs.129,397,816 as disclosed in Notes 25 and 26 to the financial statements for lease fees and Kshs.470,843,523 for bulk water supply totalling to Kshs.600,241,339. However, the audited financial statements for the Coast Water Works Development Agency for the same period reflected Kshs.708,109,182 as receivables from the Company, resulting to an unexplained variance of Kshs.107,867,843.

In the circumstances, the accuracy and completeness of Coast Water Works Development Agency payables balance of Kshs.600,241,339 could not be confirmed.

88. Long Outstanding Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.341,160,132 as disclosed in Note 18A to the financial statements. However, debtors totalling to Kshs.4,119,954 had been outstanding for a period of over four years yet the Management did not explain the measures being undertaken to collect the debt.

In the circumstances, the collectability of the trade and other receivables balance of Kshs.341,160,132 could not be confirmed.

Other Matter

89. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.1,415,131,988 and Kshs.738,917,763 respectively, resulting to an under collection of Kshs.676,214,225 or 48% of the budget. Similarly, the Company spent an amount of Kshs.624,698,783 against an approved budget of Kshs.382,758,689 resulting to an over-expenditure of Kshs.241,940,094 or 63% of the budget which was not approved.

In the circumstances, the under collection of revenue adversely affected implementation of the activities of the Company.

90. Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2022. Although Management has indicated that audited financial statements had not been received as the reason for the delay in resolving the prior year audit issues, the Auditor's Report was transmitted to the Management on 11 October, 2022. Further, the unresolved prior year issues are not disclosed under the progress on follow up of auditor's recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

91. Irregular Management of Imprests

The statement of financial position reflects trade and other receivables balance of Kshs.341,160,132 as disclosed in Note 18 to the financial statements which includes staff receivables of Kshs.2,466,062 and staff imprests amounting to Kshs.1,725,384. However, no deductions were effected for staff debts amounting to Kshs.327,359 and the monthly staff debts deductions of Kshs.374,000 for five (5) staffs had not been effected as at 30 June, 2022.

Further, staff imprests amounting to Kshs.1,725,384 were held for a period of over one year without being surrendered, contrary to Regulations 93(5) of the Public Finance Management (County Governments) Regulations, 2015 which limits the imprest surrender period to a maximum of seven (7) days of completion of the work for which it was issued or of return to duty station. Management did not explain the reasons for non-recovery of the staff debts.

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

92. Irregular Payment of Airtime Allowances

The statement of profit or loss and other comprehensive income reflects general and operations expenses of Kshs.417,466,909 as disclosed in Note 10 to the financial statements which include staff airtime allowance of Kshs.2,600,700. Review of the financial records supporting the airtime payments revealed that all staff received airtime allowances. However, the grades as evidence of eligibility for airtime and Boards minutes were not provided for audit. This was contrary to Clause 8.14.1 of Tavevo Water and Sewerage Company Limited Human Resource Policy Manual, 2018, that requires beneficiaries to be at senior management levels.

In the circumstances, the regularity of the airtime allowance of Kshs.2,600,700 could not be confirmed.

93. Lack of Approved Strategic Plan

The Company did not provide an approved strategic plan in the year under review as required by Section 68 (2)(g) of the Public Finance Management Act, 2012. Management did not explain how the budget estimates for the year were developed without an approved strategic plan.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

94. Lack of an Approved Staff Establishment

The statement of profit or loss and other comprehensive income reflects staff costs of Kshs.120,778,879. However, no staff establishment was provided in support of the two hundred and forty-six (246) staff reflected in payroll as required of Clause 3.9 of the Tavevo Water and Sewerage Company Limited Human Resources Policy Manual, 2018 which require the permanent and pensionable staff establishment to be reviewed and approved annually by the Board on the recommendation of the Staff Advisory Committee.

In the circumstances, Management was in breach of the Human Resource Policy manual.

95. Non-Adherence to Human Resource Policy

The statement of profit or loss and other comprehensive income reflects staff costs of Kshs.120,778,879 as disclosed in Note 9 to the financial statements which include salary of Kshs.85,614,786. Review of the payroll for the year under review noted payment of acting allowances totalling to Kshs.184,168 to two staffs in Internal Audit and Human Resource Departments who have been acting since 15 August, 2018 and 1 September, 2021 respectively, which was more than the six months stipulated under Paragraph 8.2.6 of the Tavevo Water and Sewerage Company Limited Human Resource Policy Manual.

In addition, the payroll reflected two hundred and forty-six (246) employees as compared to the previous year's number of one hundred and thirty-six (136), translating to an increase of one hundred and ten (110) employees. However, advertisement for the positions, details of the applicants and those short-listed, interviewed and eventually appointed as per Paragraph 7.1 of the Tavevo Water and Sewerage Company Limited Human Resource Policy, were not provided for audit verification.

In the circumstances, Management was in breach of the Human Resource policy.

96. Lack of Risk Management Policy

The Company did not provide the Risk Management Policy for audit review as required by Regulation 158 of the Public Finance Management (County Governments) Regulations, 2015. Also, there was no fraud prevention mechanism, operational plan and disaster recovery plan.

In the circumstances, it was not possible to determine the effectiveness of the internal controls in risk mitigation.

97. Failure to Insure Company Assets

The statement of financial position reflects property, plant and equipment balance of Kshs.327,277,357 as disclosed in Note 15 to the financial statements. However, it was noted that only motor vehicles and motor cycles worth Kshs.42,442,500 were insured during the year, while other assets totalling to Kshs.284,834,857 were not insured.

In the circumstances, the fixed assets were not covered against insurable risks.

98. Excess Board Committees Membership and Sitzings

Review of Board minutes and related records revealed the following anomalies as regards to board sittings and eligibility for allowances:

- i. During the year under review, the Board's Finance, Human Resources and Technical committees had a total of five members each. However, the number was higher than three (3) (1/3 of board membership of 10) allowed by Circular No. OP/CAB.9/1A dated 11 March, 2020. Further, it was noted that Finance and Human Resources Committees held three sittings with attendance of six, seven and four members while the Technical committee held two sittings with attendance of five and six members. The excess membership and attendance resulted in an overpayment of Kshs.130,000 for the five combined sittings of the two committees.
- ii. In addition, three persons were members of all the three committees of Finance and Human Resources and, Audit and Technical in violation of the Circular which requires a member to sit in a maximum of two committees. Hence an overpayment of sitting allowances of Kshs.60,000 for sitting in the additional committees.
- iii. Further, four members were in both Finance and Audit Committees contrary to the requirement that a member serving in the Finance Committee cannot be appointed as a member in the Audit Committee, thus occasioning an overpayment of Kshs.60,000 in sitting allowances.

In the circumstances, the Management was in breach of the circular and the effectiveness of internal controls over board expenses could not be confirmed.

GARISSA COUNTY – NO.7

GARISSA WATER AND SEWERAGE COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

99. Understated Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.236,361,178. However, assets related to Work-In-Progress (WIP) which were not supported with asset register or tagged were excluded in the total value of assets.

In the circumstances, the accuracy, completeness and existence of property, plant and equipment balance of Kshs.236,361,178 could not be confirmed.

100. Failure to Bill All Customers

The statement of profit or loss and other comprehensive reflects income from operations of Kshs.376,005,926 as disclosed in Note 4 to the financial statements which included in the amount is Kshs.375,513,526 for water sales. However, review of the income records revealed that the number of customers served by the Company were 18,126, out of which only 2,128 (or 12%) are metered. Water billing was made to only 11,565 customers leaving 6561 customers not billed and hence loss of revenue.

In addition, the Company has been using expired water tariffs approved on 14 May, 2010 and expected to have been reviewed in June, 2012 for further adjustment as per Gazette Notice No.5321, Vol. CXII – No.49, page 1724. Further, the Company disclosed water sales of Kshs.375,513,526 but collected Kshs.124,570,559 or 33%. The Management was not able to maximize on cash collections, a situation likely to affect the liquidity of the Company.

In the circumstances, the accuracy and completeness of water sales balance of Kshs.375,513,526 could not be confirmed.

101. Unsupported Trade Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.836,964,197 as disclosed in Note 12 to the financial statements. However, the Company did not maintain an updated receivables' ledger that would show balance brought forward, amount accrued during the year, payments received and balance carried forward. Further, the Company did not provide age analysis of the receivables that would disclose what amounts are owed and the duration of the debt.

In the circumstances, the accuracy and completeness of trade and other receivables balance of Kshs.836,964,197 could not be confirmed.

102. Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalent balance of Kshs.1,488,439 as disclosed in Note 12 to the financial statements. However, the statement of cash flows as at 30 June, 2022 reflects cash and cash equivalent balance of Kshs.96,751,935 resulting to a variance of Kshs.95,263,496 which was not or explained.

Further, the statement of cash flows reflects bank overdraft in investing activities of Kshs.39,506,079. However, the Management did not provide Board approval minutes and agreement from the Commercial banks to utilize overdraft facilities. This is contrary to Section 28(4) of the Public Finance Management Act, 2012 which states that an Accounting Officer for a National Government entity shall not cause a bank account of the entity to be overdrawn beyond the limit authorized by the National Treasury or a Board of a National Government entity.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.1,488,439 could not be confirmed and the Management was also in breach of the law.

103. Unreconciled Personnel Costs

The statement of profit or loss and other comprehensive income reflects staff costs balance of Kshs.88,599,149 as disclosed in Note 5 to the financial statements. However, review of payroll and ledgers and schedules revealed an expenditure of Kshs.79,405,472 and Kshs.88,432,349 resulting to a variance of Kshs.9,193,677 and Kshs.166,800 respectively.

In the circumstances, the accuracy and completeness of personnel cost balance of Kshs.88,599,149 could not be confirmed.

104. Unrecorded Meter Deposits

The statement of financial position reflects trade and other payable balance of Kshs.227,271,703 as disclosed in Note 14 to the financial statements. Included in the amount is Kshs.nil balance for meter deposits. However, review of income ledgers revealed that customers paid unknown amount of meter deposits during water connections. The Management did not maintain a separate bank account for customer deposits and relevant register. Further, the Management did not account for the customer deposits as payable but income against best accounting practices.

In the circumstances, the disclosure and completeness of customer deposits of Nil balance could not be confirmed.

105. Unsupported Finance Costs

The statement of profit or loss and other comprehensive income reflects finance costs amount of Kshs.1,077,633 as disclosed in Note 9 to the financial statements. However, the expenditure was not supported with ledgers.

In the circumstances, the accuracy and completeness of finance costs amount of Kshs.1,077,633 could not be confirmed.

106. Understated Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.227,271,703 as disclosed in Note 14 to the financial statements. However, the Management has not disclosed accrued audit fees amounting to Kshs.3,975,552 as at 30 June, 2022 thereby understating the trade and other payables balance.

In the circumstances, the accuracy and completeness of the trade and other payables balance of Kshs.227,271,703 could not be confirmed.

107. Unsupported Prior Year Adjustments

The statement of changes in net assets reflects unexplained and unsupported prior year adjustment of Kshs.10,175,013.

In the circumstances, the accuracy of the financial statements could not be confirmed.

108. Unsupported Security Services

The statement of profit or loss and other comprehensive income reflects operating expenditure balance of Kshs.95,634,119 as disclosed in Note 8 to the financial statements. Included in the amount is Kshs.1,590,560 for security services whose contractual agreement between the Company and the Security Company and quotations for procurement of services were not provided for audit review.

In the circumstances, the accuracy and regularity of the expenditure of Kshs.1,590,560 on security services could not be confirmed.

109. Payments Made Using Petty Cash

The statement of profit or loss and other comprehensive income reflects operating expenditure balance of Kshs.95,634,119 as disclosed in Note 8 to the financial statements which includes Kshs.44,250,347 for operation and maintenance. However, petty cash for Kshs.14,256,230 was used to purchase items such as fittings and consumables, fuel and lubricants and pay casual laborers. In addition, the Management engaged casual workers who were paid petty cash despite the Company having fifty-three (53) casual employees. Further, daily attendance sheets for the casuals engaged for more than a day were not maintained.

In the circumstances, the accuracy and regularity of expenditure of Kshs.14,256,230 could not be confirmed.

Other Matter

110. Budgetary Control and Performance

During the year under review, the Board approved a budget of Kshs.328,251,049 on 21 June, 2021 which was five (5) months after the required timelines contrary to Regulation 205(1) of the Public Finance Management (County Governments)

Regulations, 2015. In addition, the County Executive Committee Member responsible for Water did not approve the budget and/or submitted it to the County Treasury for approval. Further, the Management over spent on personnel costs, administrative expenses, finance costs and capital expenditure.

In the circumstances, the over spending impacts negatively on the implementation of other programs of the Company.

111. Unresolved Prior Year Matters

In the audit report of the previous year, issues were raised under Report on the Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management had not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates.

Further, the unresolved prior year issues are not disclosed under the progress on follow-up of auditor's recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

112. Non-Revenue Water

Water abstraction records revealed that the quantity of water produced during the financial year 2021/2022 was 4,151,902 cubic meters and the quantity of water billed for consumption was 2,770,041 cubic meters, resulting to water sales valued at Kshs.375,513,526 as reported in Note 4 to the financial statements. The difference of water quantity amounting to 1,777,810 cubic meters, which translates to approximately 39% of water produced was neither billed nor accounted for. The 39% is above the recommended rate by 14% whose estimated loss of water sales is Kshs.235,048,503.

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

113. Irregularities in Procurement of Chemicals

The statement of profit or loss and other comprehensive income reflects the operating expenditure balance of Kshs.95,634,119 as disclosed in Note 8 to the financial statements, includes an amount of Kshs.8,540,850 for the purchase of chemicals. However, the Management did not appoint an Ad Hoc Opening and Evaluation Committees for the procurement of the chemicals. In addition, professional opinion was not issued on the procurement of the chemicals contrary to Regulation 91(4) of the Public Procurement and Asset Disposal Regulations, 2020.

Further, the Management did not fairly and equitably distribute the procurement of chemicals to all the pre-qualified suppliers as one supplier was awarded and paid 85% of total expenditure on chemicals during the year under review.

In the circumstances, the regularity of the procurement of chemicals could not be confirmed.

114. Non-Remittance of Statutory Deductions

114.1 Non-Remittance of Pay As You Earn Deductions

The statement of financial position reflects trade and other payables balance of Kshs.227,271,703 as disclosed in Note 14 to the financial statements. Included in the balance is an amount of Kshs.25,539,175 for Pay As You Earn. However, review of payroll and ledgers revealed deductions amounting to Kshs.8,393,833 during the year, resulting to a cumulative amount of Kshs.25,539,175 not remitted to the Kenya Revenue Authority contrary to Income Tax Act, Cap 470.

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

114.2 Non-Remittance of National Social Security Fund and National Hospital Insurance Fund Dues

The trade and other payables balance of Kshs.227,271,703 also includes amounts of Kshs.401,600 and Kshs.1,067,150 due to the National Social Security Fund and National Hospital Insurance Fund respectively. However, review of payroll and ledgers revealed annual deductions of Kshs.270,400 and Kshs.1,111,000 for the Funds respectively. The resultant variances were not explained and Management has not provided reasons for failure to remit the deducted amounts to the respective Funds.

In the circumstances, the regularity of the statutory deductions could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

115. Non-Establishment of Internal Audit Committee

During the year under review, the Company operated without an Audit committee contrary to Section 155(5) of the Public Finance Management Act, 2012 which states that the entity shall establish an internal audit committee whose composition and functions are to be prescribed by the regulations.

In the circumstances, effectiveness of internal controls systems could not be confirmed.

116. Information Technology (IT) Internal Controls

The Company did not have reliable Information Communication Technology (ICT) controls and an IT department despite operating Information Technology (IT) enabled environment like billing software. The Company does not have approved policies on

Information Technology security including disaster recovery plan and IT continuity plan, consequently the critical data/information may not be recovered in case a disaster occurs. In addition, the company does not have IT strategic or steering committees which could result in non-implementation of IT governance, as part of enterprise governance. Further, there were no fire suppression systems therefore the information may be lost in case of a fire outbreak.

In the circumstances, there is weak internal controls in the management of the Company's IT environment.

WAJIR COUNTY – NO.8

WAJIR WATER AND SEWERAGE COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

117. Non-Submission of Prior Years Financial Statements and Audit of Comparative Balances

Records provided for audit revealed that the Company was incorporated in the year 2013. However, Management did not prepare and submit for audit the financial statements for seven (7) financial years ended 30 June, 2014 to 30 June, 2020. This was in contravention of Section 164(4)(a) of the Public Finance Management Act, 2012 which provides that within three months after the end of each financial year, the accounting officer for a county entity shall submit the entity's financial statements to the Auditor-General.

In the circumstances, the accuracy and completeness of opening balances in the financial statements could not be confirmed. In addition, Management was also in breach of the law.

118. Presentation of the Financial Statements

Review of the financial statements submitted for audit revealed that the financial statements were not prepared in the format prescribed by the Public Sector Accounting Standards Board (PSASB). The financial statements did not include the statement of comparison of budget and actual amounts, the statement of changes in equity, corporate governance statement, schedule of inter entity transfers and report on progress on follow up of auditor's recommendations. In addition, the financial statements were not signed by the Chairman of the Board.

Further, the details of key professional and academic qualifications and passport size photographs for the Management team and passport size photographs for the Board of Directors were not included in the financial statements. The relevant Sections of laws were not correctly cited in the Statement of Directors' Responsibilities and the updated significant accounting policies were not included in the financial statements.

118.1 Incorrect Cross-Referencing of Notes and the Financial Statements

The financial statements were not correctly cross-referenced to the Notes as summarised below: -

Component	Corresponding Note as Per Financial Statements	Correct Note Reference
Bank and Cash Balances	14	15
Capital Fund	16	17
Trade and Other Payables	18	19
Trade and Other Receivables	13	-

118.2 Incorrect Disclosure and Classification of Income and Expenses

The disclosure and classification of income and expenses was not consistent with the guidelines provided in the Financial Reporting Template (Revised, June, 2022) issued by the Public Sector Accounting Standards Board. The statement of profit or loss and other comprehensive income included Wajir Water and Sewerage Company development expenditure, Water Sanitation Development Programme (WSDP) project expenditure and Water Sector Trust Fund (WSTF) expenditure which were development in nature. In addition, the statement of cash flows was not presented in the prescribed format.

In the circumstances, the accuracy and completeness of financial statements presented for audit could not be confirmed.

119. Unsupported Revenue Earned

The statement of profit or loss and other comprehensive income reflects revenue earned of Kshs.41,684,789 as disclosed in Note 1 to the financial statements. However, water sales receipts books, ledgers and other documents to support the revenue were not provided for audit review. Further, audit of the revenue revealed that billing data provided by the Finance Department and the Billing Department differed significantly. The Finance Department data indicated water production of 1,105,120 cubic meters out of which the quantity of water billed was not disclosed while the billing department data indicated that the quantity of water produced was 398,976 cubic meters out of which 111,848 cubic meters was billed and 127,538 cubic meters was unmetered totalling to 239,386 cubic meters. This resulted to unexplained difference of 706,144 cubic meters in the quantities produced. In addition, the two Departments did not provide evidence to support the reported quantities of water produced.

Further, the reported income of Kshs.41,684,789 differed with the balance reflected in the ledger of Kshs.50,454,686, resulting to an unreconciled variance of Kshs.8,769,897.

In the circumstances, the accuracy and completeness of revenue earned of Kshs.41,684,789 could not be confirmed.

120. Unsupported Equipment/Vehicle Rental Income

The statement of profit or loss and other comprehensive income reflects revenue from equipment/vehicle rental of Kshs.8,736,000. However, supporting documents including contractual agreement, miscellaneous receipts and work tickets were not provided for audit review.

In the circumstances, the accuracy of equipment/vehicle rental income of Kshs.8,736,000 could not be confirmed.

121. Unsupported Donor Grants

The statement of profit or loss and other comprehensive income reflects Kshs.147,442,826 in respect of grants from donors. However, Management did not provide any documents and records to support the amount.

In the circumstances, the accuracy and completeness of grants from development partners amounting to Kshs.147,442,826 could not be confirmed.

122. Unsupported Grants from County Government

The statement of profit or loss and other comprehensive income reflects grants from county government of Kshs.327,286,000. However, documents to support the amount were not provided. Further, comparison of inter entity transfers with Wajir County Executive financial statements for the year ended 30 June, 2022 revealed that the County Executive transferred a total of Kshs.52,000,000 to the Company during the year under review, resulting to an unexplained difference of Kshs.275,286,000.

In the circumstances, the accuracy and completeness of grants from County Government of Kshs.327,286,000 could not be confirmed.

123. Unsupported Development Expenditure

The statement of profit or loss and other comprehensive income reflects the Company's development expenditure of Kshs.20,750,000 as disclosed in Note 7 to the financial statements. However, supporting documents including payment vouchers and procurement documents were not provided for audit review. Further, the expenditure was incorrectly reported in the statement of profit or loss and other comprehensive income since it was development in nature.

In the circumstances, the accuracy and regularity of the Company's development expenditure amounting to Kshs.20,750,000 could not be confirmed.

124. Irregularities in Procurement

The statement of profit or loss and other comprehensive income reflects the Company's recurrent expenditure of Kshs.44,951,000 as disclosed in Note 8 to the financial statements. However, included in the expenditure is capital expenditure amounting to Kshs.10,934,311. Further, review of the expenditure revealed that contracts amounting to Kshs.7,096,358 were irregularly awarded to suppliers who did not satisfy the mandatory compliance requirements including valid business licenses and tax compliance certificates as required by the evaluation criteria. Despite the lack of mandatory documents, the tenderers were found responsive by the Evaluation Committee. In addition, an expenditure amounting to Kshs.6,132,953 was not supported by professional opinion as required under Section 84 of the Public Procurement and Asset Disposal Act, 2015 which provides that the Head of Procurement Function of a procuring entity shall, alongside the report to the Evaluation Committee as secretariat comments,

review the tender evaluation report and provide a signed professional opinion to the Accounting Officer on the procurement or asset disposal proceedings.

Further, contract agreements for contracts amounting to Kshs.4,810,229 were signed before lapse of the mandatory fourteen (14) days from the date of tender award notification. This was contrary to Section 135 (3) of the Public Procurement and Asset Disposal Act, 2015 that provides that the written contract should be entered into within the period specified in the notification but not before fourteen days have elapsed following the giving of that notification provided that a contract shall be signed within the tender validity period. In addition, the Management issued a Local Purchase Order (LPO) for a contract to supply submersible pumps at a cost of Kshs.2,940,000 before evaluation of the quotations.

In the circumstances, the accuracy and regularity of the expenditure of Kshs.44,951,000 could not be confirmed.

125. Unsupported Project Expenditure

The statement of profit or loss and other comprehensive income reflects Water and Sanitation Development Project expenditure of Kshs.145,037,266 as disclosed in Note 9 to the financial statements. Review of the Wajir County Executive financial statements for the year ended 30 June, 2022 revealed that the Executive transferred a total of Kshs.172,839,943 to the Project account resulting to an unexplained difference of Kshs.27,802,677. Further, payment vouchers, project files and tender documents for contracts worth Kshs.21,579,489 were not provided for audit review. In addition, an expenditure of Kshs.35,479,398 paid to three (3) consultancy firms for contracts awarded during the prior years were not adequately supported with evidence of deliverables attained or progress report on the phases for which the payment was made and minutes of adoption and approval of the reports.

Further, contract agreements for contracts worth Kshs.2,970,000 were signed before lapse of the mandatory fourteen (14) days from the date of tender award notification. In addition, contracts worth Kshs.4,944,000 were not supported with inspection and acceptance committee report as required by Section (48)(3) of the Public Procurement and Asset Disposal Act, 2015 which provides that the Inspection and Acceptance Committee should immediately after the delivery of the goods, works or services inspect and review the goods, works or services in order to ensure compliance with the terms and specifications of the contract and accept or reject, on behalf of the procuring entity, the delivered goods, works or services.

In the circumstances, the accuracy, completeness and regularity of the expenditure of Kshs.145,037,266 incurred on the project could not be confirmed.

126. Unsupported Staff Cost

The statement of profit or loss and other comprehensive income reflects an amount of Kshs.209,701,030 as disclosed in Note 11 to the financial statements in respect of staff cost expenditure. Review of payroll records indicated that the amount was paid by the County Executive on behalf of the Water Company. However, the corroborative County

Executive records reflected an amount of Kshs.125,715,838 as salary expenditure paid on behalf of the Water Company, resulting to an unexplained difference of Kshs.83,985,192. Further, review of the Company's payroll data revealed that for a period of eight months, there were two Managing Directors in the Company, one in acting capacity which resulted in the Company incurring an irregular expenditure of Kshs.4,000,000. In addition, details of the Company employees, their designations, stations of deployment and their roles and responsibilities were not provided for audit. Except for a few employees stationed at the Company's Headquarters, it was not possible to establish the reason for the existence of the large workforce of employees and the nature of duties they performed.

In the circumstances, the accuracy and regularity of the expenditure on staff costs of Kshs.209,701,030 could not be confirmed.

127. Resettlements Action Plan Implementation Expenditure

The statement of profit or loss and other comprehensive income reflects an amount of Kshs.3,755,200 incurred on Resettlements Action Plan (RAP) project. However, ledgers supporting the financial statements reflected an amount of Kshs.3,956,760, resulting to an unexplained variance of Kshs.201,560. Further, Note 13 to the financial statements disclosed a suspense expenditure of Kshs.800,000 whose details were not provided. In addition, review of bank statements revealed cash withdrawals totalling to Kshs.1,543,200 whose purpose and justification were not provided.

In the circumstances, the accuracy and regularity of the expenditure on resettlements action plan amounting to Kshs.3,755,200 could not be confirmed.

128. Irregular Cash Withdrawals and Cash Payments

The statement of profit or loss and other comprehensive income reflects total operating expenses of Kshs.468,409,212. However, an amount of Kshs.10,081,717 included in the expenditure was incurred through cash withdrawals. Further, items worth Kshs.5,592,563 were procured in cash contrary to Section 107 of the Public Procurement and Assets Disposal Act, 2015 that provides that a procuring entity may use a low-value procurement procedure if the estimated value of the goods, works or non-consultancy services being procured are less than or equal to the maximum value per financial year for that low-value procurement procedure as may be prescribed. The threshold matrix in the Second Schedule of the Public Procurement and Asset Disposal Regulations, 2020 provides for a limit Kshs.50,000.

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

129. Unsupported Cash and Cash Equivalents

The statement of financial position reflects bank and cash balances of Kshs.90,083,399 as disclosed in Notes 15 and 16 to the financial statements. The Company operated twelve (12) bank accounts in various commercial banks. However, bank reconciliation statements for nine (9) accounts, cash books for ten (10) bank accounts, certificates of bank balances for (11) bank accounts and Mpesa statements were not provided for audit verification. Further, the bank account numbers for six (6) bank accounts were not

indicated in the schedule at Note 16 while two (2) bank accounts included in the schedule are operated by the County Executive of Wajir.

In addition, the statement of financial position reflects cash and cash equivalents balance of Kshs.90,083,398 while the cash flow statement reflects cash and cash equivalents balance of Kshs.56,740,403, resulting in an unexplained difference of Kshs.33,342,995.

In the circumstances, the accuracy and completeness of the bank and cash balance of Kshs.90,083,398 could not be confirmed.

130. Unsupported Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.596,039,088 as disclosed in Note 19 to the financial statement. However, the Company did not provide invoices and creditors statements to confirm the existence and accuracy of the reported balance. Further, the ledger balances and payables' particulars differed significantly with the amounts disclosed in the financial statements resulting to an unexplained variance of Kshs.40,128,029.

In the circumstances, the accuracy and completeness of trade and other payables balance of Kshs.596,039,088 could not be confirmed.

131. Unsupported Trade and Other Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.2,683,000. However, Management did not include a Note in the financial statements detailing the composition of the balance. Further, Management did not maintain an updated debtors' ledger and did not have a Debt Management Policy or a Policy on provision for bad and doubtful debts. In addition, aging analysis for the trade and other receivables was not provided for audit review.

In the circumstances, it was not possible to confirm the accuracy, existence and recoverability of the trade and other receivables balance of Kshs.2,683,000.

132. Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.230,366,064. However, Note 14 reflects property plant and equipment balance of Kshs.196,977,176 resulting to an unreconciled variance of Kshs.33,388,888. Further, the supporting schedule provided reflected cost of assets as at 30 June, 2021 while the net book value was reflected as at 30 June, 2022. In addition, Management did not maintain a fixed asset register to record the assets while ownership documents, including logbooks for the motor vehicles and the title deed for land were not provided for audit review.

Management did not also provide an assets depreciation policy and therefore the basis for the method of depreciation and rates used could not be confirmed. Further, additions to property plant and equipment of Kshs.124,919,042 disclosed under Note 14 were not supported.

In the circumstances, the accuracy, ownership and existence of property, plant and equipment balance of Kshs.230,366,064 could not be confirmed.

133. Material Uncertainty Relating to Going Concern

The statement of financial position reflects current liabilities of Kshs.596,039,088 which exceeded the current assets of Kshs.92,766,399 resulting to a negative working capital of Kshs.503,272,689. Further, the statement reflects a capital and reserves negative balance of Kshs.272,906,626. The Company may therefore not be able to meet its short-term financial obligations as and when they fall due. The material uncertainty relating to going concern and the measures put in place to improve the Company's financial performance were not disclosed in the financial statements.

In the circumstances, the Company is technically insolvent and its continued operations is dependent on the support from the County Government of Wajir and grants from development partners.

134. Late Submission of Financial Statements

The financial statements of the Company were submitted for audit on 18 January, 2023, over three (3) months after the statutory deadline of 30 September, 2022. This was contrary to Section 164(4) (a) of the Public Finance Management Act, 2012 which requires the Accounting Officer of a County entity to submit financial statements to the Auditor-General for audit within three (3) months after the end of each financial year.

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

135. Failure to Prepare a Budget

Management of the Company did not prepare estimates of income and expenditure in contravention of Section 149(2)(h) of the Public Finance Management Act, 2012 which provides that an Accounting Officer should, in respect of the entity, prepare estimates of expenditure of the entity in conformity with the strategic plan.

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

136. Non-Revenue Water

During the year under review the Company did not have in place a master meter to record quantities of water produced. As a result, Management could not confirm the quantities of water produced in order to evaluate the performance of the Company.

In the circumstances, it was not possible to confirm the Company's level of Non-Revenue Water as a key performance indicator.

137. Failure to Hold Board Meetings and Annual General Meetings

Management did not provide evidence to confirm that annual general meetings were held and annual returns were submitted since the Company was incorporated on 11 November, 2013. This was contrary to the requirement of Section 275(A)(1) of the Companies Act, 2015, which provides that every Company should convene a general meeting once a year.

In the circumstances, it was not possible to confirm the effectiveness of governance systems in the Company.

138. Weaknesses in Information Technology Internal Controls

During the year under review, the Management did not have in place an Information Technology (IT) Strategy Committee and IT Steering Committee, IT Policies, Disaster Management and Recovery Policies including fire suppression systems. Further, the Company did not have a Business Continuity Plan and the IT Continuity Plan including an off-site back-up plan.

In the circumstances, it was not possible to confirm the existence of adequate and effective Information Technology internal controls in the Company.

139. Lack of Staff Establishment and Scheme of Service

Review of personnel records indicated that the Company had five hundred and twenty-one (521) employees as at July, 2021 and four hundred and forty-seven (447) employees as at 30 June, 2022. However, Management did not maintain an approved establishment as required by Paragraph 3.9 of the Corporate Governance Guidelines for the Water Services Sector, 2018 which requires that the Board of Directors should ensure that it has a Staff Establishment showing in-post and vacancies based on sector standard competencies. In addition, the Company did not have a scheme of service hence it was not possible to confirm the basis for recruitment and promotion of staff in the Company.

In the circumstances, it was not possible to confirm the existence of effective internal controls on staff recruitment and promotions in the Company.

140. Unsupported Staff Changes

Payroll records revealed that the Company had a total of five hundred and twenty-one (521) employees as of July, 2021 and four hundred and forty-seven (447) employees, as at the end of June, 2022 who included twelve (12) new staff employed during the year. One hundred and sixty-six (166) employees were removed from the payroll during the period of July to August, 2021 and seventy-eight (78) of them were later reinstated between November, 2021 and June, 2022. However, there were no Board minutes, dismissal or reinstatement letters to support the changes.

In the circumstances, it was not possible to rule out irregularities in the engagement of employees in the Company.

141. Non-Remittance of Statutory Deductions

During the year under review, the Company deducted from employees' salaries an amount of Kshs.32,459,424 in respect of Pay As You Earn (PAYE), National Hospital Insurance Fund (NHIF), and National Social Security Fund (NSSF). However, no documentary evidence was provided to support remittance of the amounts deducted to the respective statutory bodies. This was contrary to Section 19(4) of the Employment Act, 2007 which provides that an employer who deducts an amount from an employee's remuneration in accordance with subsection (1)(a), (f), (g) and (h) should pay the amount

so deducted in accordance with the time period and other requirements specified in the law. Further, the Company did not disclose in the financial statements the unremitted statutory deductions as payables.

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

142. Weaknesses in Payroll Management

The Company's staff payrolls were prepared and maintained in Microsoft Excel worksheets instead of being maintained in a system with adequate controls. In addition, back-up measures were not put in place to mitigate against possible risks. Payroll data also revealed inconsistencies in the employee records for two officers who shared the same identification number. The personnel files were not provided to verify the details for the officers. Further, the payroll did not include key details including job group, allowances earned, gender, ethnicity, persons with disability and the Kenya Revenue Authority Personal Identification Number.

In addition, there was no evidence that the payroll data was verified on a monthly basis and authorized by a senior official. Further, although the payroll was prepared by Management of the Company, payment of net salaries and statutory deductions was made by the County Executive of Wajir.

In the circumstances, effectiveness of internal controls on staff data could not be confirmed.

143. Lack of a Risk Management System

The Company did not have a Risk Management Policy in place. Further, Management did not carry out risk assessment during the year under review. This was contrary to Regulation 158(1) of the Public Finance Management (County Governments) Regulations, 2015 which states that the Accounting Officer should ensure that the county government entity develops risk management strategies, which include fraud prevention mechanisms and develop a system of risk management and internal control that builds robust business operations.

In the circumstances, the Management may not be able to identify, assess and control threats that may affect achievement of the Company objectives.

144. Failure to Establish Audit Committee

During the year under review, the Company did not have an Audit Committee to support the Accounting Officer with regard to their responsibilities for issues of risk control, governance and associated assurance, as required by Section 155(5) of the Public Finance Management Act, 2012.

In the circumstances, it was not possible to confirm existence of effective overall risk management and governance measures.

145. Lack of Procurement Plan

Management did not provide for audit a Procurement Plan prepared under the requirement of Section 45(3) of the Public Procurement and Assets Disposal Act, 2015 which requires that all procurement processes should be within the approved budget of the procuring entity and should be planned by the procuring entity concerned through an Annual Procurement Plan.

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

146. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

147. There were no material issues relating to effectiveness of internal controls, risk management and governance.

MANDERA COUNTY – NO.9

MANDERA WATER AND SEWERAGE COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

148. Inaccurate Opening Balances

Comparison of the audited financial statements of 2020/2021 and amounts disclosed as opening balances on various components of 2021/2022 statements of changes in equity revealed variances as detailed below:

Item of the Financial Statement with an Anomaly	Amount Disclosed in Audited 2020/2021 Financial Statement (Kshs.)	Amount Disclosed in 2021/2022 Financial Statement (Kshs.)	Variance (Kshs.)
Ordinary Share Capital	0	61,982,062	61,982,062
Retained Earnings	33,372,791	67,377,627	34,004,836
Capital Grants	445,296,784	285,846,221	159,450,563

Management did not provide explanation for the differences.

In the circumstances, the accuracy of the statements of changes in equity could not be confirmed.

149. Inaccuracy of Trade and Other Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.47,125,619 as disclosed under Note 18 to the financial statements, while the supporting schedules provided for audit review had a balance of Kshs.44,853,791 resulting to a variance of Kshs.2,271,828 which was not reconciled. Further, trade receivables balance increased by Kshs.13,814,234 (41%) from Kshs.33,311,385 in the previous year to Kshs.47,125,619 in the year under review with no provision for bad debts.

In the circumstances, the accuracy and completeness of trade and other payables balance of Kshs.47,125,619 could not be confirmed.

150. Unsupported Members Equity

The statements of financial position reflects member's equity balance of Kshs.61,982,062 as disclosed in Note 20 to the financial statements consisting of ordinary share capital of Kshs.100,000 and Government investments of Kshs.61,882,062. Documents to support the two balances were not provided for audit review. Further, the member's equity increased from negative Kshs.42,304,981 to Kshs.61,982,062 while the movement between the two amounts was not documented or supported.

In the circumstances, the accuracy of the member's equity balance of Kshs.61,982,062 could not be confirmed.

151. Lack of Ownership Documents for the Company's Assets

The statement of financial position reflects an amount of Kshs.339,655,912 for property, plant and equipment, which includes land valued at Kshs.9,500,000. Review of the records in support of this amount revealed that the Company had three parcels of lands held in various locations in Mandera town, Suftu Intake and Neboi areas. However, details on date of acquisition, land parcel numbers and ownership documents were not provided for audit verification. In addition, it was noted that one (1) motor cycle and six (6) motor vehicles of unknown value operated by the Water Company were not registered in the name of the Company.

In the circumstances, the ownership of the assets valued at Kshs.9,500,000 could not be confirmed.

Other Matter

152. Budgetary Control and Performance

The statement of comparison of budget and actual amounts for the period ended 30 June, 2022 reflects revenue budget and actual revenue on comparable basis of Kshs.321,127,794 and Kshs.279,450,020 respectively, resulting to an under-collection of revenue of Kshs.41,677,774 (or 12.9%) of the budget. Similarly, the Company spent Kshs.277,243,048 against the actual receipt of Kshs.321,127,794 resulting to an under-absorption of Kshs.43,884,746 (or 14%) of the budget.

The under-absorption may have negatively impacted on service delivery to the residents of Mandera town and its environs.

153. Unresolved Prior Year Matters

In the report of the previous year, several issues were raised under the Report of financial statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved the issues or given any explanations for failure to adhere to the provisions of the Public Sector Accounting Standard Board (PSASB) template.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

154. Non-Revenue Water

During the year under review, the Company estimated its annual production of 543,620 cubic meters of water. It was however noted that only Suftu and Neboi production sources had master meters while other four production sources of Handadu, Shafshafey, Haji Kerrow and Boys town have production volume estimates which are arrived at using the

pump discharge and monthly pumping hours. It was also noted that the Company had no data on volume billed to customers as all customers were unmetered and thus it was not possible to independently establish the volume of non-revenue water and also to know the quantity of non-revenue water and whether it complies with Water Services Regulatory Board (WASREB) guidelines which limits the allowable loss of non-revenue water at 25% of the water produced.

In addition, it was noted that the Company billed its customers at flat rate of Kshs.1,000 per month per connection. However, there was no evidence that the water billing tariffs were approved by Water Services Regulatory Board (WASREB) as required by Section 72(1)(b) of the Water Act, 2016.

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

155. Engagement of Casual Workers

Included in the staff costs of Kshs.28,259,111 as disclosed in Note 8 to the financial statements is an expenditure of Kshs.11,652,671 relating to staff costs - temporary employees. Review of casual payrolls revealed that there were fifty-nine (59) casuals that were engaged for more than 3 continuous months contrary to Section 37(1)(a) & (b) of the Employment Act, 2007 but instead the contracts were renewed after every 6 months instead of engaging them in permanent terms since the services are needed permanently.

In addition, there was no Board to hire the casuals and there was no justification for the hire of the casuals.

In the circumstances, Management was in breach of the law and value for money was not confirmed.

156. Stalled Construction of Water Project

The Company entered into a contract on 16 June, 2020 with the local contractor for the construction of Bokolow Bunyole Water Project at a contract sum of Kshs.71,734,023, out of which Kshs.37,953,132 was paid. The water pan was to provide water for the residents of Bokolow, Bunyoley and Koromey areas in Mandera East Sub-County. The Contract consisted of 120,000 cubic meters, 50 cubic meters, capacity elevated tank, 2 sanitation blocks, 2 cattle troughs, perimeter fence, 2 masonry water kiosks and pumping system (installation of solar powered pump). The contract sum was revised and additional amount of Kshs.3,695,541 was factored in leading to a new contract sum of Kshs.75,428,783 after the works were revised downwards on 21 September, 2021 to 100,000 cubic meters capacity pan due to the rocks in the area.

The contract agreement between the Company and the contractor signed on 10 November, 2020 was to end on 10 May, 2021 however, the contract was extended 3 times and the last one to end on 10 July, 2022. The Company requested the Water Sector Trust Fund (donor) for extension and the donor accepted the extension including the liability defect period up to 11 April, 2023. Although the contractor had been paid Kshs.66,951,857 being 88% of the contract sum via Interim Practical Completion Certificate (IPC-7), the works done was 89% complete as per the IPCs. The project appears to have stalled since the contractor was not on site at the time of audit inspection

conducted on 13 February, 2023 and the project was seven months past the expected completion date of 10 July, 2022.

The Company was unable to meet the objective of the project thus value for money amounting to Kshs.66,951,857 could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

157. Failure to Prepare Disaster Recovery Plan

During the year under review, the Company operated without an approved IT Continuity Plan and Disaster Recovery Plan, and therefore in the event of disaster the Company may lose data and could not be able to recover from the disaster. Further, the Company did not have an IT steering and risk management committee.

In the circumstances, it was not possible to confirm how the Company achieved its IT strategic objectives.

ELWAK WATER AND SEWERAGE COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

158. Inaccuracies in the Financial Statements

Review of the financial statements prepared and submitted for audit revealed the following errors and inaccuracies:-

- i. The statement of changes in net assets reflects capital grants balance of Kshs.47,766,496. However, the movement of the balance from the prior year certified balance of Kshs.45,215,291 was not analysed resulting to unreconciled variance of Kshs.2,551,205.
- ii. The statement of changes in net assets reflects retained earnings balance of Kshs.3,412,527 which did not incorporate the prior year certificate balance of Kshs.5,311,250 to report a cumulative balance of Kshs.8,723,777.
- iii. The statement of cash flows reflects purchase of property, plant and equipment of Kshs.21,980,914 while Note 15 to the financial statements reflects additions to property, plant and equipment of Kshs.27,980,012 resulting to an unexplained variance of Kshs.5,999,098.

- iv. The statement of profit or loss and other comprehensive income reflects total expenditure of Kshs.89,290,303 net of depreciation of Kshs.8,047,524. However, the statement of comparison of budget and actual amounts reflects total expenditure of Kshs.93,924,300 resulting to an unexplained variance of Kshs.4,633,997.

In the circumstances, the accuracy and completeness of the financial statements could not be confirmed.

159. Unaccounted for Water Sales

The statement of profit or loss and other comprehensive income reflects an operating revenue amount of Kshs.6,925,300 for water sales as disclosed in Note 6 to the financial statements. However, review of records revealed the following anomalies:

- i. The water charges billing report for the year under review was not provided for audit review.
- ii. Out of the total of two thousand four hundred and thirty-four (2,434) active water connections recorded in the revenue system, only four hundred and fifty-eight (458), or 19% of the customers were metered;
- iii. The master/bulky water meter readings report indicating the volume of water produced during the year under review was not supported;
- iv. The revenue income from sewer exhaustion done by two (2) contracted companies was not disclosed; and
- v. The policies and regulations regarding water tariffs, management of bad debts and receivables had not been established.

In the circumstances, the accuracy and completeness of the sales revenue balance of Kshs.6,925,300 could not be confirmed.

160. Unsupported Board Sitting Allowances

The statement of profit or loss and other comprehensive income reflects board expenses of Kshs.4,156,451 which included sitting allowances of Kshs.372,800 as disclosed in Note 12 to the financial statements. However, the expenditure was not supported with attendance registers.

In the circumstances, the regularity and completeness of the sitting allowances amounting to Kshs.372,800 could not be confirmed.

161. Unsupported Trade and Other Receivables

The statement of financial position reflects a balance of Kshs.2,762,785 for trade and other receivables as disclosed in Note 16 to the financial statements. However, review of records revealed that the balance was not supported by invoices and demand letters.

In the circumstances, the accuracy and completeness of trade and receivables balance of Kshs.2,762,785 could not be confirmed.

162. Unsupported Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.18,590,380 as disclosed in Note 20 to the financial statements. However, the balance was not supported by a detailed schedule including the aging analysis, invoices and other related documents.

In the circumstances, the accuracy and completeness of trade and other payables balance of Kshs.18,590,380 could not be confirmed.

163. Non-Disclosure of Material Uncertainty Relating to Going Concern

The statement of profit or loss and other comprehensive income reflects a loss of Kshs.3,412,527 (in 2021 loss of Kshs.5,311,250), decreasing the revenue reserves to negative Kshs.8,723,777. In addition, the statement of financial position reflects current assets of Kshs.2,966,664 against total current liabilities of Kshs.18,590,380, resulting to a negative working capital of Kshs.15,623,716. This condition indicates existence of a material uncertainty, which may cast significant doubt on the Company's ability to continue as a going concern. The material uncertainty relating to going concern and the measures put in place to improve the Company's financial performance have not been disclosed in these financial statements.

In the circumstances, the Company is technically insolvent and its continued operations is dependent on the continued support from the creditors and County Government of Mandera.

Other Matter

164. Budgetary Control and Performance

The statement of comparison of budget and actual amounts for the year ended 30 June, 2022 reflects revenue budget and actual revenue on comparable basis of Kshs.95,124,300 and Kshs.93,925,300 respectively, resulting to budget under-funding of Kshs.1,199,000 (or 1%) of the budget.

The underfunding may have negatively impacted on implementation of projects and service delivery to the residents of Elwak town.

165. Unresolved Prior Year Matters

In the audit of the previous year, several issues were raised under the report of financial statements and report on Lawfulness and Effectiveness in Use of Public Resources. However, Management has not resolved the issues as provided by the Public Sector Accounting Standards Board templates.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

166. Failure to Implement Electronic Procurement Method

Review of records revealed that the Management did not use electronic procurement method while procuring the goods, services and works during the year under review. This was contrary to the Presidential directive No.2 of 2018 that required all the Government entities to use e-procurement system in the procurement of goods and services.

In the circumstances, Management was in breach of the Presidential directive.

167. Indefinite Hire of Equipment and Vehicles

The statement of profit or loss and other comprehensive income reflects a balance of Kshs.67,858,390 for general and operations expenses which includes hire of equipment and vehicles of Kshs.1,800,000 as disclosed in Note 11 to the financial statements. Review of records revealed that Management hired a motor vehicle at a cost of Kshs.1,200,000 during the year under review. However, the contract agreement signed on 30 December, 2020 and did not have a date of expiry contrary to Regulation 131 (2) of the Public Procurement and Asset Disposal Regulations, 2020 which requires the Authority to issue a reporting format for contract awards requiring accounting officers to submit information that is not limited to date of contract expiry or completion.

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

168. Failure to Deduct and Late Submission of Statutory Deductions

168.1 National Hospital Insurance Fund (NHIF) Deductions

The statement of profit or loss and other comprehensive income reflects staff costs balance of Kshs.16,775,462 which includes casual workers wages of Kshs.4,775,462 as disclosed Note 10 to the financial statements. Review of records revealed that Management made National Hospital Insurance Fund (N.H.I.F) deductions amounting to Kshs.87,900 from the casual workers during the year under review. However, the deductions were not remitted within the statutory timelines and the acknowledgement receipts were not provided for audit review. In addition, statutory deductions for the period from January to June, 2022 were not remitted. Further, NHIF deductions were not effected in the payrolls of the months of November and December, 2021.

This was contrary to the provisions of Section 16(3a) of the NHIF Act, 2012 which provides that an employer shall deduct from the salary or other remuneration of any person employed by him, notwithstanding anything to the contrary in any other law, the amount of any standard contribution paid by him or to be paid by him within one month of such deduction, on behalf of that person.

In the circumstances, Management was in breach of the law and the Company risks losing public funds through penalties and also employees may be denied medical attention when they fall sick.

168.2 National Social Security Fund (NSSF) Deductions

The statement of profit or loss and other comprehensive income reflects staff costs balance of Kshs.16,775,462 which includes casual workers wages of Kshs.4,775,462 as disclosed in Note 10 to the financial statements. Review of records revealed that Management made National Social Security Fund (N.S.S.F) deductions totalling to Kshs.79,600 during the year under review. However, the deductions were not remitted within the statutory timelines and the acknowledgment receipts/slips were not provided for audit review. In addition, Management did not deduct and remit N.S.S.F contributions for temporary employees for the period covering November, 2021 and June, 2022.

This was contrary to Section 27(1) of the National Social Security Fund Act, 2013 which provides that if any contribution for which a contributing employer is required to pay to the Fund is not paid within one month after the end of the month in which the last day of the contribution period to which it falls, a sum equal to five (5) per cent of the amount of that contribution shall be added to the contribution for each month or part of a month that the amount due remains unpaid, and any such additional amount shall be recoverable at the same time and in the same manner as the contribution to which it is added.

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

169. Lack of a License from Water Services Regulatory Board (WASREB)

During the year under review, the Company was operating without a license from the WASREB contrary to Section 72(c) of the Water Act, 2016 which gives WASREB the mandate of setting license conditions and accrediting water service providers.

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

170. Lack of a Fixed Asset Register

During the year under review, the Company did not maintain a fixed asset register contrary to Regulation 136(1) of the Public Finance Management (County Governments) Regulations, 2015 which provides that the accounting officer shall be responsible for maintaining a register of assets under his or her control or possession as prescribed by the relevant laws.

In the circumstances, Management was in breach of the law and the Company might not be able to track all the assets which could have resulted to loss or misuse of the assets.

171. Excessive Non-Revenue Water

During the year under review, the Company produced a total of 4,199,040 cubic meters of water. However, a total of 1,697,112 cubic meters was billed to customers resulting to Non-Revenue Water (NRW) of 2,501,928 cubic meters (or 60%), which is 35% over and above the allowable limit of 25% in accordance with the Water Services Regulatory Board (WASREB) guidelines. The Non-Revenue Water represents a loss of Kshs.175,134,960 in earnings for the Company at the average rate of Kshs.70 per cubic meters. In addition, the master/bulky water meter readings report were not provided for audit review.

In the circumstances, the significant level of non-revenue water is an indication of lack of effectiveness in the use of public resources and may negatively affect the Company's profitability and its long-term sustainability.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

172. Lack of Staff Establishment and Scheme of Service

During the year under review, the Company did not have in place an approved staff establishment and scheme of service. It was therefore not possible to confirm whether the Company was operating within optimal staff levels. This was contrary to Paragraph 3.9 of the Corporate Governance Guidelines for the Water services Sector, 2018 which requires that the Board of Directors shall ensure that it has a staff establishment showing in-post and vacancies based on sector standard competencies.

In the circumstances, it was not possible to confirm the existence of internal controls on staff recruitment and promotions in the Company.

173. Lack of Debt Management Policy

During the year under review it was noted that the Company did not have a debt management policy.

In the circumstances, the effectiveness in the monitoring and recovery of the trade and other receivables could not be confirmed.

174. Lack of Approved Information Technology Security Policy

Review of the Company's Information Technology (IT) systems revealed it did not have an approved IT policy for governance and management of its ICT resources. In addition, there is no ICT steering committee in place to assist in the development of ICT policy framework to enable the company to realize long-term ICT strategic goals. Lack of an approved IT policy may result in an unclear direction regarding maintenance of information security across the organization and safeguarding the Company's ICT assets. Further, without a sound and approved framework, users do not have any rules and procedures to follow in order to minimize risk of errors, fraud and the loss of data confidentiality, integrity and availability.

175. Failure to Establish an Internal Audit Unit and Audit Committee

During the year under review, the Company had not established an audit committee contrary to Regulation 167(1) of the Public Finance Management (County Governments) Regulations, 2015 which requires County Government entities to establish audit committees in accordance with prescribed regulations.

In addition, the Company had no functioning internal audit unit. This is contrary to Section 155(5) of the Public Finance Management Act, 2012 which provides that a County

Government entity shall ensure that it has appropriate arrangements for conducting internal audit according to the guidelines issued by the Accounting Standards Board.

In the circumstances, the Management was in breach of the law and the Company may have lacked oversight authority during the year under review.

176. Lack of Risk Management Policy and Framework

During the year under review, the Company did not have a risk management policy in place. Further, Management did not carry out risk assessment during the year under review. This was contrary to Regulation 158(1) of the Public Finance Management (County Governments) Regulations, 2015 which states that the accounting officer shall ensure that the County Government entity develops risk management strategies, which include fraud prevention mechanisms and develop a system of risk management and internal control that builds robust business operations.

In the circumstances, Management was in breach of the law and could not be able to identify, assess and control threats that may affect achievement of the Company objectives.

ISIOLO COUNTY – NO.11

ISIOLO WATER AND SEWERAGE COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

177. Inaccuracies in the Financial Statements

The statement of cash flows reflects an increase in trade and other receivables of Kshs.2,293,644. However, Note 16 to the financial statements reflects a balance of Kshs.3,610,807 resulting in an unexplained variance of Kshs.1,317,163.

In the circumstances, the accuracy of the statement of cash flows could not be confirmed.

178. Overdrawn Cash Balance

The statement of financial position reflects Kshs.1,516,306 in respect of overdrawn cash balance as disclosed in Note 30 to the financial statements. However, the bank balance confirmation certificate and the reconciliation statement reflect Kshs.1,594,451 resulting to an unexplained variance of Kshs.3,110,757.

In the circumstances, the accuracy and completeness of the overdrawn cash balance of Kshs.1,516,306 could not be confirmed.

Other Matter

179. Unresolved Prior Year Audit Matters

The audit report for the previous year highlighted several issues in respect of the Financial Statements, Lawfulness and Effectiveness in Use of Public Resources. Although the Management has indicated that the issues have been responded to, the matters have remained unresolved as the County Assembly Public Accounts and Investment Committee has not met to deliberate on the same.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

180. Unauthorized Over-Expenditure

The statement of comparison of budget and actual amount reflects Kshs.46,191,081 and Kshs.38,412,000 in respect to actual expenditure and final budget on sixteen (16) items respectively, resulting to an over expenditure of Kshs.7,779,081. This is contrary to Regulation 43(2) of the Public Finance Management (County Governments) Regulations, 2015. The regulation requires that a County Government entity executes approved budgets based on the annual appropriation legislation, and the approved annual cash flow.

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

181. Non-Compliance with the Law on Fiscal Responsibility Principles on Wage Bill

The statement of profit or loss and other compliance income reflects Kshs.55,010,989 in respect of staff costs which translate to approximately fifty-five (55%) percent of the expenditure. This is higher than the recommended ratio of thirty-five (35%) prescribed by Water Services Regulatory Board (WASREB) Corporate Governance Guidelines for the water services sector 2018, part 3.9(10) which states that when fixing remuneration of the staff the total expenditure for each financial year must not exceed the benchmarks set for the services sector rationally so that personnel cost as share of operation and maintenance shall be maintained within 35% ratio.

In the circumstances, the personnel cost may negatively impact on the Company's profitability and sustainability of services if measures are not put in place to contain the acceptable level. Additionally, Management was in breach of the law.

182. Excess Non-Revenue Water

The Company produced a total of 2,389,931 cubic meters of water. However, only 1,685,549 cubic meters was billed to customers. The balance of 704,382 cubic meters (or approximately 29%) of the total volume of water produced represented Non-Revenue Water (NRW). The 29% of non-revenue water is 4% above the allowable loss of 25% of every cubic meter of water produced as provided by schedule E of the Water Services Regulatory Board (WASREB) guidelines.

The excess loss of Non-Revenue Water (NRW) of 106,899 cubic meters may have resulted in loss of sales estimated at Kshs.4,446,998 at the rate of Kshs.41.6 per cubic meter.

In the circumstances, the significant level of Non-Revenue Water is an indication of an inefficiency and ineffectiveness in use of public and water resources, which may negatively impact on the Company's profitability and its ability to sustain services.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

183. There were no material issues relating to effectiveness of internal controls, risk management and governance.

MERU COUNTY – NO.12

MERU WATER AND SEWERAGE SERVICES REGISTERED TRUSTEES

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

184. Long Outstanding Trade Receivables

As previously reported, Note 16 to the financial statements reflects gross trade receivables balance of Kshs.81,594,817 which includes balances totalling to Kshs.71,444,986 that fell due between the years 1992 and 2005. The Management has however, not provided evidence of efforts to recover or write off the overdue debts, contrary to Section 83(2)(g) of the Public Finance Management Regulations, 2015 which requires that entities pursue debtors with appropriate sensitivity and rigor to ensure that amounts receivable by the government are collected and banked promptly.

In the circumstances, the recoverability of the receivables balance of Kshs.71,444,986 could not be confirmed.

185. Un-Valued Land

The statement of financial position reflects property, plant and equipment balance of Kshs.229,842,188, which includes land balance of Kshs.7,507,945 as disclosed in Note 13 to the financial statements. The land includes two parcels of land measuring (0.101 Ha) each and valued at Kshs.340,000 and Kshs.3,300,000, which were bought in 2013 and 2014 respectively. The valuation certificates were however, not provided for audit review.

In the circumstances, the accuracy and valuation of land estimated at Kshs.3,640,000 could not be confirmed.

Other Matter

186. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparative basis of Kshs.247,542,187 and Kshs.240,789,611 respectively, resulting to under collection of Kshs.6,752,576 or 3% of the budget.

Similarly, the Company expended Kshs.242,262,794 against a budget of Kshs.247,542,187 resulting to under-expenditure of Kshs.5,279,393 or 2% of the budget.

In the circumstances, under funding and expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

187. Prior Year Audit Matters

In the audit report of the previous year, a number of paragraphs were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, Management has not resolved the issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

188. Non-Compliance with the Law on Staff Ethnic Balance

Review of the staff establishment provided for audit revealed that the Company had a staff establishment of one hundred and four (104), out of which 97 or 93% were from the dominant ethnic community. This was contrary to Section 7(2) of the National Cohesion and Integration Act, 2008 which states that no public establishment shall have more than one third of its staff from the same ethnic community.

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

189. Non-Compliance with Fiscal Responsibility Principles on Wage Bill

The statement of profit or loss and other comprehensive income reflects amounts of Kshs.52,143,361 and Kshs.30,164,968 in respect to staff salaries and wages respectively totalling to Kshs.82,308,329 as disclosed in Notes 8 and 9 to the financial statements. The expenditure was equivalent to 34% of the operation and maintenance cost of 241,435,421. This was contrary to Paragraph 3.5.2 of the performance report of Kenya's Water Service Sector 2020/2021 from WASREB, issue Number 14/2022 on Performance Analysis and Ranking under economic efficiency which states that the personnel expenditure for any Company ranked as medium Company should not exceed 30% of operation and maintenance costs.

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

190. Use of Expired Water Tariffs

Review of the revenue records revealed that the Company billed customers based on tariffs approved on 18 July, 2014 through the Kenya Gazette Notice No.4984 which were to be applied from 2014 to 2017. The Management has however, not changed the tariffs five (5) years since the expiry of the old approved tariffs. The Company has not proposed new water tariffs for approval by the Regulatory Board.

In the circumstances, the tariffs charged were irregular since they had not been approved.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

191. There were no material issues relating to effectiveness of internal controls, risk management and governance.

IMETHA WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

192. Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalent balance of Kshs.8,047,592 out of which Kshs.812,336 held in a current Cooperative Account. However, the bank reconciliation statement for the account reflects uncredited receipts of Kshs.411,293 dating as far back as year 2021 that have not been updated in the books of account.

In the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.8,047,592 could not be confirmed.

193. Customer Deposits

The statement of financial position reflects trade payables and accruals balance of Kshs.46,147,456. The balance includes customer deposits of Kshs.13,569,350 which differed with the bank statement balance of Kshs.6,158,344 resulting to unexplained variance of Kshs.7,411,006.

Further, and as reported in the previous year, the Company used Kshs.6,000,000 out of the customer deposits to purchase a motor vehicle contrary to Section 53(1) of Public Finance Management (County Governments) Regulations, 2015 which stipulates that except as provided for in the Act and these Regulations, an Accounting Officer of an entity may not authorize payment to be made out of funds earmarked for specific activities for purposes other than those activities.

In the circumstances, the accuracy, existence and completeness of the customer deposits balance of Kshs.13,569,350 could not be confirmed. In addition, Management was in breach of the law.

194. Unmetered Billing

The statement of profit or loss and other comprehensive income reflects income amount of Kshs.45,619,283 which includes Kshs.41,922,173 in respect to water sales which further includes Kshs.12,136,395 relating to unmetered water where consumers only paid a standing monthly fee irrespective of the water consumed.

In the circumstances, the accuracy and completeness of water sales of Kshs.41,922,173 could not be confirmed.

Other Matter

195. Increase in Trade Payables

The statement of financial position reflects a balance of Kshs.46,147,456 which is an increase of Kshs.5,539,833 from Kshs.40,607,623 reported in the year ended

30 June, 2021 as disclosed in Note 8 to the financial statements. Although the statement of financial position reflects a positive working capital, the continued increase in trade and other payables may be an indication that the Company's continued ability to settle financial obligations as and when they fall due is becoming doubtful.

In the circumstances, if proper mechanisms are not put in place to reverse the trend of increasing trade payables, the Company's future liquidity seems threatened.

196. Budgetary Control and Performance

The statement of comparison of budget and actual amounts for the year reflects approved revenue budget of Kshs.62,160,925 and actual revenue of Kshs.54,306,969 resulting to revenue budget shortfall of Kshs.7,853,956. The revenue shortfall could be an indicator of revenue leakages or revenue collected but not accounted for.

There is need for Management to review its budgeting mechanism with a view to coming up with a more realistic revenue budget.

197. Non-Revenue Water (NRW)

During the year under review, the Company produced 1,146,200 cubic meters of water. However, only 694,693 cubic meters were billed to customers while the balance of 451,507 cubic meters or approximately 39% of the total volume produced represented Non-Revenue Water (NRW) which is 14% above the allowable loss of 25%. This compares adversely with Water Services Regulatory Board (WASREB) guidelines that allow a maximum loss (unaccounted water) of 25% for every cubic meter of water produced. The non-revenue water of 451,507 cubic meters may have resulted in loss of sales estimated at Kshs.27,248,447 at the rate of Kshs.60.35.

In the circumstances, the NRW loss of approximately Kshs.27,248,447 may negatively impact on the Company's profitability and its long-term sustainability.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

198. Personnel Matters

198.1 Failure to Comply with the Law on Ethnic Diversity

Review of human resource records revealed that the Company had eighty-seven (87) employees out of which 70 or 80% were from the same ethnic dominant community. This is contrary to the requirement of Section 7(2) of the National Cohesion and Integration Act, 2008 and Section 65(e) of the County Governments Act, 2012 which requires a public establishment not to have more than one third of its staff from one ethnic community.

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

198.2 Lack of Salaries and Remuneration Commission Approval

During the year under review, the Board and Management of the Company incurred personnel costs of Kshs.20,446,640 out of which Kshs.18,450,215 was in respect of salaries and wages for staff. However, the salary scales and job groups applied by Management, were not authorised by the Salaries and Remuneration Commission. Furthermore, the Board minutes for the adoption and approval of the salary scales were not provided for audit review.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

199. Long Outstanding Staff Debtors

The statement of financial position reflects trade and other receivables balance of Kshs.39,323,990 out of which Kshs.565,424 and Kshs.664,668 are in respect of unsurrendered imprests and staff debts all totalling to Kshs.1,230,092 that have remained outstanding for over 10 years. Further, no evidence was provided to confirm any efforts by Management to recover the imprests.

It was not possible to confirm whether internal controls relating to staff debtors were effective and working as intended during the year under review.

200. Lack of an Information Technology Policy

The Company did not have an Information Technology (IT) Policy in place hence the data confidentiality, integrity and availability could be compromised contrary to Section 68(2)(c) of the Public Finance Management Act, 2012 which states that in the performance of a function under Sub-Section (1), an Accounting Officer shall ensure that all financial and accounting records the entity keeps in any form, including in electronic form are adequately protected and backed up.

The effective use and management of the Company's Information System could not be confirmed.

201. Inventory Management

The statement of financial position reflects inventory balance of Kshs.1,429,398. Review of documents provided and physical inspection revealed several obsolete items that needed to be disposed off. In addition, the Management did not have a disposal policy. Further, there were items in the store that were not taken on charge either on store cards, store ledgers or stock taking reports. This contravenes Section 53(4) of the Public Procurement and Asset Disposal Act, 2015 which states that all asset disposals shall be planned by the Accounting Officer concerned through annual asset disposal plan in a format set in the regulations.

In the circumstances, the Company's inventory management system and the related controls could not be confirmed.

THARAKA-NITHI COUNTY – NO.13

NITHI WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

202. Unreconciled Variance in Customer Deposits

The statement of financial position reflects customer deposits balance of Kshs.17,813,825 as disclosed in Note 43 to the financial statements. However, the bank confirmation certificates and cash books revealed total customer deposit balance of Kshs.15,616,542 comprised of Kshs.14,506,077 held at KCB Bank account and Kshs.1,110,465 held at Family Bank account resulting to an unreconciled variance of Kshs.2,197,283.

In the circumstances, the accuracy and completeness of the customer deposits balance of Kshs.17,813,825 could not be confirmed.

203. Undisclosed Water Inventory Held in the Distribution Infrastructure

The statement of financial position reflects inventories of Kshs.4,353,965 as disclosed in Note 28 to the financial statements. The inventory is in respect of stationery and general stores. However, the Company did not value, present and disclose the amount of water held in the treatment plants, reservoirs and distribution systems at the end of year in accordance with International Accounting Standard on Inventories (IAS) 2.

In the circumstances, the accuracy and completeness of the inventories balance of Kshs.4,353,965 could not be confirmed.

204. Long Outstanding Trade Receivables

The statement of financial position reflects gross trade and other receivables balance of Kshs.101,809,341 out of which Kshs.62,670,499 relates to trade receivables. Included is Kshs.50,106,761 which has been outstanding for long.

The long outstanding receivables is an indication that the Company's debt collection system is not effective and therefore the risk of illiquidity and bad debts is high. Management has not disclosed plans to enhance collection of debts to improve the financial performance of the Company.

In the circumstances, the accuracy and completeness of trade receivables balance of Kshs.101,809,341 could not be confirmed.

Other Matter

205. Unresolved Prior Year Audit Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public

Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. Further, the issues remained unresolved contrary to Section 149(2) (I) of Public Finance Management Act, 2012 which require Accounting Officers designated for county government entities to try to resolve any issues resulting from an audit that remain outstanding.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

206. Use of Expired Water Tariffs Structure

The statement of profit or loss and other comprehensive income reflects operating revenue of Kshs.80,320,809 as disclosed in Note 6 to the financial statements. It was noted that the Company applied a tariff structure approved by the Water Services Regulatory Board (WASREB) vide Gazette Notice No.15443 dated 26 October, 2012 for the period 2012/2013 to 2014/2015. However, the tariffs have since lapsed and the Company has continued to use the same old tariffs for seven (7) subsequent years without approval.

In the circumstances, Management was in breach of the WASREB Guidelines.

207. Un-explained Non-Revenue Water

Review of records revealed that the Company produced 4,285,186 cubic meters of water, out of which only 1,461,582 cubic meters was billed to customers. The balance of 2,823,604 cubic meters or approximately 66% of the total volume of water produced with an estimated sale price of Kshs.144,003,804 at the rate of Kshs.51 per cubic meter represented non-revenue water (NRW) which is 41% over and above the allowable water loss of 25% as per the Water Service Regulatory Board guidelines.

In the circumstances, the Company exceeded the allowable non-revenue water loss of 25% by 41% or approximately Kshs.89,456,908 which if not addressed will negatively impact on the Company's profitability and its long-term sustainability.

208. Non-Compliance with WASREB Guidelines on Incorporation and Shareholding of the Water Company

The background information included in the key entity information section of the financial statements indicates the Company is a public limited company guaranteed by the Government of Kenya with no shareholding while the Company Memorandum and Articles of Association, 2017 indicates the Company is a private company limited by guarantee. This is contrary to Section 3.1(d) of the Water Service Regulatory Board (WASREB) Corporate Guidelines, 2018 which states that the recommended model for Water Service Providers (WSP) is that they be public limited liability companies established under the Companies Act, 2015 under Section 77(3) and Section 3.3.1 (3) of Water Service Regulatory Board (WASREB) Corporate Guidelines, 2018 which states that if their memorandum of objects and articles of association do not already state that

they are owned by the county government which has taken up the shares of the defunct local authorities, amendments should be made to reflect this legal reality.

Further, the statement of financial position does not reflect any share capital contrary to Section 3.3.1(7) of Water Service Regulatory Board (WASREB) Corporate Guidelines, 2018 which states that under the direction of Section 77 of the Water Act 2016, the companies should then change their memorandum to public companies limited by shares following the model for the sector, care being taken that real public participation in WSP governance is retained and Section 3.3.1 (4) of Water Service Regulatory Board (WASREB) Corporate Guidelines, 2018 which states that the county government shall hold all the shares in trust for the people of the county and the other shareholders who hold the shares in trust and not in their personal capacity are the Office of CECM in charge of Finance, the Office of the CECM in charge of water and the County Secretary who shall hold one share each.

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

209. Failure to Comply with the Law on Ethnic Diversity

Review of the staff establishment revealed that the Company had seventy-seven (77) members of staff out of which thirty (30) or 39% are from the dominant ethnic community. This is contrary to Section 7(2) of National Cohesion and Integration Act, 2008 which requires that no public establishment shall have more than one third of its staff from the same ethnic community.

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

210. Failure to Comply with the Law on One Third Pay Rule

Review of monthly payroll records revealed that nine (9) officers earned less than one third of their basic pay contrary to Section 19(3) of the Employment Act, 2007 (Revised, 2012) which states that without prejudice to any right of recovery of any debt due, and notwithstanding the provisions of any other written law, the total amount of all deductions which under the provisions of subsection (1), may be made by an employer from the wages of his employee at any one time shall not exceed two-thirds of such wages.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

211. Exceeding Maximum Number of Directors

The Company's Board of Directors comprised of twelve (12) members contrary to Section 3.4.1(2) of Water Service Regulatory Board (WASREB) Guidelines for Water Service Sector, 2018 that requires that Medium and Large companies to have a maximum of seven (7) members where two shall be from the County Government Executive.

In the circumstances, the Company was in breach of the WASREB guidelines.

212. Lapsed Tenure of Office

The tenure of office for two (2) Board members appointed effective from 11 May, 2017 to serve for a period of 3 years lapsed on 11 May, 2020. However, the two Board members served for the entire period of 2021/2022 financial year with lapsed appointments.

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

213. Lack of Necessary Qualifications for Some Board Members

Review of the Board of Directors section of the financial statements revealed that seven (7) Company Directors did not possess a minimum of Bachelor's degree from a recognized University or a higher national diploma qualifications contrary to Section 3.4.4 of Water Service Regulatory Board (WASREB) Guideline for Water Service Sector, 2018 which states that to be eligible all the persons appointed to the Board shall have a minimum of Bachelor's degree from a recognized university.

In the circumstances, the Board of Directors is not properly constituted in accordance with WASREB the guidelines.

214. Board Evaluation

The Board did not carry out the evaluation exercise contrary to Section 3.8 (2) of Water Service Regulatory Board Guidelines for Water Service Sector, 2018 which states that the Board shall evaluate its performance once every year and set up achievable action points to assess its performance as a whole and that of individual members including the Managing Director.

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

215. Lack of Disaster Recovery Plan and Data Recovery Policy

Review of the internal control environment revealed that although the Company had an ICT policy, there was no disaster recovery plan, data recovery policy, back up and retention strategy and IT continuity plan in place. This is contrary to Section 149(2)(c) of the Public Finance Management Act, 2012 which states that Accounting Officer shall ensure that all financial and accounting records that the entity keeps in any form including in electronic form are adequately protected and backed up.

In the circumstances, the security and reliability of the Company's data including the management information system could not be confirmed.

EMBU COUNTY – NO.14

EMBU WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

216. Unsupported Bank Balance

The statement of financial position reflects a cash and cash equivalents balance of Kshs.27,274,974 as disclosed in Note 24 to the financial statements which includes a balance of Kshs.3,141,740 held in the Postal Corporation of Kenya. However, the amount was not supported by a bank confirmation certificate, bank reconciliation statement and bank statements.

In the circumstances, the accuracy and completeness of the balance of Kshs.3,141,740 could not be confirmed.

217. Unsupported Revenue - Other Income

The statement of profit or loss and other comprehensive income reflects an amount of Kshs.27,745,035 in respect to other income which as disclosed in Note 11 to the financial statements includes Kshs.4,000,000 relating to a donation from Embu County Government. However, Management did not provide any document to show the amount and nature of the grant involved. Further, out of the amount of Kshs.4,000,000 received, Management utilized Kshs.3,973,716 for purchase of pipes for Evurori water project. However, procurement records including letter of award and acceptance by the successful bidder, regret letters to the unsuccessful bidders and signed contract agreement between the Company and the supplier were not provided for audit review.

In addition, the pipes were not taken on charge as required by Regulation 93(3) of the Public Procurement and Asset Disposal Regulations, 2020 which states that the goods procured shall be taken on charge by the officer responsible for the stores after the user department has confirmed the quantity and quality of the goods, works or services, before they are issued to the respective user department.

In the circumstances, the accuracy, completeness and value for money for the donation amount of Kshs.4,000,000 could not be confirmed.

218. Unsupported Establishment Costs

The statement of profit or loss and other comprehensive income reflects an amount of Kshs.130,297,290 in respect to establishment costs, which as disclosed in Note 16 to the financial statements. The amount includes Kshs.4,740,370 in respect to security out of which an amount of Kshs.3,395,361 was paid to a firm for provision of security services. However, it was not clear how the firm was identified as the Management did not provide

records including advertisement, tender opening and evaluation minutes, professional opinion, letter of award and regret letters in respect to the contract.

In the circumstances, the accuracy and regularity of expenditure of Kshs.3,395,361 could not be confirmed.

219. Unsupported Maintenance and Production Costs

The statement of profit or loss and other comprehensive income reflects an amount of Kshs.60,167,847 in respect to maintenance and production costs which as disclosed in Note 17 to the financial statements. The amount includes Kshs.4,195,895 paid to Water Resources Management Authority (WARMA) as water abstraction fees and permit renewal for the year under review. However, this was not supported by invoices and account statements from WARMA and the respective meter readings in respect to abstraction of water.

In the circumstances, the accuracy and completeness of the expenditure of Kshs.4,195,895 on maintenance and production costs could not be confirmed.

220. Unsupported Expenditure on Fuel

The statement of profit or loss and other comprehensive income reflects an amount of Kshs.130,297,290 in respect to establishment costs, as disclosed Note 16 to the financial statements which includes Kshs.7,792,367 in respect to fuel and oil which further includes Kshs.5,930,585 paid to a firm for the supply of fuel. However, there were no records to show how the firm was identified including tender advertisement, tender opening minutes, letters of award and acceptance. In addition, the contract agreement provided for audit review did not specify the contract period.

In the circumstances, the accuracy and completeness of the expenditure of Kshs.5,930,585 on supply of fuel could not be confirmed.

221. Unsupported Kenya Revenue Authority (KRA) Refund Claims

The statement of financial position reflects trade and other receivables balance of Kshs.294,121,792 as disclosed in Note 23 to the financial statements which includes Kshs.31,519,506 in respect to KRA refund claims. However, Management did not provide a schedule to show the breakdown of the KRA refund claims. Further, review of the KRA itax ledger revealed that as at 30 June, 2022, the Company had credits totalling to Kshs.73,548,119 resulting in an unreconciled variance of Kshs.42,028,613.

In addition, Management engaged a Consultant to determine the Company's tax claims. However, the Consultant did not provide the final report of the findings but instead produced a draft report which revealed a net refundable Value Added Tax (VAT) balance of Kshs.30,739,537 whereas the financial statements reflects a balance of Kshs.31,519,506 resulting in an unreconciled variance of Kshs.779,969.

Further, the Consultant's draft report reflects total non-claimable input VAT of Kshs.29,410,769 but no records were provided to show the composition or breakdown of the balance.

In the circumstances, the accuracy and completeness of trade and other receivables balance of Kshs.31,519,506 could not be confirmed.

222. Unaccounted for Receivable

The statement of financial position reflects a trade and other receivables balance of Kshs.294,121,792 as disclosed in Note 23 to the financial statements which includes Kshs.1,968,336 in respect to cash loss. However, Management did not provide a schedule detailing the cash loss and details on how the money was lost, the purpose of the funds and the officers involved. Further, Management did not provide details of any action taken to ensure timely recovery of the funds as required by Regulation 64(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 which states that adequate measures, including legal action where appropriate, are taken to obtain payment.

In the circumstances, the recoverability of the lost funds is doubtful.

Other Matter

223. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final income budget and actual on comparable basis of Kshs.436,372,919 and Kshs.423,260,840 respectively, resulting to under-funding of Kshs.13,112,079 or 3% of the budget.

Further, the Company incurred actual expenditure of Kshs.455,484,550 against an approved expenditure budget of Kshs.451,759,755 resulting to unauthorized over-expenditure of Kshs.3,724,795.

In the circumstances, the under-funding may have affected planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

224. Irregular Procurement of Information Technology Software

The statement of financial position reflects a balance of Kshs.8,894,848 in respect to intangible assets. the as disclosed in Note 29 to the financial statements. The balance includes Kshs.3,765,917 paid to a firm for the supply, installation, training and commissioning of accounting, finance, Human Resource and supply chain management system.

Further, according to the tender evaluation report, the lowest evaluated bidder quoted Kshs.7,034,240. However, the tender was awarded to the second lowest evaluated bidder

at a tender price of Kshs.7,531,833 contrary to Section 86(1)(a) of the Public Procurement and Asset Disposal Act, 2015. In addition, Management did not provide for audit review professional opinion from the head of procurement as required under Section 84(1) of the Public Procurement and Asset Disposal Act, 2015 which states that the head of procurement of a procuring entity shall, alongside the report to the evaluation committee as secretariat comments, review the tender evaluation report and provide a signed professional opinion to the accounting officer on the procurement or asset disposal proceedings.

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

225. Irregular Procurement of Firewall

The statement of financial position reflects a balance of Kshs.8,894,848 in respect to intangible assets as disclosed in Note 29 to the financial statements. The balance includes Kshs.2,290,000 paid to a firm for installation of firewall. However, the notification of award was dated 15 April, 2021 and indicated that the successful bidder was to signify acceptance within fourteen days and that the contract between the parties was to be signed not more than thirty days from the date of notification of award. However, the contract agreement was signed on 8 June, 2021, which was more than thirty days after notification of award. This was contrary to Section 135(3) of the Public Procurement and Asset Disposal Act, 2015 which states that the written contract shall be signed within the period specified in the notification but not before fourteen days have elapsed following the giving of that notification provided that a contract shall be signed within the tender validity period.

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

226. Irregular Procurement of Cleaning Services

The statement of profit or loss and other comprehensive income reflects an expenditure amount of Kshs.2,483,385 in respect to other operating expenses as disclosed Note 18 to the financial statements which includes Kshs.2,347,692 for cleaning and hygiene which further includes Kshs.1,871,200 paid to a firm in respect to cleaning services. However, Management did not provide tender documents and framework agreement in respect to the contract. This was contrary to Section 135(1) of the Public Procurement and Asset Disposal Act, 2015 which states that the existence of a contract shall be confirmed through the signing of a document incorporating all agreements between the parties and such contract shall be signed by the accounting officer or an officer authorized in writing by the accounting officer of the procuring entity and the successful tenderer.

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

227. Stalled Project - Fencing of Old Sewerage

The statement of financial position reflects a balance of Kshs.633,939,766 in respect to property, plant and equipment, as disclosed in Note 6 to the financial statements which includes Kshs.39,182,372 in respect to additions during the year which further includes Kshs.3,264,233 paid to a firm for construction of a perimeter fence (chain link) at old sewerage, Mwiria intake works and Kangaru reservoirs. A site visit in the month of

December, 2022 revealed that the fencing works at Mwiria and Kangaru were complete. However, fencing at Old sewerage plant had not commenced and the contractor was not on site, an indication that the project may have stalled.

The contract agreement revealed that the contract period for fencing the old sewerage plant lapsed on 20 September, 2022 and there was no evidence of application for contract extension. It was not clear why Management did not enforce performance of the contract within the contract period.

In the circumstances, value for money on the expenditure of Kshs.3,264,233 could not be confirmed.

228. Failure to Prepare and Publish Contract Awards

During the year under review, Management did not prepare and submit a report to the Public Procurement Regulatory Authority on preferences and reservations in compliance with Section 157(10) (12) (13) of the Public Procurement and Asset Disposal Act, 2015 indicating the number of youths, women and persons living with disability whose goods and services had been procured by the Company.

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

229. Failure to Prepare and Submit Quarterly Reports

The Management did not prepare and submit quarterly financial and non-financial statements in the format gazetted by the Cabinet Secretary within 15 days after the end of each quarter to the County Executive Committee Member responsible for water and sanitation with a copy to the County Treasury and the Auditor-General. This was contrary to Regulation 207(1) of the Public Finance Management (County Governments) Regulations, 2015 which states that an accounting officer of a County Corporation shall prepare and submit quarterly financial and non-financial statements in the format gazetted by the Cabinet Secretary within 15 days after the end of each quarter to the County Executive Committee Member responsible for the county corporation with a copy to the County Treasury and the Auditor-General.

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

230. Delay in Remittance of Tax

The statement of financial position reflects balance of Kshs.22,821,847 in respect to taxation as disclosed in Note 28 to the financial statements. The balance represents amount of tax liability accumulated from the previous years. The Management did not provide a breakdown of the tax liability and the period it has been outstanding. Further, no explanation was provided on why the Company failed to pay the tax when it fell due. This was contrary to Section 104(1)(e) of the Public Finance Management Act, 2012 which states that subject to the Constitution, a County Treasury shall monitor, evaluate and oversee the management of public finances and economic affairs of the County Government including managing the County Government's public debt and other obligations and developing a framework of debt control for the County.

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

231. Lack of Deposit or Retention Account

The statement of financial position reflects a balance of Kshs.633,939,766 in respect to property, plant and equipment as disclosed in Note 6 to the financial statements which includes additions during the year of Kshs.39,182,372. Available records revealed that the Company entered into various contracts including construction works, refurbishment of buildings and office building works. The Company deducted 10% retention money from payments to contractors but the amount was not deposited in a separate retention account being contractors' money held awaiting performance of contract to completion. This was contrary to Section 145(1) & (2) of the Public Procurement and Asset Disposal Act, 2015 which states that the performance security shall be returned to the successful tenderer within thirty (30) days following the final acceptance by the accounting officer of the procuring entity.

In the circumstances, contractors' retention money may be applied to other expenses hence not readily available to be paid to contractors whenever due.

232. Non-Adherence to Ethnic Balance

The statement of profit or loss and other comprehensive income reflects an amount of Kshs.169,636,663 as disclosed in Note 13 to the financial statements in respect to staff emoluments. However, review of the staff establishment revealed that the Company had one hundred and sixty-three (163) staff members out of which one hundred eighteen (118) staff members were from the same ethnic community. This was contrary to Section 7(2) of the National Cohesion and Integration Act, 2008 which states that no public establishment shall have more than one third of its staff from the same ethnic community.

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

233. Non-Implementation of Recommendations of Oversight Bodies

The County Assembly of Embu invited Embu Water and Sanitation Company Limited to appear before the Assembly's Public Accounts and Investments Committee vide a letter dated 1 February, 2021 for discussion of the Auditor-General's report for the year ended 30 June, 2018. The Committee made recommendations through a report dated 30 July, 2021 which were supposed to be implemented within sixty (60) days pursuant to standing order No.195. However, there was no evidence that the Management implemented the recommendations. This was contrary to Section 53(1) of the Public Audit Act, 2015 which states that the relevant accounting officer of a state organ or public entity shall within three months after Parliament has considered and made recommendations on the audit report take the relevant steps to implement the recommendations of parliament on the report of the Auditor-General or give explanations in writing to the Assembly on why the report has not been acted upon.

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

234. Non-Revenue Water (NRW)

During the year under review, the Company produced 7,705,097 cubic meters of water out of which only 4,803,192 cubic meters was billed valued at Kshs.310,274,729. The

balance of 2,901,905 cubic meters or 38% of total volume of water produced represent non-revenue water which is higher than the acceptable industrial sector benchmark of 25% as stipulated in the Water Services Regulatory Board (WASREB) Impact Performance Report No.13/2021 which states that the acceptable sector benchmark for non-revenue water is between 20% to 25%. The high volume of NRW represents unaccounted for water valued at approximately Kshs.187,172,873 (at an average cost of Kshs.64.50 per unit) which is a loss to the Company. This may affect the Company's long-term sustainability.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis of Conclusion

235. Lack of Approved Information Communication Technology (ICT) Policy

Review of the Information Communication Technology control environment confirmed that the Company did not have an approved ICT policy. In the absence of an approved ICT policy, the Company did not have clear guidelines in respect to data security, backup plans, password and user account management and disaster recovery plans as required under Section 149(2)(c) of the Public Finance Management Act, 2012 which states that a public entity should always ensure that all its records, financial or otherwise kept in electronic form are adequately protected and backed up.

In the circumstances, the security and reliability of the Company's data including the management information system could not be confirmed.

236. Lack of Risk Management Policy

During the financial year under audit, the Company did not have an approved risk management policy contrary to Regulation 158(1) of the Public Finance Management (County Governments) Regulations, 2015.

In the circumstances, the Management may not have a mechanism to identify operational risks including fraud in order to timely respond and address them.

EMBE WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

237. Inaccuracies in the Financial Statements

Review of the financial statements revealed the following inaccuracies;

- (i) The statement of cashflows reflects purchase of property, plant and equipment cash outflow of Kshs.1,819,634 while Note 20 reflects additions of Kshs.1,828,600 resulting to unexplained variance of Kshs.8,966.

- (ii) The current account cashbook reflects an overdraft of Kshs.4,833,071 which is not disclosed in Note 32 to the financial statements.

In the circumstances, the accuracy and completeness of the financial statements could not be confirmed.

238. Unsupported Customer Deposits

The statement of financial position reflects customer deposits balance of Kshs.5,532,190 as disclosed in Note 43 to the financial statements. However, only Kshs.256,208 is reflected as cash and bank balance as at 30 June, 2022. This implies that deposits funds have been utilised on other payments without evidence of approval and the Company may not be able to refund deposits when demanded. In addition, there was no evidence that deposit money was deposited in a separate bank account since the corresponding bank statements were not provided for audit.

In the circumstances, the accuracy and existence of the customer deposits balance of Kshs.5,532,190 could not be confirmed.

239. Lack of Ownership Documents

The statement of financial position reflects property, plant and equipment balance of Kshs.52,835,806 as disclosed in Note 20 to the financial statements. The balance includes land and buildings valued at Kshs.4,850,000 and Kshs.11,752,335 respectively which were inherited from Tana Water Works Development Agency. However, there was no evidence of transfer of ownership documents to the Company. In addition, logbooks for four (4) motorcycles valued at Kshs.930,000 were not provided for audit.

In the circumstances, the ownership of property, plant and equipment balance of Kshs.17,532,335 could not be confirmed.

240. Inaccuracy of Bank and Cash Balance

The statement of financial position reflects bank and cash balance of Kshs.256,208 as disclosed in Note 32 to the financial statements. The amount includes cash in hand balance of Kshs.95,764 being un surrendered imprest issued on 16 December, 2020 to a staff who has since retired and whose recoverability is doubtful. In addition, the amount was wrongly classified under bank and cash balances instead of trade and receivables. Further, the balance was not supported by imprest warrant and register.

In the circumstances, the accuracy and completeness of bank and cash balance of Kshs.95,764 could not be confirmed.

241. Unsupported Employer's Contribution Expenditure

The statement of profit or loss and other comprehensive income reflects staff costs of Kshs.19,893,183 as disclosed in Note 11 to the financial statements. However, expenditure of Kshs.1,114,956 relating to employer's contribution to social security schemes, pension schemes and medical insurance schemes was not supported by schedules.

In the circumstances, the accuracy and completeness of staff costs of Kshs.1,114,956 could not be confirmed.

Emphasis of Matter

242. Material Uncertainty to Going Concern

The statement of profit or loss and other comprehensive income reflects a deficit of Kshs.5,682,809 in comparison with deficit of Kshs.8,543,765 for the comparative period leading to a decline in the retained earnings from negative Kshs.128,847,673 in 2020/2021 to negative Kshs.134,530,482 in the current period. In addition, the statement of financial position reflects trade and other payables balance of Kshs.10,079,238 (2021 - Kshs.4,940,368) resulting in an increase of Kshs.5,138,870. If the trend continues into the foreseeable future, the Company may not be able to meet its obligations as and when they fall due.

In the circumstances, the Company sustainability of providing safe, affordable and accessible clean water to the residents is heavily dependent on continued support by the National and County Governments, bankers, donors and creditors.

Other Matter

243. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final budgeted revenue of Kshs.42,888,468 and actual revenue of Kshs.38,946,898 resulting to a revenue shortfall of Kshs.3,941,570. Similarly, the statement reflects final budgeted expenditure of Kshs.42,888,468 and actual expenditure of Kshs.46,458,307 resulting to an over expenditure of Kshs.3,569,839.

In the circumstances, the Company needs to adopt realistic budgeting to avoid instances of excess or under budgeting for efficient and effective delivery of goods and services.

244. Unresolved Prior Year Matters

In the audit report of the previous year, issues were raised under Report on the Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management had not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

245. Unapproved Expenditure on Salaries

During the year under review, Management approved and processed salaries for staff and casuals amounting to Kshs.19,893,183 through Company's salary scale. However,

the board minutes that discussed, adopted and approved these salary scales together with approval from the Salaries and Remuneration Commission (SRC) were not provided for audit. This was contrary to Article 230(4)(a) of the Constitution of Kenya, 2010 which stipulates the powers and functions of the Salaries and Remuneration Commission shall be to set and regularly review the remuneration and benefits of all state officers.

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

246. Irregular Procurement of ERP Software

The statement of profit or loss and other comprehensive income reflects maintenance expenses of Kshs.6,052,024 as disclosed in Note 14 to the financial statements. Included in the expenditure is Kshs.1,725,720 on software for supply, implementation and commissioning of an integrated Enterprise Resource Planning software (ERP). However, the contract dated 12 June, 2021 for Kshs.1,701,720 omitted timelines and was not included in the annual budget and procurement plan. This was contrary to Section 45(3)(a) of the Public Procurement and Asset Disposal Act, 2015 which states that (3) all procurement processes shall be within the approved budget of the procuring entity and shall be planned by the procuring entity concerned through an annual procurement. In addition, there was no evidence of competitive bidding contrary to Regulation 29(1)(d) of the Public Procurement and Asset Disposal Regulations, 2020 which states that in using the single source selection (SSS) method, a procuring entity shall first prepare the justification for use of the method in the context of clear advantage over competition. Further, the system has not been put into use.

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

247. Irregular Engagement of Casuals

The statement of profit or loss and other comprehensive income reflects Kshs.19,893,183 in respect to staff costs which as disclosed in Note 11 to the financial statements. The amount includes Kshs.2,550,642 for casual labor. Review of the payroll data indicated that thirty-three (33) casual workers were engaged during the year out of which twenty-three (23) worked for more than three (3) months continuously. This was contrary to Section 37(1)(b) of the Employment Act, 2007 which stipulates that notwithstanding any provisions of this Act, where a casual employee performs work which cannot reasonably be expected to be completed within a period or a number of working days amounting in the aggregate to the equivalent of 3 months or more, the contract of service of the casual employee shall be deemed to be one where wages are paid monthly and Section 35(1)(c) shall apply to that contract or service.

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

248. Non-Adherence to One Third Gender Rule

The Company had a staff establishment of thirty-six (36) employees out of which twenty-seven (27) or 75% were male. This was contrary to Section B22(2) of the Public Service Human Resource Manual 2016 which states that the Government will endeavor to have a gender balanced Civil Service by ensuring that not more than 2/3 of positions in its establishment are filled by either gender.

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

249. Officers in Acting Capacity Beyond the Six Months Rule

Review of the personal files revealed that one officer was in acting capacity for more than six months receiving acting allowance. This was contrary to Section C.14 (1) of the Public Service Human Resource Policies and Procedures Manual, 2016 which provides that when an officer is eligible for appointment to a higher post and is called upon to act in that post pending advertisement of the post, he is eligible for payment of acting allowance at the rate of twenty percent (20%) of his substantive basic salary. Acting allowance will not be payable to an officer for more than six (6) months.

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

250. Excessive Staff Costs

The statement of profit or loss and other comprehensive income reflects staff costs of Kshs.19,893,183 which as disclosed in Note 11 to the financial statements constitute fifty one percent (51%) of the total receipts for the year under review. This was contrary to Section 3.9(10) of WASREB Corporate Governance Guidelines 2018 which provides that the staff costs should not exceed 40% of the total revenue.

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

251. Non-Compliance with Mwongozo

The Management did not provide for audit review the evaluation of its Board performance for the financial year 2021/2022 contrary to Mwongozo 2015 Chapter 1 paragraph 1.12. In addition, Management did not provide the gazette notice appointing the Board members in accordance with the Mwongozo 2015 Chapter 1 section 1.1 subsection 13.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

252. Irregular Recruitments

The statement of profit or loss and other comprehensive income reflects Kshs.19,893,183 in respect to staff costs as disclosed in Note 11 to the financial statements. During the year under review, the Company recruited two artisans, a chemical attendant and a registry clerk on contract terms. However, recruitment list of all applicants, interview register, minimum requirements, evaluation minutes, list of short-listed candidates, invitation letters, interview questionnaires, interview results were not provided for audit to verify that the recruitment was competitive. In addition, thirty-three (33) were engaged without evidence of departmental requisitions for casuals, application letters, interview minutes, engagement letters and the master roll files.

In the circumstances, internal controls on Company's recruitment process could not be confirmed.

253. Weak Controls in Maintenance of Cashbooks

The statement of financial position reflects bank and cash balance of Kshs.256,208 as disclosed in Note 32 to the financial statements. However, the Company used Microsoft Excel office software in recording and maintaining the cashbook which is vulnerable to fraud and susceptible to human errors. Further, the cash books were not reviewed, approved and signed by the accountant and the General Manager at the end of each month. In addition, there was no backup strategy in case of loss of data.

In the circumstances, the effectiveness of internal controls on maintenance of cashbooks could not be confirmed.

254. Non-Revenue Water

During the year, the Company produced 1,158,306 cubic meters of water. However, only 523,026 cubic meters were billed to customers. The balance of 635,280 cubic meters or 55% of the total volume represented Non-Revenue Water (NRW) which is 30% above the allowable loss of 25% in accordance with Schedule E of the Water Services Regulatory Board guidelines which allows a maximum loss of 25% for every cubic meter of water produced. The NRW of 635,280 cubic meters may have resulted in loss of sales estimated at Kshs.38,339,148 at the rate of Kshs.60.35 per cubic meters.

In the circumstances, the Non-Revenue Water estimated at Kshs.38,339,148 may have negatively impacted on the Company's profitability and its long-term sustainability.

255. Weaknesses in Tagging and Disposing Assets

Physical verification of the assets and review of the assets register revealed that the assets were not coded or tagged for ease of identification and tracking. This was contrary to Section 139(1)(b) of the Public Finance Management (National Government) Regulations, 2015 which requires the Accounting Officer to ensure that movement and conditions of assets can be tracked. In addition, three (3) motorcycles were verified to be grounded and unserviceable and there was no evidence of commencing disposal process.

In the circumstances, the effectiveness of internal controls on monitoring movement of assets could not be confirmed.

256. Weaknesses in the Information Technology (IT) System

During the year under review, it was observed that the Company reverted to using the earlier installed Enterprise Resource Planning (ERP) system since the new system was not put into use. In addition, verification revealed that the developers of the system were active users with full control of the system which is likely to compromise the security of the system. Further, the Company did not have Information Technology policy in place.

In the circumstances, the effectiveness of internal controls and risk management of Enterprise Resource Planning (ERP) system could not be confirmed.

257. Long Outstanding Accounts Receivables

The financial statements reflects gross trade and other receivables balance of Kshs.28,037,606 which includes Kshs.22,038,124 that has been outstanding for more than two (2) years. However, the Company has only made a general provision for bad and doubtful debts of Kshs.1,395,736 which is 5% on gross receivables which may be inadequate considering the period they have been outstanding. In addition, the Company does not have a debt management policy.

In the circumstances, the effectiveness of internal controls on recovery of receivables could not be confirmed.

258. Lack of Internal Audit Charter

The Company did not have an internal audit charter to guide in carrying out internal audit functions contrary to Section 73(1) (a) of the Public Finance Management Act, 2012 which stipulates that every county government entity shall ensure that it has appropriate arrangements for conducting internal audit according to the guidelines issued by the Accounting Standards Board.

In the circumstances, the existence of effective internal controls could not be confirmed.

259. Lack of Risk Management Policy

Review of the Company's internal controls revealed there was no approved risk management policy being the framework for risk identification and management. This was contrary to Section 158(1) of the Public Finance Management (County Governments) Regulations, 2015 which states that the accounting officer shall ensure that the county government entity develops risk management strategies, which include fraud prevention mechanism and develop a system of risk management and internal control that builds robust business operations.

In the circumstances, the existence of internal controls and risk management policies could not be confirmed.

NGAGAKA WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

260. Presentation and Disclosure of the Financial Statements

The financial statements provided for audit revealed several anomalies as highlighted below;

- i. The list of the Board of Directors did not include their date of birth, key qualifications and details of work experience.

- ii. The details of the Corporate Secretary such as member of ICPSK member number among others are not included.
- iii. The Management Discussion Analysis does not include a report on operational and financial performance of the Company for the last three (3) to five (5) years to support the tables, graphs and pie charts.
- iv. The Environmental and Sustainability Report is signed by the Chairman of the Board and not by the Corporate Secretary/Secretary to the Board as required by the reporting template.
- v. The financial statements provided for audit review were not prepared in accordance with the reporting template issued on 6 July, 2022 by The National Treasury referenced as AG.4./16/3 Vol.II (66) which required all the water service providers under the County Governments, regulated by Water Services Regulatory Board and as defined under the Water Act, 2016 to apply the new and revised annual financial reporting template as prescribed by the Public Sector Accounting Standards Board (PSASB).

In the circumstances, presentation and disclosure of the financial statements did not comply with the prescribed format by the Public Sector Accounting Standards Board.

261. Unexplained Variance on Income and Expenses

The statement of comparison of budget and actual amounts reflects Kshs.43,949,703 and Kshs.40,338,173 in respect to total income and total expenses respectively, while the statement of profit or loss and other comprehensive income reflects Kshs.43,980,493 and Kshs.40,353,552 in respect to the same items resulting to an unexplained and unreconciled variance of Kshs.30,790 and Kshs.15,379 respectively.

In the circumstances, the accuracy of the financial statements could not be confirmed.

262. Unsupported Expenditure

The statement of profit or loss and other comprehensive income reflects Kshs.35,767,996 as disclosed in Note 9 to the financial statements in respect to administration costs which further includes Kshs.808,600 in respect to Water Services Producers Association (WASPA) expenses. Included in the Kshs.808,600 is a payment of Kshs.91,800 in respect to subsistence allowance. However, the expenditure was not supported by imprest warrants and bus tickets.

In the circumstances, the accuracy of the Kshs.91,800 in respect to subsistence allowance could not be confirmed.

263. Under Valued Land

The statement of financial position reflects Kshs.20,117,064 as disclosed in Note 12 to the financial statements in respect to property, plant and equipment which includes Kshs.150,000 relating to land. However, valuation reports of the land were not provided for audit review, an indication that the Company's land may be grossly undervalued as at 30 June, 2022.

In the circumstances, the valuation and completeness of the land balance of Kshs.150,000 could not be confirmed.

Other Matter

264. Unresolved Prior Year Matters

In the audit report of the previous year, a number of paragraphs were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management has not resolved the issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

265. Non-Revenue Water

The statement of profit or loss and other comprehensive income reflects an amount of Kshs.32,710,729 in respect to water revenue as disclosed in Note 5 to the financial statements. Records provided for audit review revealed that the Company produced 1,159,122 cubic meters of water. However, only 714,471 cubic meters were billed to customers. The balance of 444,651 cubic meters or approximately 38% of the water produced, with a sale price of Kshs.20,453,946 (at Kshs.46 per cubic meters represents Non-Revenue Water (NRW) which is over and above the allowable loss of 25% provided by Schedule E of Water Service Regulatory Board (WASREB) Guidelines.

In the circumstances, the Company significantly exceeded the allowable NRW loss of 25% by 13% or approximately Kshs.5,524,454 which if not addressed will negatively impact on the Company's profitability and its long-term sustainability.

266. Trade and Other Payables

The statement of financial position reflects a balance of Kshs.6,613,599 in respect to trade and other payables which as disclosed in Note 21 to the financial statements includes Kshs.3,250,822 on trade payables. However, Management did not give reasons why the debts were not settled during the year.

In the circumstances, the Company risk payment of penalties and interest in case of litigation from the suppliers.

267. Staff Emoluments

267.1 Non-Compliance with Law on Ethnic Composition

Review of records revealed that the Company had a total workforce of thirty-seven (37) employees out of which thirty-six (36) or 97% were from the same ethnic community contrary to Section 7(2) of the National Cohesion and Integration Act, 2008 which requires that no public establishment shall have more than one third of its staff from the same ethnic community.

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

267.2 Failure to Comply with Fiscal Responsibility Principles on Wage Bill

The statement of profit or loss and other comprehensive income reflects Kshs.35,767,996 in respect to administration costs which as disclosed in Note 9(a) to the financial statements includes Kshs.22,783,512 in respect to staff costs. The Kshs.22,783,512 translates to fifty-two percent (52%) of the total revenue of Kshs.43,980,493 which is contrary to Regulation 25(1)(a) and (b) of the Public Finance Management (County Governments) Regulations, 2015 which stipulates that county government's expenditure on wages and benefits for its public officers, shall not exceed thirty-five (35) percent of the County Government's total revenue.

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

267.3 Lack of Approved Staff Establishment

Records maintained by the company revealed that a staff establishment structure was being used as a basis for arriving at the optimal staff numbers. However, no evidence was provided to show that the staff establishment was approved by the Board of Directors.

In the circumstances, the basis to fill vacancies could not be confirmed.

268. Lack of an Approved Procurement Plan

Review of documents maintained by the Company revealed that there was no approved procurement plan for the financial year ended 30 June, 2022 contrary to Section 45(3)(a) of the Public Procurement and Asset Disposal Act, 2015 which states that all procurement processes shall be within the approved budget of the procuring entity and shall be planned by the procuring entity concerned through an annual procurement plan.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

269. Failure to Tag Assets

The statement of financial position reflects Kshs.20,117,064 in respect to property, plant and equipment as disclosed in Note 12 to the financial statements. However, the assets were not coded or tagged for ease of identification and tracking contrary to Regulation 132(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 which stipulates that accounting officer shall take full responsibility and ensure proper control systems exist for assets and that movement and conditions of assets can be tracked.

In the circumstances, the Management risk losing the untagged assets.

270. Lack of Information and Communication Technology (ICT) Policy

As reported in the previous year, the Company did not have an approved ICT Policy in place which should have included Data Security Policy and Disaster Recovery Plan. Further, it was noted that the ICT Officer who acts as the Billing Clerk has access to the source code of the system which could compromise the integrity of the system since the source code should only be accessed by the system developer.

In the circumstances, the security and reliability of the Company's data and including Management Information System could not be confirmed.

KYENI WATER AND SEWERAGE COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

271. Inaccuracies in the Financial Statements

271.1 Unbalanced Trial Balance

The debit and credit sides of the trial balance reflects Kshs.44,071,912 and Kshs.62,570,917 respectively resulting to an unexplained and unreconciled variance of Kshs.18,499,005.

In the circumstances, the accuracy and completeness of the financial statements could not be confirmed.

271.2 Unbalanced Statement of Financial Position

The statement of financial position reflects total assets of Kshs.26,105,936 and total equity and liabilities of Kshs.34,711,406 resulting to an unreconciled variance of Kshs.8,605,470. The total assets have not balanced with total equity and liabilities.

In the circumstances, the accuracy and completeness of the statement of financial position could not be confirmed.

271.3 Inaccuracies in the Statement of Cash Flows

The format of statement of cash flows does not comply with the format in the reporting template. The cash flow does not indicate the increase in cash and cash equivalents during the year. Further, the balance of Kshs.3,494,685 being the sum of net cash flow from operating activities of negative Kshs.3,509,963 and cash and cash equivalents at the beginning of the year of Kshs.7,004,648 varies with the cash and cash equivalents at end of the year of Kshs.7,037,379 resulting to an unexplained variance of Kshs.3,542,494.

In the circumstances, the accuracy and completeness of the statement of cash flows could not be confirmed.

272. Unreconciled Variances in Revenue

The statement of profit or loss and other comprehensive income reflects revenue of Kshs.12,435,950 as disclosed in Note 6 to the financial statements. However, the revenue billing schedule provided reflects an amount of Kshs.14,388,887 resulting to an unreconciled variance of Kshs.1,952,937. Further, review of revenue billing schedules provided revealed the following anomalies:

272.1 Average Water Billing Assessment

Review of financial records confirmed that the Company billed customers for water supplied at an average bill assessment. Review of the billing report for three (3) billing stations namely Kathanjuri, Mufu and Runyenjes, indicated that there were no meter readings and bills were estimated at an average assessment. This may have led to under or over billing. Further, authority and explanation for the average water billing assessment were not provided. As a result, it was not possible to ascertain the accuracy of the bills.

272.2 Un-Metered and Flat Rate Water Billing

The statement of profit or loss and other comprehensive income reflects gross revenue balance of Kshs.12,435,950 which includes Kshs.4,781,000 in respect to water supplied and charged at a flat rate of Kshs.250. However, supporting documents including list of the unmetered connections, the assessment of average consumption and basis for the rate charged were not provided for audit review. This is contrary to Section 72(1)(b) of the Water Act, 2016 which states that Water Services Regulatory Board (WASREB) shall evaluate and recommend water and sewerage tariffs to the county water services providers and approve the imposition of such tariffs in line with consumer protection standards.

In the circumstances, the accuracy and completeness of the revenue amount of Kshs.4,781,000 could not be confirmed.

272.3 Use of Expired Tariff in Billing

The statement of profit or loss and other comprehensive income reflects gross revenue balance of Kshs.12,435,950 which includes meter rent of Kshs.2,363,700 charged using outdated tariff structure that had expired on 3 July, 2018. However, there was no evidence of Tariff Adjustment Proposals sent by the Management for consideration by the Water Services Regulatory Board (WASREB). Further, no documents were provided to confirm whether the Company has submitted any tariff proposals to WASREB or requested for extension of the tariff currently in use. Therefore, the tariff used was not authorized, contrary to the provisions of Section 72(1)(b) of Water Act, 2016 which states that Water Services Regulatory Board (WASREB) shall evaluate and recommend water and sewerage tariffs to the county water services providers.

In the circumstances, the accuracy and completeness of revenue of Kshs.12,435,950 could not be confirmed.

273. Unsupported Property, Plant and Equipment

273.1 Non-Disclosure of Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.4,295,385 as disclosed in Note 19 to the financial statements. The balance is made up of motor vehicles, motor cycles, computers and related equipment. However, physical verification carried out in the month of February, 2023, revealed the following anomalies:

i. Lack of Ownership Documents for Land Measuring Eight (8) Acres

The Company had two separate parcels of land measuring eight (8) acres in the outskirts of Runyenjes Town. This land was not valued and fenced. Although ownership documents were explained to be in the custody of Tana Water Services Board, the documents were not provided for audit review. Further, the land was not included in the financial statements.

ii. Storage Water Tanks Value Excluded in the Financial Statements

Site visit revealed existence of two (2) 225 litres water tanks, fourteen (14) 90 litres water tanks and four (4) 50 litres tanks spread across four wards of Runyenjes Central, Kagarii South, Kyeni North and South. However, the water tanks value has not been included in the financial statements.

iii. Water Reticulation Value Excluded in the Financial Statements

During the audit, it was explained that the water piping network laid underground across the four wards ran to approximately 100 kilometers in total length. However, the piping network has been excluded in the financial statements.

iv. Buildings Value Excluded in the Financial Statements

The Company headquarters situated at Kathanjuuri Town centre had one permanent two-roomed main office block, four semi-permanent offices and one material shed. These structures together with the stockpile of water pipes were not disclosed in the financial statements.

v. Unsupported Water Tanks Land

It was noted that the twenty (20) water tanks were constructed along the roads, in primary and secondary schools and others on privately owned properties. However, no contract and ownership documents were provided for audit review to confirm the ownership of land parcels where the twenty (20) water tanks stand.

vi. Idle Assets

Inspection at the Company's Mubu office revealed existence of three (3) suzuki motor cycles that were in store but not in use.

In the circumstances, the accuracy, ownership, usage and valuation of the property, plant and equipment balance of Kshs.4,295,385 could not be confirmed.

273.2 Vandalization of the Thuci River Water Intake and Water Meters

Physical verification at the Thuci River water intake and water meters revealed the following anomalies;

a) Unsupported Contract Award

In the year 2019, the County Government of Embu awarded tender for the rehabilitation of Thuci water intake system to a contractor at a contract sum of Kshs.22 million. However, feasibility study documents, contract drawings, bid documents, contract documents, project file, project progress and status report, payments made and outstanding balances to date were not provided for audit review. The award was therefore made under unclear circumstances.

b) Vandalization of Pipes and Water Meters

Information provided revealed that the rehabilitation works were intended to supply free water to the customers who were being served and were paying for water services to Kyeni Water Company. This scenario prompted the water consumers of the Company to vandalize the then existing and operating water intake pipes and disconnected the water meters. Water consumers reverted to paying flat rate of Kshs.200 per month for any amount of water consumed without justification.

c) Low Water Supply

Since the vandalization of the project, the consumers continued being denied approximately 100,000 liters of water supply daily from the disconnected water source while the Company has continued incurring unknown revenue losses for a period of four years. No justification was provided for this anomaly and nobody has been held responsible for the lost revenue.

d) Unwarranted Project Delays

As at February, 2023, the project works were incomplete and the water system had not been restored. Further, there was no evidence to show that the contractor was on site and the contract had not been terminated, four years after award.

In the circumstances, the value for money for the Kshs.22 million committed to this project could not be confirmed.

274. Unsupported Trade and Other Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.14,773,172 as disclosed in Note 27 (a) to the financial statements. However, no supporting documents including debtors listing and ageing analysis were provided for audit verification. Further, Note 27(b) to the financial statements reflects a balance of Kshs.14,773,172 in respect to net trade and other receivables which includes a provision for bad and doubtful receivables of Kshs.1,641,464 whose supporting documents including basis, policy for computation were also not provided for audit.

In the circumstances, the accuracy and completeness of the trade and other receivables balance of Kshs.14,773,172 could not be confirmed.

275. Bank and Cash Balances

275.1 Irregular Overdrawing of Cashbook

The statement of financial position reflects bank and cash balance of Kshs.7,037,379 as disclosed in Note 30 to the financial statements. The balance has been arrived at after netting of overdraft balance of Kshs.111,742 held at Cooperative Bank of Kenya. This was contrary to Regulation 82(7) of the Public Finance Management (County Governments) Regulations, 2015 which provides that no official county Government bank account shall be overdrawn.

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

275.2 Unsupported on Call Deposit Account

The statement of financial position reflects bank and cash balance of Kshs.7,037,379 which includes on call deposit held in Cooperative Bank account of Kshs.60,000. However, Management did not provide the bank statement, bank reconciliation statement and certificate of bank balance as at 30 June, 2022. Further, the certificate of bank balance as at 30 June, 2022 for the current account and fixed deposit account both held in Cooperative Bank were not provided for audit.

In the circumstances, the accuracy and completeness of the bank and cash balances of Kshs.7,037,379 could not be confirmed.

275.3 Unsupported Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.9,182,827 as disclosed in Note 38 to the financial statements. This balance includes an amount of Kshs.466,205 in respect to Tax. However, review of the tax ledger in the Itax portal revealed that the Company had accrued tax of Kshs.4,564,441 which has not been paid comprising of principal of Kshs.1,109,126, penalties of Kshs.453,547 and interest of Kshs.2,975,174. The principal amount has remained outstanding since 2016 attracting penalties and interest thrice the amount. No explanation has been provided on the outstanding tax arrears which ought to be paid to avoid further interest and penalty charges.

In the circumstances, the accuracy and completeness of trade and other payables balance of Kshs.9,182,827 could not be confirmed.

276. Irregular Internal Borrowing from Customer Deposit Account

The statement of financial position reflects borrowings balance of Kshs.2,264,750 as disclosed in Note 35 to the financial statements. This amount was borrowed from customer deposits savings account at Cooperative Bank in April, 2016. However, no repayment plan was provided for audit review. Further, Management contravened the procedures whereby customers deposit amount should only be utilized for refund to

customers who opt out of the water agreement with the Company. This is contrary to Regulation 106 of the Public Finance Management (County Governments) Regulations, 2015 which states that unless otherwise exempted by an Act of Parliament, any deposit which has remained unclaimed for 5 years may, with the approval of the County Executive Committee Member, be paid into County Revenue Fund and thereafter the County Executive Committee Member may refund the deposit to any person entitled thereto, if he or she is satisfied that the claim is authentic.

In the circumstances, the Management is in breach of the law by utilizing customer deposit without following proper procedures.

277. Unsupported Payments on Transport, Travelling and Subsistence Allowance

The statement of profit or loss and other comprehensive income reflects general and operations expenses of Kshs.2,707,302 as disclosed in Note 12(a) to the financial statements. This amount includes Kshs.1,315,110 in respect to transportation, travelling and subsistence allowances. However, the staff allowances were not supported by travel receipts, request memos for the services intended to be rendered and circulars approving the staff allowance rates that match their respective designations and salary scales.

In the circumstances, the accuracy and completeness of general and operations expenses of Kshs.1,315,110 could not be confirmed.

278. Unsupported Staff Costs

278.1 Exceeding Industrial Sector Bench Mark on Personnel Costs

The statement of profit or loss and other comprehensive income reflects staff costs of Kshs.10,346,041 as disclosed in Note 12(b) to the financial statements. This amount when compared to total operation and maintenance cost of Kshs.14,118,339 translates to 73%. This is contrary to Paragraph 3.5 of WASREB Impact Assessment Report No.13/2021 on performance analysis and ranking under economic efficiency which states that the personnel expenditure for any Company ranked as large Company should not exceed 30% as percentage of operation and maintenance cost coverage.

In the circumstances, Management was in breach of WASREB guidelines.

278.2 Non-Adherence to Gender Rule

Records provided revealed that the Company had twenty-six (26) employees out of which twenty-one (21) or 81% were male and the remaining five (5) or 19% were female contrary to Article 27(8) of the Constitution of Kenya, 2010 which states that in addition to the measures contemplated in clause (6), the state shall take legislative and other measures to implement the principle that not more than two-thirds of the members of elective or appointive bodies shall be of the same gender.

278.3 Lack of Approved Staff Establishment

It was noted that the Company does not have an approved staff establishment contrary to the State Corporation Advisory Committee Circular No. OP/SCAC.9/21/1/1 dated 15 May, 2017 which required all State Corporations to submit human resource policy instruments including organizational structure, staff grading and establishment, career guidelines human resource policy.

278.4 Irregular Retention of Seconded Staff

Review of staff records revealed that three (3) seconded staff have been with the Company for nine (9) years contrary to Section B.33 of the Human Resource and Policy Manual for Public Service of May, 2016 which states that secondment of officers from the Public Service to other organizations is applicable to pensionable officers, for a period not exceeding three (3) years and may be renewable once.

278.5 Unsupported Responsibility Allowance

The statement of profit or loss and other comprehensive income reflects staff costs of Kshs.10,346,041 as disclosed in Note 12(b) to the financial statements. Included in this amount is responsibility allowance of Kshs.333,492 paid to seconded staff. However, the amount paid has not been supported by a circular or any authority.

In the circumstances, the regularity of responsibility allowance of Kshs.333,492 could not be confirmed.

279. Budgetary Control and Performance

279.1 Unapproved Budget

The statement of comparison of budget and actual amounts reflects Kshs.24,369,377 in respect to final revenue and expenditure budget. However, Board minutes approving the budget were not provided for audit.

279.2 Unexplained Underperformance of Revenue

The statement of comparison of budget and actual amounts reflects budgeted sale of goods of Kshs.24,369,377 and actual revenue of Kshs.12,435,950 or approximately 51% of budgeted income resulting in net under collection of Kshs.11,933,427. No explanation was provided for the approximately 49% total revenue shortfall. Further, actual receipts of Kshs.1,278,598 comprising of Kshs.1,097,680 and Kshs.180,918 arising from actual receipts from transfers from the Government and other income respectively were not budgeted for and no explanation was provided for the non-budgeting.

279.3 Expenditure Analysis

The statement reflects an approved expenditure budget of Kshs.24,369,377 and actual expenditure of Kshs.16,324,511 resulting to a net under-expenditure of Kshs.8,044,866 or 33% of the budget.

In overall, the under spending of the budget by Kshs.8,044,866 represents equivalent services budgeted for but not delivered to the residents.

There is need, therefore, for the Management to relook at its budgeting mechanism with a view to focusing on priority areas which will improve service delivery to the resident.

280. Non-Revenue Water

Review of records revealed that the Company produced a total volume of 866,450 cubic meters of water. Out of this volume, 520,605 cubic meters was billed to customers. The balance of 345,845 cubic meters or approximately 40% of the total volume produced represented Non-Revenue Water (Unaccounted for Water). This translates to approximately sales of Kshs.8,290,633. The Non-Revenue Water is 15% over and above the allowable loss of 25% in accordance with the Water Services Regulatory Board guidelines, which if not addressed will negatively impact on the Company's profitability and its long-term sustainability.

281. Lack of Risk Management Policy

Review of records revealed that the Company did not have an approved Risk Management Policy and risk assessment on key risky areas like expenditure contrary to Regulation 158(1) of the Public Finance Management (County Governments) Regulations, 2015 and approved financial manual and policy. Further, there was no documentary evidence to confirm that the Company had a strategic plan.

In the circumstances, it was not possible to confirm how the Company identified the risks, the significance of the identified risks and likelihood of the risks occurring.

282. Lack of Information Communication Technology (ICT) Policy

Review of the Company's ICT environment revealed that there was no formal approved ICT Policy in place that includes data security, back up and retention strategy, and disaster recovery plans. Further, the ICT organization structure and IT strategic plan were not provided for audit review.

In the circumstances, the Company risks its data security, integrity, confidentiality, recoverability and availability.

283. Lack of Environmental Controls

The Company did not have policies and procedures in place to cover environmental controls like; fire suppression systems, air conditioning systems in computer rooms, humidity and temperature control systems.

In the circumstances, the security and reliability of the Company's data including the management information system could not be confirmed.

284. Failure to Establish Internal Audit Department

The Company has not established an internal audit department and no internal audit reviews were carried out contrary to Section 153(1) of the Public Finance Management (County Governments) Regulations, 2015 which stipulates the role of the internal audit as reviewing and evaluating budgetary performance, financial management,

transparency and accountability mechanisms and processes in county government entities.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

285. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

286. There were no material issues relating to effectiveness of internal controls, risk management and governance.

KITUI COUNTY – NO.15

KITUI WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

287. Long Outstanding Trade Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.243,704,666 and as disclosed under Note 18 to the financial statements. Included in the balance is trade receivables amount of Kshs.202,851,285 which is net of the provision for bad and doubtful receivables of Kshs.19,851,785 calculated at the rate of 15% of the inactive debts totalling to Kshs.132,345,231 as at 30 June, 2022. Included in the trade receivables balance are Value Added Tax recoverable, water bowser and Kitui County Government other receivables of Kshs.30,469,204, Kshs.8,402,070 and Kshs.11,578,670 respectively which had no significant movements in the year. However, no provisions had been made on the long outstanding trade receivables despite their recoverability being doubtful.

In the circumstances, the accuracy and completeness of the trade and other receivables balance of Kshs.243,704,666 could not be confirmed.

288. Inaccuracies in Cash and Cash Equivalents

Note 19 to the financial statements reflects Kshs.32,641,781 in respect of cash and cash equivalents which includes Kshs.3,776,423 in respect of Postal Office balance. However, confirmation by the Postal Corporation of Kenya (PCK) indicated the amount owed as Kshs.3,588,632 resulting into an unreconciled and unexplained variance of Kshs.187,791. Further, the balance represents un-surrendered collections from customers by PCK on behalf of the Company which have been outstanding for long and do not meet the criteria for recognition as cash and cash equivalents. Management has also not demonstrated efforts towards reconciling with PCK and recovery of the unsurrendered amounts.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.32,641,781 could not be confirmed.

Other Matter

289. Long Outstanding Trade Payables

The statement of financial position reflects trade and other payables balance of Kshs.121,395,276 and as disclosed in Note 26 to the financial statements. Included in the balance is abstraction fee - WARMA of Kshs.4,377,970, KRA Liability of Kshs.16,093,954, 4% Regulatory fee-WASREB of Kshs.19,133,141 and provision for audit fee-OAG of Kshs.2,287,992 that have remained outstanding for a significantly long

duration. Similarly, Lease fee - Tanathi Water Board amount of Kshs.6,756,164 had no movements during the year.

Management has not explained why there has been inordinate delays in settling the liabilities while the Company is exposed to litigations and the risk of incurring penalties and interest for late payments.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

290. Out-Dated Tariff Structure

Review of the tariff structure in force revealed that it was approved by the Water Services Regulatory Board (WASREB) for use over the period between 01 January, 2011 to 30 June, 2013.

However, the Company continues to apply the outdated tariff more than nine (9) years after its expiry.

In the circumstances, Management was in breach of the tariff structure approved by WASREB.

291. Non-Revenue Water

The statement of profit or loss and other comprehensive income reflects operating revenue of Kshs.155,146,526 and as disclosed under Note 6 to the financial statements. Included in the amount is revenue from water billing and water tanker sales of Kshs.143,564,450 and Kshs.9,654,711 respectively. However, review of available documents and records indicated that during the year, the Company produced a total of 3,691,795 cubic meters of water out of which only 1,662,365 cubic meters were billed to customers leaving out the balance of 2,020,430 cubic meters (or 55%) as Non-Revenue Water (NRW). The NRW exceeded the threshold of 25% set in the Water Services Regulatory (WASREB) guidelines.

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

292. Undisclosed Ownership of the Company

The background information at page iv to the financial statements indicate that Kitui Water and Sanitation Company Limited was established by the Companies Act CAP, 486 laws of Kenya. Examination of the Certificate of Incorporation provided for audit review show that the company was incorporated on 10 April, 2006 as a Company limited by guarantee. However, Management did not provide details of the subscribers to the Company and statement of guarantee as required under Section 29(h) of the Companies Act, 2015.

Further, no evidence was provided to show that the ownership of the Company has been transferred to the County Government in trust for the People of the County as required by the Water Act, 2016.

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

293. Non-Compliance with National Cohesion and Integration Act, 2008

Review of the staff by product details revealed that the Company had a total of one hundred and thirty-five (135) employees out of which, one hundred and seven (124) or 92% of the workforce were from the dominant ethnic community in the County. This is contrary to the provisions Section 65(1)(e) of the County Government Act, 2012 which states that in selecting candidates for appointment, the County Public Service Board shall consider the need to ensure that at least thirty percent of the vacant posts at entry level are filled by candidates who are not from the dominant ethnic community in the County.

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

294. Irregular Payment of Acting Allowance

The statement of Profit or Loss and Other Comprehensive Income reflects staff costs amounting to Kshs.72,749,504, out of which Kshs.198,144 was paid as acting allowances. Review of the personnel records revealed that acting allowances payments were made to officers who had served in acting capacities for more than six months, some dating back to November, 2014 contrary to Paragraph 6.2.6 of the Human Resource Policy Manual, 2010 which states that the acting appointment shall automatically lapse after six (6) months from the date of appointment unless the Managing Director reviews the same.

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

295. Failure to Adhere to the One Third Basic Salary Rule

During the year under review, six (6) employees earned a net salary of less than a third of the basic salary contrary to the policy on payment of salaries. This is contrary to Section 19(3) of the Employment Act, 2007 which provides that the total amount of all deductions that may be made by an employer from the wages of his employee at any one time shall not exceed two-thirds (2/3) of such wages or such additional or other amount as may be prescribed by the Minister either generally or in relation to a specified employer or employee or class of employers or employees or any trade or industry.

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

296. Staff in Service after Attainment of Mandatory Retirement Age

Review of the staff bio data provided for audit review indicated that two (2) members of staff who had attained the mandatory retirement age of sixty (60) years were still in the service of the Company and continued to draw remuneration. No explanation was provided for the anomaly.

In the circumstances, Management was in breach of law.

297. Non-Compliance with the Approved Staff Establishment

The approved staff establishment provided for audit showed that the Company had in-post 135 members of staff while the approved staff establishment indicated 90 hence an over establishment of 45 officers. No justification or authorization was provided to the auditors for the excessive workforce.

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

298. Irregular Appointment of Board of Directors

Review of the Board of Directors personal files revealed that five (5) of out of the seven (7) board members had not met the eligibility criteria set out in WASREB Corporate Governance Guidelines, 2018 of at least holding a degree in the relevant field for one to serve in the Board.

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

299. Delayed Construction of Ilimukuyu Earth Dam in Endau, Malalani Ward

The Company advertised through a National open tender for the proposed construction of the Ilimukuyu dam and water supply project phase I in Endau/Malalani ward, Kitui County on 04 November, 2020. The contract was signed on 12 January, 2021 and begun on 17 February, 2021 for a contract period of six (6) months at a contract sum of Kshs.69,162,160.

Review of the financial records revealed that payments made to date amounted to Kshs.45,596,220 with a pending certificate of a further Kshs.3,929,807. However, during the audit inspection in December, 2022 the following observations were made:

- (i) There was no contractor on site and the site appeared to have been abandoned.
- (ii) The spillway was leaking through the walls while the embankment was reduced from the 60 Metres stated in the Bill of Quantities to 50 meters without approval of the engineer.
- (iii) Details in Bill of Quantities differed with the design for the project.

In the circumstances, the residents of Kitui may not realize value for money from the expenditure on the project.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

300. Masinga Station Site Visit

Audit inspection to Masinga Station during the month of December, 2022 revealed the following unsatisfactory matters;

- (i) There was discrepancy between the records kept at the station and the records provided for audit at Kitui water offices. The accuracy of the non-revenue water could not be confirmed.
- (ii) One of the two master meters has not been functional, consequently water production from the station with a non-functional meter is estimated using the functional one.
- (iii) Backwash water tank has been leaking leading to water loss.
- (iv) Chemical dozers have not been maintained affecting the water treatment at the station.
- (v) Staff at the station have not been provided with protective gears to enable them perform their duties effectively. This exposes them to health hazards when discharging their duties.
- (vi) The station is thinly staffed with only three (3) people manning the station all year round.

In the circumstances, the effectiveness of the Company's system of internal controls and management at the station during the year under review could not be confirmed.

KIAMBERE MWINGI WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

301. Long Outstanding Receivables

The statement of financial position and as disclosed in Note 19(a) to the financial statements reflects balance of Kshs.26,549,507 in respect of trade and other receivables. Included in the balance is Kshs.20,849,339 relating to inactive debtors that have been long outstanding. However, Management has not demonstrated strategies being instituted to recover the long outstanding debts.

In the circumstances, the accuracy and recoverability of the inactive debts of Kshs.20,849,339 could not be confirmed.

302. Understated Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.26,141,364 as disclosed in Note 16(a) to the financial statements. This amount excludes fully depreciated assets with a cost price of Kshs.12,657,303 that are still in use by the Company but have not been revalued. The balance also excludes assets with an estimated value of Kshs.630,482,219 belonging to Tanathi Water Works Development Agency which have been operated by the Company since May, 2009 but have not been

handed over to the Company. Additionally, recasting of the property, plant and equipment balance in Note 16(a) indicates a balance of Kshs.26,071,474 while the statement of financial position discloses a balance of Kshs.26,141,364 resulting to unreconciled variance of Kshs.69,890.

In the circumstances, the accuracy and completeness of the property, plant and equipment balance of Kshs.26,141,364 could not be confirmed.

Other Matter

303. Unresolved Prior Year Audit Matters

In the audit report of the previous year, a number of paragraphs were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management has not resolved the issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

304. Use of Out-dated Tariff Structure

Review of the Company's tariff revealed that the water tariff structure in use relates to the period between 1 January, 2011 to 30 June, 2013 that was published in Kenya Gazette Vol.CX111-No.30 on the 1 of April, 2011(Gazette notice no.3495). However, the Water Company has continued using the tariffs, despite having lapsed nine (9) years ago contrary to Section 72 (1) (b) of the Water Act, 2016 that requires the Water Services Regulatory Board to evaluate and recommend water and sewerage tariffs to the county water services providers and approve the imposition of such tariffs in line with consumer protection standards.

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

305. Non-Revenue Water

Review of sales documents provided for audit revealed that the Company produced 991,263 cubic metres of water out of which 357,007 cubic metres or 36% of total production was Non-Revenue Water (NRW) valued at Kshs.64,561,239 at the current rate of Kshs.180 per cubic meter. This level of NRW was above the allowable limit of 25% provided under the Water Services Regulatory Board (WASREB) Guidelines leading to possible loss of revenue of Kshs.19,635,385.

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

306. Non-Compliance with the Law on Ethnic Diversity

Review of the human resource records showed that the Company had forty-six (46) members of staff out of which, thirty-five (35) (or 76%) of the total staff were members of the dominant ethnic community in the region. This was contrary to the provisions of Section 7(1) and (2) of the National Cohesion and Integration Act 2008 which requires

that public entities reflect the diversity of the people of Kenya in the employment of its staff and that no public establishment shall have more than one third from the same community.

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

307. Non-Compliance with Two-Thirds Gender Rule

Review of personnel records showed that the Company had a total of forty-six (46) employees out of which only eleven (11) were female representing (24%) of the total workforce. This is contrary to Section B.22 (2) of the Human Resource Policies and Procedures Manual for the Public Service, 2016 which requires that the Government will endeavour to have a gender balanced Civil Service by ensuring that not more than 2/3 of positions in its establishment are filled by either gender

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

308. Lack of Scheme of Service

Review of personnel documents revealed that the Company had forty-six (46) employees, out of which forty-four (44) were employed by the Company and two (2) were seconded from the County Government of Kitui. However, the Company did not have an approved Scheme of Service for effective management of personnel functions which include recruitment, career progression and promotions which may result in low morale and poor performance.

In the circumstances, effective management of personnel function by the Company could not be confirmed.

309. Lack of Risk Management and Disaster Recovery Plan

The Company had not developed a Risk Management Policy and disaster recovery plan or business continuity plan contrary to Regulation 158(1) and 163(1) of the Public Finance Management (County Governments) Regulations, 2015 which requires each county government entity to develop risk management strategies and a system of risk management. The company therefore lacks a blueprint for identifying, and mitigating against disaster leaving it vulnerable to interruption in case of a disaster.

MACHAKOS COUNTY – NO.16

MUNICIPAL COUNCIL OF MACHAKOS WATER AND SEWERAGE COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

310. Inaccuracy of Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.119,744,237 as disclosed in Note 21 to the financial statements. However, the ledger provided in support reflects a balance of Kshs.114,145,285 resulting to unreconciled 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 confirmed.

311. Unsupported Provision for Bad Debt

Note 17 to the financial statements discloses an amount of Kshs.46,379,545 in respect to cumulative 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 year under review. However, there was no approved policy on provision for bad debts in place.

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

312. Long Outstanding Receivables

The statement of financial position and Note 17 to the financial statements reflects a balance of Kshs.178,626,621 in respect to gross total trade receivables and a net receivable of Kshs.132,247,076. However, the following observations were made;

- i) As at 30 June, 2022 Machakos County Executive owed the Water Company Kshs.27,523,560 in respect to unpaid bills. In spite of several demand notices the County Executive had not honoured their obligations.
- ii) 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 representing a 10% increase. This is indicative of the Company's inability to collect debts for the rendered services.
- iii) Trade receivables amounting to Kshs.92,759,091 had been 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 balance of Kshs.132,247,076 could not be confirmed.

Other Matter

313. Unresolved Prior Year's Audit issues

The audit report for the previous year raised several issues in regard to the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. Management has indicated that activities to resolve the issues are ongoing.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

314. Excess Non-Revenue Water

The statement of profit or loss and other comprehensive income reflects operating revenue/sales of Kshs.126,818,435 as disclosed in Note 6 to the financial statements. Review of the water sales records revealed that the Company produced a total of 1,194,030 cubic meters of water out of which 747,585 cubic meters were billed to customers with the balance totalling to 446,445 cubic meters or 37% representing 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 cubic meter which 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.

315. 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 2014/2015 and 2016/2017 financial years. However, the water Company has been using the same tariff, five (5) years after its expiry.

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

316. Non-Compliance with WASREB and WARMA Regulations

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 fees of Kshs.7,350,685 and WARMA fees of Kshs.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 did not have a water permit which is a requirement by the Water Act, 2016.

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

317. Non-Remittance of Retirement Benefits Schemes Deductions

The statement of profit or loss and other comprehensive income reflects administrative costs of Kshs.39,375,393 as disclosed in Note 9(a) to the financial statement which includes accrued interest of Kshs.5,588,407. The accrued interest amount is a compounded 3% interest on the monthly outstanding retirement benefits due to National Water Pension, Laptrust Pension and Lapfund pension amounting to Kshs.9,145,164, Kshs.17,078,045 and Kshs.1,315,318 respectively which had not been remitted.

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

318. Lack of Training Needs Assessment and Training Committee

The statement of profit or loss and other comprehensive income reflects general administrative expenses totalling to Kshs.39,375,393 as disclosed in Note 9(a) to the financial statements. Included in the amount is Kshs.3,009,400 which was incurred on staff training. However, audit review revealed that the Company neither had a training committee nor a training needs assessment plan despite the Human Resource Policy making it a requirement before embarking on any training activities.

In the circumstances, Management is in breach of its Regulations.

319. Irregular Procurement of Motor Cycles

The statement of financial position reflects property, plant and equipment balance of Kshs.23,165,639. This balance includes additions of Kshs.953,300 which includes purchase of two (2) motor cycles for Kshs.265,000 from a firm. The Company used request for quotation instead of a framework agreement as per 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 motor cycles to all public institutions.

In the circumstances, Management was in breach of Regulations.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

320. Management of Water Bowser Sales

The statement of profit or loss and other comprehensive income reflects total sales of Kshs.126,818,435 as disclosed in Note 6(a) of the financial statements. Included the amount is Kshs.3,351,680 in respect of water sales through Water Bowsers. It was however, observed that there were no documented guidelines for pricing of water bowser sales. In the absence of the guidelines, the Company may be under-pricing on the water bowsers revenues.

In the circumstances, the basis of the water bowser sales could not be confirmed.

321. Weak Information and Communication Technology (ICT) Internal Controls

Review of the Company's internal controls system revealed that there was no approved ICT policy. Further, it was noted that during maintenance of the software, there were no clear procedures, approval process or restriction to the software developer on access to live environment.

In the circumstances, the reliability and integrity of the Company's information system could not be confirmed.

MATUNGULU KANGUNDO WATER AND SEWERAGE COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

322. Inaccuracies in the Financial Statements

322.1 Misstated Property, Plant and Equipment

The statement of financial position and as disclosed in Note 14 to the financial statements reflects property, plant and equipment balance of Kshs.15,952,874 and accumulated depreciation of Kshs.18,837,099 on property, plant and equipment as at 1 July, 2021. However, the audited financial statements for the year ended 30 June, 2021 reflects accumulated depreciation of Kshs.18,980,379 resulting to an unexplained variance of Kshs.143,280.

322.2 Misstated Retained Earnings

The statement of financial position, statement of changes in equity and Note 19 to the financial statements reflects retained earnings of negative Kshs.22,635,864 while the recalculated amount is negative Kshs.22,899,815 resulting to an unexplained variance of Kshs.263,951.

322.3 Errors in the Trial Balance

The trial balance excludes expenditure of Kshs.974,475 incurred on property, plant and equipment reflected in Note 14 to the financial statements, as tabulated below;

Asset	Amount (Kshs.)
Motor Bikes	232,000
Computers and Accessories	544,475
Billing Software	198,000
Total	974,475

In the circumstances, the accuracy of the financial statements could not be confirmed.

323. Long Outstanding Trade and Other Receivables

The statement of financial position reflects a balance of Kshs.9,082,355 in respect of trade and other receivables as disclosed in Note 16 to the financial statements. The balance is net of provision for bad and doubtful debts of Kshs.88,895 representing 1% of gross trade receivables.

However, the ageing analysis provided under Note 16 to the financial statements shows that debts totalling to Kshs.5,262,435 representing 59.8% of the balance had remained outstanding for over 90 days implying that their recoverability was doubtful. This casts doubt on the adequacy of the provision made for bad and doubtful debts.

In the circumstances, the accuracy, recoverability and fair statement of trade and other receivables balances of Kshs.9,082,355 could not be confirmed.

324. Unsupported General and Operation Expenses

The statement of profit or loss and other comprehensive income and as disclosed in Note 9 to the financial statements reflects general and operational expenses of Kshs.6,847,566 which includes Kshs.402,000 paid as allowances for attending seminars and workshops whose payment vouchers were not supported by appropriate documentation such as back to office reports and attendance registers.

In the circumstances, the accuracy and occurrence of expenditure of Kshs.402,000 could not be confirmed.

Other Matter

325. Unresolved Prior Year Matters

In the audit report for the previous year, several issues were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in the Use of Public Resources. However, the Management has not resolved the issues or provided an explanation for the delay in resolving the prior year audit issues.

326. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects budgeted and actual amount of sales and other income of Kshs.25,593,593 and Kshs.22,300,189 respectively with a resultant shortfall in revenue collection of Kshs.3,293,404 or 13% of the budget. Further expenditure for the period under review amounted to Kshs.16,278,691 against budgeted amount of Kshs.18,679,092 resulting to under expenditure of Kshs.2,400,401 or 13% of the budget.

In the circumstances, based on the approved estimates, the underfunding may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

327. Non-Compliance with Applicable Financial Reporting Standards

Review of the financial statements revealed the following errors in relation to non-compliance with reporting template;

327.1 Lack of Disclosure Notes

There were no disclosure notes for items appearing in the statement of cash flows as required.

327.2 Information Missing from the Financial Statements

The financial statements have omitted various appendices which include; II, III, IV, V, and VI for Progress on Follow up of Auditor Recommendations, Inter-Entity Confirmation Letter, Reporting of Climate Relevant Expenditures, Disaster Expenditure Reporting Template and Recording of Transfers from Other Government Entities.

In the circumstances, the financial statements did not comply with the format of presentation prescribed by the Public Sector Accounting Standards Board.

328. Non-Revenue Water

The statement of profit or loss and other comprehensive income and as disclosed in Note 5 to the financial statements reflects Kshs.14,423,390 for revenue from water sales. However, water billings and sales documents provided indicated that during the year, the Company produced a total of 152,601 cubic meters of water out of which 96,138 cubic meters was billed to customers leaving a balance of 56,463 cubic meters (approximately 37%) as non-revenue water worth Kshs.8,469,450 (at the rate of Kshs.150 per cubic meter). The level of Non-Revenue Water is over and above the allowable loss threshold of 25% by 18,313 cubic meters as provided for by the Water Services Regulatory Board (WASREB) Guidelines, 2018.

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

329. Failure to Observe Budget Timelines

Review of Board minutes of 25 August, 2021 revealed that the Company operated for almost two months without an approved budget since the Water Company's budget for financial year 2021/2022 was approved during a Board of Directors meeting held on 25 August, 2021. According to Section 30(8) of the Public Finance Management Act, County Government Regulations, 2015, Budget estimates of County Government Entities shall be reviewed and consolidated and the annual budget estimates submitted to the County Assembly by 30 April of the current financial year.

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

330. Irregular Appointment of Board Members

The Governor of Machakos County appointed Board Members of the Company through gazette notice no. 9867 of 24 September, 2021 without following due process as required by Section 2(2) of schedule 1 of Water Act of 2016. The Act states that in making an appointment to a Board, the person making the appointment shall have regard to appointment of the Chairperson and members of the Board through an open competitive process. Apart from the gazette notice, there was no evidence of placement of formal advertisement for the positions of Board Members, which implies that recruitment was not done through an open competitive process as envisaged by the Act.

Further, five out of nine appointed Directors did not meet the minimum academic requirement of a higher national diploma and seven years working experience in senior positions as required by Section 3.4.4 (subsections 1,2,3,5,7, and 11) of WASREB corporate governance for water services sector 2018. Some Directors were observed to have no relevant work experience, while highest academic qualifications were A-level and O-level certificates.

In addition, considering the size of the Company, with a turnover ranging between 10-14 million, appointment of nine directors instead of five contravenes Section 3.4.1 (1) of WASREB corporate governance for water services sector 2018, which requires small Companies relying on subsidy for operation and maintenance to have a maximum of five (5) members which shall include two from County Government Executive.

In addition, page iv and v of the financial statements indicate that the Water Company has six (6) Members of Board of Directors (including the Chair), which contradicts the facts regarding the size of the Board. Management has not explained the anomalies and the inconsistencies observed.

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

331. Unsupported Board Expenses

The statement of profit or loss and other comprehensive income and as disclosed in Note 12 to the financial statements reflects Kshs.1,452,508 for board expenses. However, it was noted that contrary to Section 100 of the Public Finance Management (County Governments) Regulations, 2015, the Company did not maintain attendance registers for Board and sub-board Committee meetings held during the year. It was therefore, not possible to verify and confirm whether such Board meetings took place, and legibility of the expenditure incurred. The Act requires Accounting officers to maintain such other books and registers as may be necessary for the proper maintenance and production of the accounts of the vote for which he or she is responsible.

In the circumstances, the regularity of expenditure incurred on Board expenses could not be confirmed and the Management was in breach of the law.

332. Unauthorized Acquisition of Property, Plant and Equipment

The statement of financial position and as disclosed in Note 14 to the financial statements reflects additions to property, plant and equipment of Kshs.3,551,500. However, there was no evidence that there was an approved budgetary provision for the additional

assets. The Management therefore acted contrary to Section 44 (2) of Public Procurement and Asset Disposal Act 2015, which requires the Accounting officers to ensure that procurement of goods, works and services of the public entity are within approved budget of that entity.

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

333. Lack of an Approved Human Resources Policy and Procedures Manual

Review of documents relating to human resources function revealed that the Company lacked an approved Human Resource Policies and Procedures Manual. The entity therefore, lacked policies and guidelines required for engagement, remuneration, management, and retention of employees.

334. Lack of Ethnic Diversity in Employment

Review of human resource documents revealed that the Company had seven (7) permanent employees out of whom six (6) representing 86% of the workforce were from the local dominant community. This is contrary to the provisions of Section 7(2) of the National Cohesion and Integration Act, 2008 which states that no public establishment shall have more than one third of its staff from the same ethnic community.

335. Long Outstanding Trade Payables

The statement of financial position and as disclosed in Note 21 to the financial statements reflects trade and other payables balance of Kshs.11,015,405. A review of the ageing analysis provided showed that a total of Kshs.10,304,049 had been outstanding for over 90 days. This includes an accumulated amount of Kshs.7,842,408 in respect of trade payables which had remained outstanding for more than two years of which some are dated back to 2014. The payables included due to WARMA Kshs.751,498, Tanathi Water Service Board Kshs.5,866,865 and Thika Water and Sewerage Company Limited Kshs.296,045.

Management did not provide explanation for failure to settle the long outstanding creditors. Failure to settle obligations as and when they fall due exposes the Company to litigations and interests claims from the creditors.

336. Unsupported Customer Deposits Withdrawal

The statement of financial position and Note 20 reflects non-current liabilities (customer deposits) balance of Kshs.4,421,970. However, cash balance held in the customers' deposits bank account was Kshs.1,238,551 resulting in a variance of Kshs.3,183,419 which represents funds borrowed by the company to fund operational activities. However, Board meeting minutes approving the withdrawals from customer deposit accounts were not provided for audit review.

In the circumstances, the lawful authorization to expend customers' deposits on Company operations could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

337. Lack of Internal Audit Committee and Function

Documents provided by the Management indicated that the Water Company did not have an internal audit function contrary to Section 73 (1) (a) of the Public Finance Management Act, 2012, which states that every National Government entity shall ensure that it has appropriate arrangements in place for conducting internal audit according to the guidelines of the Accounting Standards Board.

This implies that there was no one to provide independent assurance that the Water Company's risk management, governance and internal controls operated as required by relevant laws, policies and procedures. Further, the entity did not have an Audit Committee during the year under review pursuant to Section 73 (5) of the Public Finance Management Act, 2012.

In the circumstances, the effectiveness of the internal controls could not be confirmed.

338. Lack of a Risk Management Policy, Disaster Recovery and Business Continuity Plan

Review of information provided by the Management of the Water Company indicated that the Company did not have a Risk Management Policy, pursuant to Section 158(1) the Public Finance Management (County Governments) Regulations, 2015.

Further, information provided indicated that the Company did not have in place Disaster Recovery and Business Continuity plans contrary to provisions of Section 158 b(1) of the Public Finance Management (County Governments) Regulations, 2015.

Lack of a Risk Management Policy and Disaster Recovery and Business Continuity plans therefore affects the Water Company's ability to consider the extent to which potential events will have an impact on achievement of its business strategies and objectives.

In the circumstances, the effectiveness of the internal controls could not be confirmed.

339. Lack of Assets Register

The statement of financial position reflects Kshs.15.952,874 for property, plant and equipment. However, the Management did not provide fixed assets register showing relevant details like; acquisition dates, costs, description and other information relating to individual assets.

Failure to maintain an updated assets register could result to loss or misuse of the assets.

In the circumstances, internal controls on property, plant and equipment could not be confirmed.

340. Lack of an ICT Policy

Review of the Company's ICT environment revealed that there was no formal approved ICT Policy in place as at 30 June, 2022 to enable the entity manage business processes for the delivery of services to the public in an effective and efficient manner.

Lack of automated system and ICT Policy may lead to loss of data confidentiality, inaccuracies, lack of reliability and integrity thereby leading to ineffective operations.

MAVOKO WATER AND SEWERAGE COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

341. Inaccuracies in the Financial Statements

341.1 Trade and Other Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.149,140,337 which includes other receivables balance of Kshs.29,873,134 as disclosed in Note 30 (a) to the financial statements. However, the ledger reflects other receivables balance of Kshs.20,777,669 resulting to an unexplained and unreconciled variance of Kshs.9,095,565. Further, the ageing analysis of trade receivables reflects a balance of Kshs.121,915,141 as disclosed in Note 30(b) to the financial statements which includes long outstanding debts of over 4 months totalling to Kshs.76,296,805 which the Management has not demonstrated tangible efforts to recover. In addition, project receivables balance of Kshs.7,957,332 included in Note 30 (a) to the financial statements was not supported with ledger schedules.

In the circumstances, the accuracy and completeness of trade and other receivables balance of Kshs.149,140,337 could not be confirmed.

341.2 Long Outstanding Current Trade and Other Payables

The statement of financial position reflects current trade and other payables balance of Kshs.97,267,610 as disclosed in Note 43(a) to the financial statements. However, the ledger provided for audit reflects a balance of Kshs.90,328,917 resulting to an unexplained and unreconciled variance of Kshs.6,938,693. Further, the ageing analysis ledger disclosed payables which have remained outstanding for over 120 days, an indication of inability of the Company to settle its obligations as and when they fall due.

In the circumstances, the accuracy and completeness of trade and other payables balance of Kshs.97,267,610 could not be confirmed and the Company risk incurring interest and penalties due to failure to settle its dues.

342. Unsupported Write Off of Bad Debt

The statement of profit or loss and other comprehensive income reflects operational expenses of Kshs.163,125,687 which include bad debts written off amount of Kshs.56,339,813 and as disclosed in Note 13 to the financial statements. However, Board approval for write-off was not provided for audit review.

In the circumstances, the accuracy and validity of the bad debts write-off amount of Kshs.56,339,813 could not be confirmed.

343. Unsupported Negative Water Consumption

The statement of profit or loss and other comprehensive income reflects revenue amount of Kshs.240,544,507 which includes water sales amount of Kshs.139,515,814 and as disclosed in Note 6 to the financial statements. However, review of the water billing records revealed unexplained negative water consumption totalling to 144,216 cubic meter valued at Kshs.19,348,745.

In the circumstances, accuracy and completeness of water sales revenue amount of Kshs.139,515,814 could not be confirmed.

344. Unsupported Operational Expenses

The statement of profit or loss and other comprehensive income reflects operational expenses of Kshs.163,125,687 which includes transportation, travelling and subsistence expenditure amount of Kshs.9,935,777 as disclosed in Note 13 to the financial statements. However, review of payment vouchers in support of the expenditure revealed that employees were issued with imprests without imprest warrants. Further, the imprests issued were not recorded in the imprest register.

In the circumstances, the accuracy and completeness of transportation, travelling and subsistence expenditure of Kshs.9,935,777 could not be confirmed.

345. Unsupported Customer Deposits

The statement of financial position reflects total non-current liabilities balance of Kshs.71,498,503 which includes an amount of Kshs.36,448,503 in respect of customer deposits as disclosed in Note 43 (b) to the financial statements. However, the deposit balance of Kshs.36,448,503 was not supported by documents including certificate of bank balance, bank statement, bank reconciliation and customer deposit ledger schedule. Further, review of Board minutes revealed that the Board in 2018 approved request by the Management to withdraw Kshs.16,000,000 and Kshs.8,000,000 respectively from the customer deposits account to finance the Company operations totalling to Kshs.24,000,000 which had not been refunded as at 30 June, 2022.

In the circumstances, the accuracy and completeness of the customer deposit balance of Kshs.36,448,503 could not be confirmed.

Other Matter

346. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final income budget and actual on comparable basis of Kshs.327,590,000 and Kshs.297,458,796 respectively resulting to an under-funding of Kshs.30,131,204 or 9% of the budget. Similarly, the statement reflects final budget expenditure and actual on comparable basis of Kshs.329,020,000 and Kshs.307,951,271 resulting to under absorption of Kshs.21,068,729 or 6 % of the budget.

The underfunding and under expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

347. Unresolved Prior Year Matters

In the audit report of the previous year, a number of paragraphs were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, some of the issues remained unresolved as at 30 June, 2022.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

348. Non-Revenue Water

Review of water sales data revealed that the Company produced 1,564,325 cubic meters of water valued at Kshs.209,877,732, out of which 1,039,882 cubic meters valued at Kshs.139,515,814 were billed to customers leaving a balance of 524,443 cubic meter or 34% as Non-Revenue Water valued at Kshs.70,361,918. This level of NRW was above the allowable limit of 25% provided in the Water Services Regulatory Board (WASREB) guidelines.

In the circumstances, the Non-Revenue Water negatively impact on the company's profitability and long-term sustainability.

349. Unbalanced Budget

The statement of comparison of budget and actual amounts reflects an income budget of Kshs.327,590,000 and an expenditure budget of Kshs.329,020,000 resulting to a variance of Kshs.1,430,000. The budget imbalance is contrary to the provisions of Section 31(c) of the Public Finance Management (County Governments) Regulations, 2015 which states that budget revenue and expenditure appropriation shall be balanced.

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

350. Staff Ethnic Diversity

Review of the Company's payroll data revealed that it had a total of eighty-seven (87) permanent employees. However, sixty-six (66) or 76% were from the dominant local ethnic community. This is contrary to the provision of Part III Section 7(2) of the National

Cohesion and Integration Act, 2008 which states that no public establishment shall have more than one third of its staff from the same ethnic community.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

351. There were no material issues relating to effectiveness of internal controls, risk management and governance.

YATTA WATER SERVICES COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

352. Inaccuracies in the Financial Statements

Review of amounts and balances in the financial statements supporting ledgers provided revealed unexplained variances as detailed below:

Component	Amount Disclosed in the Financial Statements (Kshs.)	Amount as Per Supporting Ledger (Kshs.)	Variance (Kshs.)
Maintenance Expenses	2,076,765	512,835	1,563,930
Bank and Cash Balances	5,434	2,164	3,270
Cash used in Operations	31,671	102,388	(70,717)
Employer's contributions to Pension Scheme	1,406,993	0	1,406,993
Employer's Contributions to Social Security Schemes	49,700	15,120	34,580
Medical Insurance Schemes	0	107,555	(107,555)
Electricity	6,755,668	6,324,007	431,661
Fuel, Oil, Lubricants and Gases	3,945,628	0	3,945,628
Transportation, Travelling and Subsistence	1,637,800	1,267,400	370,400
Telephone, Postage and Courier	150,400	0	150,400
Trade and Other Payables	28,536,184	37,884,138	(9,347,954)

In addition, review of previous year's comparative amounts and balances and the audited financial statements revealed the following unexplained variances:

Component	Comparative Amount (Kshs.)	Audited Financial Statement Amount (Kshs.)	Variance (Kshs.)
Maintenance Expenses	3,457,260	1,809,280	1,647,980
Staff Costs	23,842,332	23,144,290	698,042
Fuel, Oil, Lubricants and Gases	2,107,861	-	2,107,861
Customer Deposits	-	3,847,688	(3,847,688)

In the circumstances, the accuracy and completeness of the financial statements could not be confirmed.

353. Unconfirmed Trade and Other Payables Balance

The statement of financial position reflects trade and other payables balance of Kshs.28,536,184 as disclosed in Note 42 to the financial statements. However, Management did not provide the ageing analysis in support of balance. Further, the balance includes other payables of Kshs.23,269,260 whose corresponding creditors ledger reflects a balance of Kshs.10,969,634 resulting to unexplained variance of Kshs.12,299,626.

In the circumstances, the accuracy, and completeness of trade and other payables balance of Kshs.28,536,184 could not be confirmed.

354. Unsupported Inventories Balance

The statement of financial position reflects inventories balance of Kshs.1,831,750 as disclosed Note 28 to the financial statements. However, the balance was not supported with a stock take report. In addition, the company did not maintain stock sheets or stock control cards. Further, the inventories balance reflected in the financial statements did not show any movements during the year.

In the circumstances, the accuracy and completeness of the inventories balance of Kshs.1,831,750 could not be confirmed.

355. Unconfirmed Value of Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.5,319,433 as disclosed in Note 20 to the financial statements. However, the fixed asset register was last updated on 30 June, 2020. Further, Note 12 to the financial statements on general and operations expenses indicates consultancy fees of Kshs.345,000 on revaluation of assets which was not supported by a revaluation report. The procurement process for the identification of the firm was also not clear.

In addition, Note 20 to the financial statements reflects depreciation charge for the year of Kshs.2,266,946 and accumulated depreciation of Kshs.17,218,860. However, review of the fixed assets register provided revealed that the Company applied reducing balance method of depreciation instead of the straight-line method provided in the policy. As a result, the depreciation charge for the year and accumulated depreciation of Kshs.2,424,465 and Kshs.19,643,325 could not be confirmed.

In the circumstances, the accuracy, valuation and completeness of the depreciation charge and the property, plant and equipment balance could not be confirmed.

356. Failure to Disclose Material Uncertainty in Relation to Going Concern

The statement of financial position reflects accumulated negative retained earnings balance of Kshs.6,665,069 as disclosed in Note 36 to the financial statements which increased by Kshs.5,531,327 from Kshs.1,133,742 registered in the previous year. The Company registered a negative working capital of Kshs.11,881,160 as a result of the balance of current liabilities of Kshs.33,291,551 exceeding the balance of current assets of Kshs.21,410,391 an indication that the Company is technically insolvent, may not be able to meet its current obligations as and when they fall due and the material uncertainty casts significant doubts on the Company's ability to continue as a going concern. Management has not disclosed mitigating measures put in place to reverse the undesirable precarious financial position.

Other Matter

357. Unresolved Prior Year Matters

The audit report for the year ended 30 June, 2021 highlighted several unsatisfactory matters. The Management has indicated that the issues had been resolved as at 30 June, 2022 as disclosed in Appendix 1 to the financial statements on progress on follow up of auditor recommendations. However, information on how the issues were resolved has not been provided. This is contrary to Section 149(2) (l) of the Public Finance Management Act, 2012, which requires that in carrying out a responsibility imposed by subsection (1), an accounting officer shall, in respect of the entity concerned try to resolve any issues resulting from an audit that remain outstanding.

In the circumstances, the audit issues remained unresolved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

358. Non-Compliance with Public Sector Accounting Standards Board Requirements

Review of the annual report and financial statements prepared and presented for audit revealed the following:

- i. The statement of financial position does not indicate total balance for current liabilities.
- ii. Information under the Management discussion and analysis has not made use of charts, graphs, tables or other descriptive tools to make the information as understandable as possible.

In the circumstances, the annual report and financial statements as presented for audit did not comply with the reporting template as prescribed by the Public Sector Accounting Standards Board.

359. Unclear Ownership of the Company

Page iv of the annual report on background information indicates that the Company is an entity owned by the County Government of Machakos. However, review of the Memorandum and Articles of Association, revealed that the Company was initially owned by the defunct Town Council of Matuu. However, no document was provided to confirm that the ownership of the Company was transferred to the County Government of Machakos contrary to Section 154 of the Water Act, 2016, which requires that the existing water services providers shall continue to operate as the County Water Services Providers or Cross County Water Services providers as the case may be within the period specified in the transfer plan published by the Cabinet Secretary.

In the circumstances, the ownership of the Company and its compliance to the law could not be confirmed.

360. Use of Customers Deposits for Operational Activities

The statement of financial position reflects customer deposits balance of Kshs.4,021,588 as disclosed in Note 43 to the financial statements. However, the corresponding bank account for the customer deposits reflects a balance of Kshs.9 resulting to a variance of Kshs.4,021,579 which represents balance used on operations. No approval was provided for audit review.

In the circumstances, the availability of customers deposits funds as and when required is not guaranteed.

361. Excessive Non-Revenue Water

The statement of profit or loss and other comprehensive income and as disclosed in Note 6 to the financial statements reflects revenue from sale of water totalling to Kshs.22,093,223. However, the Company produced 260,579 cubic meters of water during the year under review out of which 148,438 cubic meters was billed to customers. The balance of 112,141 cubic meters (or 43%) of total production represents Non-Revenue Water valued at Kshs.16,737,310 which is above the allowable loss of 25% contrary to the Water Services Regulatory Board (WSRB) guidelines.

In the circumstances, Management was in breach of the WSRB guidelines.

362. Late Remittance of Statutory Deductions

The statement of profit or loss and other comprehensive income and as disclosed in Note 11 to the financial statements reflects staff costs of Kshs.16,058,022. However, it was noted that Management delayed in remitting Pay As You Earn (PAYE) totalling to Kshs.452,696 on time as detailed below:

Month	Due Date	Date Remitted	Amount (Kshs.)
July, 2021	09 August, 2021	09 September, 2021	116,102
February, 2022	09 March, 2022	08 June, 2022	112,198
March, 2022	09 April, 2022	08 June, 2022	112,198
April, 2022	09 May, 2022	08 June, 2022	112,198
Total			452,696

In the circumstances, Management was in breach of law.

363. Use of Expired Water Sales Tariff

The statement of profit or loss and other comprehensive income and as disclosed in Note 6 to the financial statements reflects water sales amounting to Kshs.22,093,223. Review of the water tariff in use revealed that the water tariff was gazetted on 26 November, 2010 and was to be used for the period 1 November, 2010 to 30 June, 2012. However, there was no evidence provided for audit to confirm that extension was granted for the continued use of expired water tariff.

In the circumstances, the water tariff in use by the Company is irregular.

364. Non-Banking of Own Generated Revenue - Kiosk Sales

The statement of profit or loss and other comprehensive income and Note 6 to the financial statements reflects water sales amounting to Kshs.22,093,223. Included in this amount is kiosk sales of Kshs.985,770. Review of documents provided for audit revealed that the proceeds from kiosk water sales were not banked to the Company bank account but were utilized in the office as petty cash contrary to Regulation 63(4) of the Public Finance Management (County Governments) Regulations, 2015 which provides that all public moneys collected by a receiver of revenue or collector of revenue or collected and retained by a County government entity, shall be paid into the designated bank accounts of the county government and shall not be used by any public officer in any manner between the time of their receipts and payment into the bank except as provided by law.

In the circumstances, Management was in breach of law.

365. Lack of an Approved Procurement Plan

The statement of profit or loss and other comprehensive income reflects expenditure totalling to Kshs.38,582,282. However, Management did not have in place an approved annual procurement plan detailing all the items and services required by various departments, contrary to Regulation 40(1) of the Public Procurement and Asset Disposal Regulations, 2020 which provides that a procuring entity shall prepare a procurement plan for each financial year as part of the annual budget preparation process.

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

366. Unauthorized Expenditure

The statement of comparison of budget and actual amounts reflects final expenditure budget and actual on comparable basis of Kshs.27,781,344 and Kshs.38,585,282 respectively, resulting to an over expenditure of Kshs.10,803,938 or 39% of the budget without approval contrary to Regulation 53(1) of the Public Finance Management (County Governments) Regulations, 2015 which states that except as provided for in the Act and these regulations, an Accounting Officer of an entity may not authorize payment to be made out of funds earmarked for specific activities other than those activities.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

367. Non-Collection of Trade and Other Receivables

The statement of financial position and Note 29 to the financial statements reflects trade and other receivables balance of Kshs.19,569,865, an increase of Kshs.3,850,718 from the previous year balance of Kshs.15,719,147. Further, trade receivables balance is net of provision for bad debts of Kshs.1,016,488 computed at 10% of all overdue trade receivables as at the end of the year. In addition, trade receivables totalling to Kshs.14,028,639 or 68% of the gross balance had been outstanding for more than ninety (90) days which casts doubts on their collectability. Management did not demonstrate tangible efforts towards recovery of the long outstanding debts.

In the circumstances, the collectability of receivables balance of Kshs.19,569,865 reflected in the financial statement is doubtful and may negatively affect the operations of the company.

368. Lack of an Internal Audit Function

During the year under review, the Company did not have an internal audit function to perform risk assessment processes and evaluate operational effectiveness of the Company through reviews of the internal controls contrary to Regulation 153 (1)(a) of the Public Finance Management (County Governments) Regulations, 2015 which states that internal auditors shall evaluate budgetary performance, financial management, transparency and accountability mechanisms and processes in County Government entities.

In the circumstances, the company operational efficiency and risk management effectiveness could not be ascertained.

MWALA WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

369. Accuracy of Trade and Other Receivables

The statement of financial position and as disclosed in Note 14(a) to the financial statements reflects trade and other receivables balance of Kshs.4,493,040. The balance includes receivables that have been outstanding for over 120 days of Kshs.3,170,187 or 71% of the total receivables. However, the provision for bad and doubtful debts amounts to Kshs.499,227 or 10% of the total receivables, an indicative of under provision for the likely impairment. The applicable rate for doubtful provisions has also not been disclosed in the accounting policies to the financial statements. Further, management has not demonstrated the efforts being undertaken to recover the long outstanding amounts.

In the circumstances, the accuracy and fair statement of the trade and other receivables balance of Kshs.4,493,040 as at 30 June, 2022 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

370. Long Outstanding Trade Payables

The statement of financial position reflects trade and other payables balance of Kshs.15,591,731 as disclosed in Note 19 to the financial statements. The balance includes payables which have remained outstanding with some dating back to the year 2015, totalling to Kshs.12,164,671. The Company appears unable to settle its obligations as and when they fall due. The Management has also not demonstrated measures instituted for clearing the long outstanding payables.

In the circumstances, the Company is at risk of incurring interest and penalties for failure to settle the debts.

371. Unauthorized Borrowings of Customer Deposits

The statement of financial position reflects customers deposits balance of Kshs.1,800,392, comprising of prior year balance of Kshs.1,729,192 and new connections deposits during the year of Kshs.71,200. The customer deposit bank account however, reflects a balance of Kshs.157,707 an indication that Kshs.1,642,685 of the deposits was utilised for operations without authorization of the Board.

In the circumstances, the legality of the borrowing totalling to Kshs.1,642,685 could not be confirmed.

372. Late Remittance of Statutory Deductions

Note 8 to the financial statements reflects National Social Security Fund (NSSF) penalties of Kshs.549,829 due to delayed remittances for the period July, 2018 to June, 2021. The

Company had also not remitted deductions of Kshs.203,439 for the period July to November, 2021 attracting penalty of Kshs.4,990.

In the circumstances, the Company has incurred avoidable expenditure for the late remittance of statutory deductions.

373. Unapproved Water Tariff

The statement of profit or loss and other comprehensive income and as disclosed in Note 6 to the financial statements reflects revenue from water billing of Kshs.8,097,630. However, customer billings were not based on approved and gazetted water tariff by the Water Services Regulatory Board (WASREB). The Board is required to evaluate and recommend water and sewerage tariffs to the County Water Services Providers and approve the imposition of such tariffs in line with consumer protection standards. The Board then gazette tariffs for each Water company.

In the circumstances, the tariffs applied were irregular.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

374. Lack of a Risk Management Policy

During the year under review, Management did not have a risk management policy to mitigate against risk through a framework for management of risk. Thus, the Management did not have means to identify, assess and control risk. This is a contravention of Regulation 158 (1)(a) and (b) of the Public Finance Management (County Governments) Regulations, 2015 which requires the Accounting Officer to ensure that the County government entity develops risk management strategies, which include fraud prevention mechanism; and the county government entity develops a system of risk management and internal control that builds robust business operations.

In the circumstances, weak internal controls expose the Company to risk, fraud and system failure.

375. Lack of Information Technology (IT) Policy

Review of the Company's Information Technology Systems revealed that it has in place a billing system to manage its revenue collection. However, the Company lacks assets management system, human resource application systems and accounting systems and there is no approved IT policy for governance and management of its ICT resources. In addition, there is no ICT Steering Committee in place to assist in the development of ICT policy to enable the Company realize long-term ICT strategic goals.

Lack of a sound and approved framework means that users do not have rules and procedures to follow in order to minimize risk of errors, fraud and loss of data confidentiality, integrity and availability.

376. Non-Revenue Water

During the year, the Company produced 59,657 cubic meters of water. Out of the production, only 43,437 cubic meters valued at Kshs.8,097,630 was billed to customers. The balance of 16,220 cubic meters valued at Kshs.3,023,743 or approximately 27% represents Non-Revenue Water. The Non-Revenue Water is above the allowable loss limit of 25% by 2%.

The loss affected the Company's profitability and sustainability of services to the residents of Mwala.

KATHIANI WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

377. Presentation and Inaccuracies in the Financial Statements

Review of the financial statements revealed the following issues;

(a) Statement of Financial Position

The statement of financial position reflects total liabilities of Kshs.142,988,293 while the recomputed balance amounted to Kshs.8,465,909 resulting in an unexplained variance of Kshs.134,522,384.

Further, the statement reflects trade and other payables balance of Kshs.7,901,609 as disclosed in Note 21 to the financial statements. The balance includes customer deposit amount of Kshs.564,300. However, the balance has been disclosed separately under current liabilities resulting in misstatement of balances. In addition, trade and other payables balance include payables that have remained outstanding since 2006 with no explanations for failure to pay exposing the Company to risks of incurring interest and penalties due to non-payment.

(b) Statement of Profit or Loss and Other Comprehensive Income

- i. The statement of profit or loss and other comprehensive income reflects comparative total expenditure amount of Kshs.10,332,911 which differs with the prior year audited financial statements balance of Kshs.11,418,648 resulting in an unreconciled variance of Kshs.1,085,737.
- ii. The statement reflects operating revenue amount of Kshs.9,954,108 as disclosed in Note 6 to the financial statements. However, the ledger provided for audit reflects a balance of Kshs.10,647,570 resulting in an unreconciled variance of Kshs.693,462.
- iii. The statement reflects general and operations expenses amount of Kshs.4,695,194 as disclosed in Note 9 to the financial statements. The amount

includes expenditure on electricity of Kshs.753,300. However, review of records revealed that electricity bills for production of water amounted to Kshs.517,054 and office electricity bill was Kshs.328,300 both totalling to Kshs.845,354. The variance of Kshs.92,054 was not reconciled.

Further, the office electricity expenditure of Kshs.328,300 was not supported by bills. In addition, Note 9 to the financial statements also reflects expenditure on office supplies of Kshs.731,059 while the supporting ledger reflects an amount of Kshs.344,887 resulting in an unreconciled variance of Kshs.386,172.

(c) Statement of Changes in Equity

The statement of changes in equity reflects, total equity items amount for the prior year as Kshs.137,587,182 instead of Kshs.136,374,791 resulting into a misstatement of Kshs.1,212,391.

(d) Statement of Cash flows

The statement of cash flows reflects cash and cash equivalents balance of Kshs.556,656. However, recasting of the cashflow statement indicates a balance of Kshs.1,240,654 resulting in an unexplained variance of Kshs.683,998.

(e) Presentation of Financial Statements

The report on Management Discussion and Analysis did not have tables, graphs and pie charts. Further, the Head of Finance did not indicate the Institute of Certified Public Accountants of Kenya (ICPAK) number in the statement of financial position. In addition, pages 33 to 45 of the financial statement did not have headers.

In the circumstances, the accuracy and completeness of the financial statements could not be confirmed.

Other Matter

378. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.16,450,000 and Kshs.11,401,628 respectively resulting to an under funding of Kshs.5,048,373 or 31% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.16,450,000 and Kshs.14,879,572 respectively resulting to under expenditure of Kshs.1,570,428 or 10% of the budget.

The under-funding affected the planned activities and programs impacting negatively on services delivery to the residents of Kathiani.

379. Prior Year Matters

In the audit report of the previous year, a number of paragraphs were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of

Public Resources. However, some of the issues remained outstanding as at 30 June, 2023.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

380. Lack of Approved Water Tariffs

During the year under review, the Company used tariffs approved and gazetted for the period 2014/2015 to 2016/2017 by Water Service Regulatory Board (WASREB) to bill the customers. However, Management did not provide a justification for use of tariffs that had lapsed.

In the circumstances, the basis of determination of revenue from water sales could not be confirmed.

380.1 Lack of Operating License

The statement of profit or loss and other comprehensive income and Note 9 to the financial statements reflects general and operations expenses amount of Kshs.4,695,194. The amount includes expenditure on licensing and levies of Kshs.461,459. However, the Regulatory Board License which is a requirement under Section 72(c) of Water Act, 2016 was not provided for audit.

In circumstances, Management was in breach of the law.

380.2 Non-Remittance of Statutory Deductions

Review of payroll records revealed that the Company had unremitted statutory deductions totalling to Kshs.225,428 relating to National Hospital Insurance Fund (NHIF), National Social Security Fund (NSSF) and Kenya Revenue Authority (KRA).

In the circumstances, the Company was at risk of incurring penalties and interest on the unremitted amounts.

380.3 Use of Customer Deposits for Operating Activities

The statement of financial position and Note 22 to the financial statements reflects customer deposits balance of Kshs.564,300. However, bank statement for the customer deposits account reflect a balance of Kshs.482,615. The difference of Kshs.81,865 was utilized for Company operating activities without authorization from the Board of Directors.

In the circumstances, the regularity of the utilization of customer deposits of Kshs.81,865 could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

381. Lack of Risk Management Policy and Disaster Recovery Plan

Review of records provided for audit revealed that the Company operated without a risk management policy and had no framework for management of risks. In addition, the Company did not have disaster recovery or business continuity plan. In the absence of a disaster recovery or business continuity plan, the company lacks a blueprint for identifying, preventing and mitigating against disasters and ensuring that its operations are not interrupted. Further, there are no mechanisms in place to recover lost data in case of a disaster.

In circumstances the existences of an effective risk management system could not be confirmed.

382. Lack of Internal Audit and Audit Committee Functions

Review of the Company's internal controls structure revealed that the Company did not have an internal audit function and audit committee or an alternative arrangement for reviewing the Company's internal financial and operating controls as per gazette notice No. 2690 on audit committee guidelines for County Governments.

In circumstances, the existence of effective internal control systems could not be ascertained.

MAKUENI COUNTY – NO.17

MBOONI WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

383. Inaccuracies in the Financial Statements

Review of the financial statements revealed the following inaccuracies;

(a) Statement of Profit or Loss and Other Comprehensive Income

The statement of profit or loss and other comprehensive income reflects grant income of Kshs.2,616,976 as disclosed in Note 6 to the financial statements. The grant income was however omitted from the trial balance. Further, the trial balance reflects operating revenue of Kshs.2,516,797 whereas the financial statements reflect Kshs.3,100,980 resulting to a variance of Kshs.584,183.

Further, the statement reflects operating revenue of Kshs.3,100,980 while the statement of comparison of budget and actual amounts discloses an amount of Kshs.2,745,340 resulting to a variance of Kshs.355,640.

In addition, the statement reflects staff costs of Kshs.2,858,463 as disclosed in Note 11 to the financial statements. Review of payrolls however, revealed that payment to employees totalled Kshs.2,704,213 resulting to an unreconciled difference of Kshs.154,250.

(b) Statement of Financial Position

The statement of financial position reflects nil balance for property, plant and equipment. However, review of asset register revealed that the Company owns assets of various categories which have not been valued.

Further, the statement reflects zero deferred tax liability. However, Note 37 to the financial statements reflects negative deferred tax balance of Kshs.181,234 resulting to an unreconciled variance of Kshs.181,234.

In the circumstances, the completeness, accuracy and fair statement of balances reflected in the financial statements could not be confirmed.

384. Unsupported Cash and Bank Balance

The statement of financial position reflects bank and cash balances of Kshs.308,107 as disclosed in Note 32 to the financial statements. Review of three cashbooks maintained by the Company revealed incomplete cash book entries indicating payments without the corresponding payment voucher and cheque numbers. Further, bank statements and

certificate of bank balance for the account held at Kenya Commercial Bank and board of survey report were not provided for audit.

In the circumstances, the accuracy and fair statement of bank and cash balances of Kshs.308,107 could not be confirmed.

385. Unsupported Customer Deposits Balance

The statement of financial position reflects customer deposits balance of Kshs.176,000 as disclosed in Note 43 to the financial statements. However, the schedule of customers owed the deposits was not provided for audit.

In the circumstances, the accuracy and fair statement of customer deposits balance of Kshs.176,000 could not be confirmed.

Other Matter

386. Unresolved Prior Year Matters

The audit report for the previous year highlighted several issues under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management has not resolved the issues or given any explanation for the failure to adhere to the provisions of the Public Sector Accounting Standards Board template.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

387. Long Outstanding Payables

The statement of financial position reflects trade and other payables balance of Kshs.5,493,212. Included in the balance is Kshs.5,403,212 brought forward from the prior financial years relating to creditors and statutory payments of Kshs.4,577,787 and Kshs.825,425 respectively, which remained unpaid as at 30 June, 2022.

In the circumstances, the Company is exposed to risk of litigation and incurring avoidable costs in form of interest and penalties.

388. Late Submission of the Financial Statements

The Management submitted financial statements for the year ended 30 June, 2022 for audit on 26 January, 2023 contrary to Section 149 (2) (k) of the Public Finance Management Act, 2012 which requires the accounting officer to prepare annual financial statements and submit to the Auditor-General not later than three months after the end of each financial year for audit.

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

389. Presentation and Disclosure Issues in the Financial Statements

Review of the financial statements revealed that the reporting framework has not been disclosed in the cover page. Further, the financial statements are not signed by the chairperson to the Board of Directors and the Head of Finance has not indicated the Institute of Certified Public Accountants of Kenya (ICPAK) number. In addition, the statement of Director's responsibilities has been omitted from the financial statements.

In the circumstances, the financial statements do not comply with the reporting template prescribed by the Public Sector Accounting Standards Board (PSASB).

390. Unclear Ownership of the Company

The non-financial information indicates that the Company was formed on 8 March, 2012 as private company limited by shares. Upon enactment of the Water Act, 2016, the ownership was to be transferred to the County Government of Makueni. A review of records revealed that the shares formerly held by two shareholders as trustees for the County Council of Makueni were formally transferred to the County Government of Makueni, but the share certificates were not provided for audit review.

In the circumstances, the ownership of the Company could not be confirmed.

391. Failure to File Annual Returns with the Registrar of Companies

Review of records revealed that the Company was incorporated on 8 March, 2012 as a limited company under the Companies Act. No evidence was however, provided to show that the Company has been filing annual returns with the Registrar of Companies as is provided for in Section 705(1) of the Companies Act, 2015, which requires that every Company shall submit to the Registrar successive annual returns each of which is made up to a date not later than the date that is from time to time the Company's return date.

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

392. Irregular Hire of Casuals

The statement of profit or loss and other comprehensive income reflects staff costs of Kshs.2,858,463 which includes casual wages of Kshs.258,550 as disclosed in Note 11 to the financial statements. However, the wages were not supported with schedules.

In the circumstances, the validity of expenditure on casual wages could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

393. Lack of a Functional Board

Review of records revealed that the Company has been operating without a Board of Directors since 2016 when the term of the last Board which was appointed in 2012 lapsed. This is contrary to the provision of Section 79(1) of the Water Act, 2016 which requires a

water services provider to have a board of directors constituted in accordance with the Companies Act, 2015 and nominated to serve on the board in accordance with the Company's memorandum and articles of association.

In the circumstances, the Company did not benefit from policy direction and oversight of the Management activities.

394. Lack of Internal Audit Function and an Audit Committee

Review of the records revealed that the Company has not established an internal audit function and an Audit Committee of the Board. This is contrary to Section 155 of the Public Finance Management Act, 2012 which provides for the establishment of the internal audit function and an Audit Committee of the Board.

In the circumstances, the Company did not benefit from the assurance and advisory services from the internal audit function and oversight role from the Audit Committee.

395. Lack of Information and Communication Technology Controls

The Company lacked an ICT infrastructure and functional IT department. Further, the Company did not have approved policies on Information Technology security including disaster recovery plan and IT continuity plan. In addition, the Company lacked an IT Strategic Committee to oversee implementation of IT governance, as part of enterprise governance.

In the circumstances, the Company was denied the benefits of leveraging on Information Technology to realize its strategic objectives.

396. Lack of a Risk Management Framework and Financial Manual

The Company did not have a risk management framework in place to mitigate against risk as stipulated under Regulation 158(1) (a) and (b) of the Public Finance Management (County Governments) Regulations, 2015 which requires the Accounting Officer to ensure that the County Government entity develops risk management strategies, which include fraud prevention mechanism and a system of risk management and internal control that builds robust business operations. Further, the Company did not have a finance policy manual to guide the key financial processes and controls.

In the circumstances, the Company is exposed to risks and disasters in case of unforeseen events and guideline for key financial processes.

397. Weaknesses in Management of Trade and Other Receivables

The statement of financial position and Note 29 to the financial statements reflects trade and other receivables balance of Kshs.2,765,413. Review of records revealed that the Company maintains a manual register which excludes individual debtors account. Further, ageing analysis determining the duration of the debts was not provided for audit. Management has no effective debt collection system and collectability of the long outstanding.

In the circumstances, the controls over trade and other receivables management is weak.

398. Failure to Comply with Non-Revenue Water Threshold

The Company records indicate water production of 55,311 cubic meters during the year. Out of the production, only 37,031 cubic meters was billed to customers. The balance of 18,280 cubic meters or approximately 33% of total production represents Non-Revenue Water (NRW) valued at Kshs.1,572,080. The NRW for the Company is above the allowable loss threshold of 25% by 8%.

In the circumstances, the Company's profitability and sustainability of services to the residents of Mbooni could not be confirmed.

399. Weaknesses in the Human Resource Operations

The statement of profit or loss and other comprehensive income reflects staff costs of Kshs.2,858,463. Review of the human resource records revealed the following anomalies:

- i. The Company does not maintain personnel files for its staff, therefore it was not possible to establish qualifications of the employees in position.
- ii. The payroll did not include particulars of the employees and their salaries. Further salary arrears of Kshs.3,648,025 dating back to 2017 have not been paid.
- iii. The Company did not have key human resource management documents including Human Resource Policy Manual, approved staff establishment, terms and conditions of service and salaries grading structure.
- iv. The commercial manager is 74 years old and past retirement age.
- v. The Company is under-staffed and the finance department has only an Accounts Clerk while Procurement and Human Resource Departments are non-existent.
- vi. There are no structures to ensure segregation of duties in key processes.
- vii. Payroll records revealed that two (2) employees have been acting since September, 2019.

In the circumstances, the effectiveness in service delivery to the residents of Mbooni could not be confirmed.

KIBWEZI - MAKINDU WATER AND SANITATION COMPANY LIMITED

REPORT OF THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

400. Inaccuracies in Other Operating Expenses

The statement of profit or loss and other comprehensive income and as disclosed in Note 10(a) to the financial statements reflects administration costs of Kshs.95,449,748. Included in the expenditure are other operating expenses of Kshs.3,036,736 which further includes interest on water abstraction charges amounting to Kshs.2,705,756. However, review of the supporting ledger reveals an amount of Kshs.2,305,951 resulting to an unexplained variance of Kshs.399,805.

In the circumstances, the accuracy and completeness of other operating expenses of Kshs.2,705,756 could not be confirmed.

401. Inaccuracies in the Cost of Sales

The statement of profit or loss and other comprehensive income and as disclosed in Note 6 to the financial statements reflects cost of sales of Kshs.10,257,913. However, verifications of the records relating to the costs revealed variances between amount reported in the financial statements and the support ledgers as tabulated below:

SNo.	Item	Financial Statement Amount (Kshs.)	Ledger Amount (Kshs.)	Variance (Kshs.)
1.	Water Abstraction Fees	2,102,934	1,758,444	344,490
2.	Water Chemicals and Quality Assurance	382,598	871,190	(488,592)
3.	Diesel	179,335	0	179,335
	Total	2,664,867	2,629,634	(35,233)

In the circumstances, the accuracy and completeness of cost of sales amount of Kshs.10,257,913 could not be confirmed.

402. Long Outstanding Trade Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.19,902,318 as disclosed in Note 15(a) to the financial statements. The balance is net of provision for doubtful receivables of Kshs.16,184,449 and a reduction of Kshs.2,382,364 from the prior year provision. However, the ageing analysis reveals trade receivables balances of Kshs.23,247,771 outstanding for periods exceeding 120 days. The Company has also not demonstrated measures put in place to recover the long

overdue debts. In the circumstances, the adequacy of the provisions in light of the likely impairment could not be established.

In the circumstances, the accuracy and recoverability of trade and other receivables balance of Kshs.19,902,318 could not be confirmed.

403. Unaccounted for Water Inventory

The statement of financial position and Note 14 to the financial statements reflects Kshs.1,452,069 relating to inventory. However, at the close of the financial year, water collected, treated and ready for distribution left in the distribution infrastructure was unaccounted for and unrecorded in the financial statements as inventory.

In the circumstances, the inventory balance of Kshs.1,452,069 may be misstated.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

404. Customer Deposits not Backed up by Bank Deposits

The statement of financial position reflects customer deposits balance of Kshs.14,424,800 as disclosed in Note 24 to the financial statements. However, the balances held in the corresponding bank accounts indicated an amount totalling to Kshs.10,841,733 resulting to unbacked customer deposits of Kshs.3,583,067. This may be indicative of customer deposits having been used for Company operations. There was however no evidence of the Board authorization for usage of the deposits.

405. Unauthorized Expenditure

The statement of profit or loss and other comprehensive income reflects administrative costs of Kshs.95,449,748. However, the following items reported over expenditure against the budgeted amounts as detailed below:

Item	Budget (Kshs.)	Actual (Kshs.)	Over- Expenditure (Kshs.)
Consultancy	-	380,320	380,320
Motor Vehicle, Fuel and Maintenance	9,000,000	10,615,696	1,625,696
Staff Training	-	869,589	869,589
Printing and Stationery	900,000	926,461	26,461
WASPA	-	105,000	105,000
Travelling and Subsistence	1,723,930	3,231,630	1,507,700

In the circumstances, Management was in breach of the law on budget implementation.

406. Non-Revenue Water

The statement of profit or loss and other comprehensive income reflects an amount of Kshs.77,169,636 in respect to revenue. Additionally, the Management reported production of water of 1,482,807 cubic meters and billing of 1,046,177 cubic meters incurring a loss of produced water of 436,630 cubic meters equivalent to Kshs.62,587,425 and representing 29% of water produced or 4% loss above the industry standards.

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

407. Non-Renewal of Water Tariff

Review of the Company's operations revealed that the tariffs currently being used had been approved by the Water Services Regulatory Board (WASREB) for use between 2017/2018 and 2020/2021. However, the Water company has been using the same tariffs after its expiry. As a result, the accuracy of the water tariff structure being applied by the water Company is in question and also the actual revenues collected may be inaccurate. In the circumstances, Management was in breach of the law.

408. Irregular Payment

The statement of profit or loss and other comprehensive income and as disclosed in Note 10 to the financial statements reflects Kshs.95,449,748 as administrative costs. Review of the expenditure revealed that the Company paid Kshs.105,000 as subscription fees to Water Service Provider Association (WASPA). However, WASPA is not a regulatory body under water services provider but a registered association.

In the circumstances, value for funds spent could not be confirmed.

409. Lack of Training Needs Assessment Plan

Reported in the statement of profit or loss and other comprehensive income and as disclosed in Note 10 to the financial statements is administrative costs of Kshs.95,449,748, included in the amount is Kshs.869,589 on staff training. Review of documents revealed that several staff trainings were conducted. However, the expenditures had no requisition, training committee in place and training need assessment plan despite the provisions of Section 9(2)(v) of the Company's Human Resource (Manual Revised Edition, 2016) stating that the Company shall undertake training needs assessment and prepare annual training projections for all the employees.

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

410. Delays in Remittance of WASREB Levy

The statement of profit or loss and other comprehensive income and as disclosed in Note 10(a) reflects administration costs of Kshs.95,449,748. The amount includes regulatory levy to WASREB of Kshs.3,705,358. Review of financial records revealed that the Company did not remit the required fees on or before the 15th day of every month as

required, which may result to penalties. Further, the Company had also been operating without a license from WASREB.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

411. Lack of an ICT Policy and Weak ICT Controls

Review of the IT internal control systems revealed that the Company did not have an IT Policy in place. An interview with the Management also revealed that the strategic plan had lapsed and several other policies and manuals were in the process of being formulated. Absence of an ICT Policy in place means that there is no guide for the Company on management of IT data confidentiality, accuracy, reliability, integrity and availability from being compromised. The risk assessment of the Company revealed that there is no escrow account maintenance agreement between the Company and the owner of the source code. This poses concern on business continuity in case the firm providing the source code is no longer operational.

In the circumstances, data confidentiality, accuracy and reliability may be compromised.

412. Lack of an Audit Committee

The Company had not established an Audit Committee contrary to Section 155 of the Public Finance Management Act, 2012 and Regulation 167(1) of the Public Finance Management (County Governments) Regulations, 2015 which provide for the establishment of the internal audit function and an Audit Committee of the Board. As such the Company did not benefit from the assurance and advisory services from the internal audit function as well as oversight from the Audit Committee.

WOTE WATER AND SEWERAGE COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

413. Unsupported Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.21,878,793 as disclosed in Note 26 to the financial statements. The balance includes other payables of Kshs.16,621,744 out of which Kshs.11,304,174 is accrued electricity expenses. However, the balance was not supported by unpaid electricity bills.

In the circumstances, the accuracy and completeness of other payables balance of Kshs.11,304,174 could not be confirmed.

414. Non-Disclosure of Operational Revenue

The statement of profit or loss and other comprehensive income reflects operating revenue of Kshs.41,422,868 as disclosed in Note 6 to the financial statements. The amount includes water sales of Kshs.37,047,326 and billing for other services of Kshs.4,375,542. However, these amounts omitted revenue collected for three (3) months of April, May and June, 2022 estimated at Kshs.13,807,620 using a monthly approximated revenue of Kshs.4,602,540. In addition, there was no evidence that the imposed water tariffs were evaluated, recommended and approved by Water Services Regulatory Board (WASREB).

In the circumstances, the accuracy and completeness of the operating revenue of Kshs.41,422,868 could not be confirmed.

415. Unsupported General and Operational Expenses

The statement of profit or loss and other comprehensive income reflects general and operations expenses of Kshs.17,526,165 as disclosed in Note 10 to the financial statements. However, the payments were not supported by Local Purchase Orders (LPOs), invoices, payment receipts and inspection and acceptance committee reports. In addition, the seven (7) firms contracted for the supply of goods and services were not in the list of registered suppliers.

In the circumstances, the accuracy, completeness and regularity of general and operations expenses of Kshs.17,526,165 could not be confirmed.

416. Unsupported Maintenance Expenses

The statement of profit or loss and other comprehensive income reflects maintenance expenses of Kshs.3,851,271 as disclosed in Note 12 to the financial statements. The expenditure includes Kshs.2,265,492 for maintenance of water supply system which was not supported by Board and Management minutes approving the maintenance and evidence of competitive procurement process and terms of engagement of the service provider. Further, the expenditure includes Kshs.786,348 for maintenance and repairs of motor vehicles, trucks and motor cycles which were not recorded under reports and defects in the driver's work tickets. In addition, maintenance expenses of Kshs.514,729 was not supported by electronic trading receipts.

In the circumstances, the accuracy, completeness and regularity of maintenance expenses of Kshs.3,851,271 could not be confirmed.

417. Unsupported Customer Deposits

The statement of financial position reflects customer deposits balance of Kshs.5,017,350 as disclosed in Note 25 to the financial statements. However, the deposits bank account balance was Kshs.1,758,459 resulting to a variance of Kshs.3,258,891 which may represent unrefunded and unauthorized operational expenditure from the account.

In the circumstances, the accuracy and completeness of customer deposits balance of Kshs.5,017,350 could not be confirmed.

418. Material Uncertainty Relating to Going Concern

The statement of profit or loss and other comprehensive income reflects a deficit of Kshs.586,416 in comparison with deficit of Kshs.1,206,742 for the comparative period resulting to a decline in the retained earnings from negative Kshs.9,457,858 in 2020/2021 to negative Kshs.10,044,274 in the current period. In addition, the statement of financial position reflects current assets of Kshs.15,301,607 and current liabilities of Kshs.21,878,793 resulting to negative working capital of Kshs.6,577,186. If the trend continues into the foreseeable future, the Company may not be able to meet its obligations as and when they fall due.

In the circumstances, the Company sustainability of providing safe, affordable and accessible clean water to the residents is heavily dependent on continued support by the National and County Governments, bankers, donors and creditors.

Other Matter

419. Unresolved Prior Year Matters

In the audit report of the previous year, a number of paragraphs were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management has not resolved the issues.

420. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflect final revenue budget of Kshs.51,470,000 and actual on a comparable basis of Kshs.46,845,401 resulting to an under-funding of Kshs.4,624,599 (or 9%) of the budget. Similarly, the Company spent Kshs.48,292,462 against an approved budget of Kshs.53,776,880 resulting to an under-expenditure of Kshs.5,484,418 or (13%) of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

421. Late Submission of Financial Statements

The financial statements for the year ended 30 June, 2022 were submitted on 12 October, 2022 which was two weeks after the statutory deadline of 30 September, 2022. This was contrary to Section 47 (1) of the Public Audit Act, 2015 which states that the financial statements required under the Constitution, the Public Finance Management Act, 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.

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

422. Non-Revenue Water

The Company produced 454,460 cubic meters of water out of which 307,998 cubic meters were billed to customers. The balance of 146,462 cubic meters or approximately 32% of the production volume represents Non-Revenue Water (NRW) which is 7% over and above the allowable loss of 25% in accordance with the Water Services Regulatory Board guidelines. The Non-Revenue Water represents a loss of Kshs.17,588,934 in earnings for the Company at the average rate of Kshs.120 per cubic meter.

In the circumstances, the effectiveness of controls on water production and billing could not be confirmed.

423. Non-Compliance with Public Sector Accounting Standards Board Reporting Framework

Review of the financial statements presented for audit revealed errors of presentation and disclosures under management discussion and analysis. Further, the Management did not make use of tables, curves, pie charts and other descriptive tools to make the information as understandable as possible as required. This was contrary to the requirements of the template prescribed by the International Public Sector Accounting Standards Board (IPSASB)

In the circumstances, Management was in breach of the IPSASB guidelines.

424. Non-Compliance with a Third Rule

Analysis of the payroll records revealed that six (6) employees earned a net pay below one third of their basic pay. This was contrary to Section 19 (3) of the employment Act, 2007 which states that the total amount of deduction of the wages of an employee shall not exceed two third (2/3) of such wages.

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

425. Non-Compliance with Law on Ethnic Composition

Review of the Company's staff establishment revealed that forty (40) employees out of whom thirty-eight (38) or 95% were from the dominant ethnic community in the County. This was contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that, "all public offices shall seek to represent the diversity of the people of Kenya in the employment of staff and that no public institution shall have more than one-third of its staff establishment from the same ethnic community".

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

426. Non-Compliance with the Two-Thirds Gender Rule

Review of personnel records showed that, the Company had a total of forty (40) employees out of which only ten (10) were female representing 25% of the total workforce contrary to Section B.22 (2) of the Human Resource Policies and Procedures Manual for the Public Service, 2016, which states that the County Government will endeavor to have

a gender balanced civil service by ensuring that not more than two thirds of positions in its establishment are filled by either gender.

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

427. Unclear Ownership of the Company

Review of the Memorandum and Articles of Association indicates that the Company is owned by the defunct Town Council of Wote. However, details of the ownership structure and measures taken to have it transferred to the County Government of Makueni as per Section 83 of the Water Act, 2016 were not provided.

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

428. Failure to Gazette Board of Directors

The statement of profit or loss and other comprehensive income reflects Board expenses of Kshs.1,177,600 as disclosed in Note 11 to the financial statements. However, there was no evidence of gazette of the Board although due process for the appointment was confirmed to have been followed. This was contrary to Chapter 1.1.11 of the Mwongozo State Corporations Advisory Committee of 2015 which states that each board member shall be formally appointed to the Board through a Gazette Notice and thereafter an appointment letter.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

429. Lack of Internal Audit Function

The Company did not have an internal audit department and there was no evidence of internal audits. This was contrary to Section 155(1) (a) of the Public Finance Management Act, 2012 which provides that a County Government entity shall ensure that it has appropriate arrangements for conducting internal audit according to the guidelines issued by the Public Sector Accounting Standards Board.

In the circumstances, the effectiveness of internal controls, performance of risk assessment processes and evaluation of operational effectiveness could not be confirmed.

430. Weaknesses in Information, Communication and Technology

Review of the Company's ICT environment revealed that there were no approved ICT policies including Risk Management Policy, Data Security Policy and Disaster Recovery Plans. Further, the ICT structure and Information Technology (IT) Steering Committee were not in place.

In the circumstances, the effectiveness of Information, Communication and Technology and risk management could not be confirmed.

NYANDARUA COUNTY – NO.18

NYANDARUA WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

431. Inaccuracies in the Financial Statements

- 1.1 The statement of financial position reflects customer deposits of Kshs.4,095,375 while the deposit bank account reflects a balance of Kshs.202,303 resulting to an unreconciled variance of Kshs.3,893,072. Further, as previously reported in 2019/2020, an amount of Kshs.2,890,302 withdrawn from the account and utilized on other activities had not been refunded to the account;
- 1.2 The statement of profit or loss and other comprehensive income reflects general and operating expenses comparative amount of Kshs.28,088,625 while Note 10 reflects Kshs.30,887,575 resulting to an unreconciled variance of Kshs.2,798,950. Further, the statement of profit or loss and other comprehensive income reflects maintenance expenses comparative amount of Kshs.3,912,441 while Note 11 reflects Kshs.180,000 resulting to an unexplained and unreconciled variance of Kshs.3,732,441;
- 1.3 Note 20 to the financial statements reflects bank and cash balance of Kshs.348,631 while the detailed analysis in Note 20(a) and (b) reflects Kshs.348,227 resulting to an unreconciled variance of Kshs.404.

In the circumstances, the accuracy and completeness of the above balances reflected in the financial statements could not be confirmed.

432. Unsupported Grants Income

The statement of profit or loss and other comprehensive income and Note 7 to the financial statements reflects grant income of Kshs.37,089,147, out of which Kshs.32,411,667 was not supported by schedules and supporting documents.

In the circumstances, the accuracy and completeness of grants income amount of Kshs.32,411,667 could not be confirmed.

433. Unsupported In-Kind Contributions

The statement of profit or loss and other comprehensive income and Note 12 to the financial statements reflects in-kind contributions amount of Kshs.32,273,899. However, an amount of Kshs.27,596,419 was not supported by schedules and supporting documents.

In the circumstances, the accuracy and completeness of in-kind contributions amount of Kshs.27,596,419 could not be confirmed.

434. Inaccuracies in Non-Current Assets

The statement of financial position reflects property, plant and equipment balance of Kshs.10,935,320. As previously reported, this balance includes land and water tanks valued at Kshs.1,000,000 and Kshs.4,000,000 respectively inherited from the Rift Valley Water Works Development Agency for which handover and takeover reports were not provided for audit. Further, the value of eleven (11) parcels of land for water treatment plants, pump station and water tanks were not disclosed in the financial statements and their respective ownership documents were not provided for audit. In addition, property, plant and equipment balance omitted fully depreciated assets of Kshs.4,945,600 which were not in use and Kshs.1,964,394 for those in use.

In the circumstances, the accuracy, completeness and ownership of the property, plant and equipment balance of Kshs.10,935,320 could not be confirmed.

435. Unsupported Mobile Money Account Balance

The statement of financial position reflects bank and cash balance of Kshs.348,631 as disclosed in Note 20 to the financial statements. Included in the balance is mobile money account balance of Kshs.48,161 which was not supported by certificate of balance.

In the circumstances, the accuracy and completeness of mobile money account balance of Kshs.48,161 could not be confirmed.

436. Long Outstanding Trade Receivables

The statement of financial position and Note 19 to the financial statements reflects trade and other receivables balance of Kshs.28,043,705. Included in the balance is trade receivables of Kshs.27,874,575 out of which Kshs.9,465,556 are bills for active meters that have been outstanding for more than five (5) years. Further, Management has not established a debt management policy to manage and guide on debts recovery.

In the circumstances, the accuracy, completeness and recoverability of the trade and other receivables amount of Kshs.9,465,552 could not be confirmed.

437. Long Outstanding Creditors

The statement of financial position and Note 26 to the financial statements reflects trade and other payables balance of Kshs.22,168,144. The balance includes Kshs.19,574,124 for creditors which have been outstanding for more than one hundred and eighty (180) days with Rift Valley Water Services Board being owed Kshs.10,955,848 or 50% of the balance for over four (4) years. Further, Management did not explain how they are planning to settle the accounts to avoid disputes and penalties.

In the circumstances, the accuracy, completeness and full settlement of the trade and other payables amount of Kshs.19,574,124 could not be confirmed.

Other Matter

438. Unresolved Prior Year Matters

In the audit report of the previous year, a number of paragraphs were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management has not resolved the issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

439. Erroneous Payment of Allowances

The statement of profit or loss and other comprehensive income and Note 9 to the financial statements reflects Kshs.15,333,225 in respect of staff cost out of which Kshs.1,362,500 was paid as top up allowances for six (6) seconded staff. However, there was no evidence of approval for secondments from the County Public Service Board. Further, analysis of the County Executive of Nyandarua payroll revealed a similar payment of Kshs.4,785,150 to the seconded officers implying they were paid by the two entities. This is contrary to Section B.24 (3) of County Human Resource Manual which states that officers on secondment will be paid their salaries and other allowances by the organizations in which they are seconded.

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

440. Non-Filing of Annual Returns

As reported previously, Section 705 of the Companies Act, 2015 provides that the Company shall submit to the Registrar annual returns each of which is made up to a date not later than the date that is from time to time the Company's return date. However, the Company did not file its annual returns.

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

441. Unsupported Share Capital

The statement of financial position reflects share capital balance of Kshs.5,304,334 as disclosed in Note 21 to the financial statements. Review of Memorandum and Articles of Association revealed that the entity is a Public Company Limited by guarantee incorporated on 1 July, 2009. However, there was no evidence to confirm that these documents were registered with the Registrar of Companies as required by Section 12 and 13 of the Companies Act, 2015. Further, there was no evidence of measures being taken to transfer ownership of the Company to the County Government contrary to Section 83 of the Water Act, 2016 .

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

442. Unapproved Budget

The statement of comparison of budget and actual amounts reflects final revenue budget of Kshs.89,700,000, expenditure budget of Kshs.86,250,200 and a capital budget of Kshs.500,000. However, the approved budget and reallocation minutes were not provided for audit review. This was contrary to Regulation 43(2) of Public Finance Management (County Governments) Regulations, 2015 which states that County Government entities shall execute their approved budgets based on the annual appropriation legislation, and the approved annual cash flow plan with the exception of unforeseen and unavoidable spending dealt with through the County Emergency Fund, or supplementary estimates.

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

443. Irregular Maintenance of SACCO Account

The statement of financial position reflects bank and cash balances of Kshs.348,631 as disclosed in Note 20 to the financial statements, which includes an opening balance of Kshs.356,691. As previously reported, the bank and cash balances, includes Kshs.406 held in a SACCO Society account. Management explained that the SACCO account was inherited together with a Community-Based Water Project, and that they were in the process of seeking Board approval to close the account. This is contrary to Regulation 82(1) and (2) of Public Finance Management (County Governments) Regulations, 2015 which requires that all county government accounts shall be opened at the Central Bank of Kenya and county government entities operating bank accounts outside the provisions of Regulation (1), shall comply with the provisions under this Regulation within six (6) months from the date of commencement of these Regulations.

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

444. Lack of Procurement Function

The Company operated without a procurement function. In addition, there was no evidence of preparation of procurement documents, giving professional opinion and provide guidance on general adherence to procurement laws. This was contrary to Section 45(1) of the Public Procurement and Asset Disposal Act, 2015 which states that for the purpose of ensuring that the accounting officer's decisions are made in a systematic and structured way, an accounting officer shall establish systems and procedures to facilitate decision making for procurement and asset disposal.

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

445. Non-Revenue Water

The Company produced 765,880 cubic meters of water out of which 396,616 cubic meters were billed to customers. The balance of 369,264 cubic meters or approximately 48% of the production volume represents Non-Revenue Water (NRW) which is 23% over and above the allowable loss of 25% in accordance with the Water Services Regulatory Board guidelines. The Non-Revenue Water represents a loss of earnings to the Company.

In the circumstances, the effectiveness of controls on water production and billing could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

446. Unmetered Water Billings

The statement of profit or loss and other comprehensive income reflects operating revenue amount of Kshs.43,900,475 being income from billing of customers. However, analysis of the customers records indicates three thousand nine hundred and forty (3,940) active connections as at 30 June, 2022 out of which one thousand eight hundred and eleven (1,811) were unmetered and each charged at a rate of only Kshs.480 per month irrespective of actual consumption.

In the circumstances, the effectiveness of internal controls on billing of customers could not be confirmed.

447. Weaknesses in Asset Management

Physical verification revealed that the Company's assets have not been tagged. Further, the asset register did not indicate asset locations and condition.

In the circumstances, the effectiveness of internal controls on identification of assets and maintenance of asset register could not be confirmed.

448. Lack of Key Policies and Manuals

Review of the Company's records revealed that the finance and accounting manual and human resource policy among other policies and manuals to guide in processing financial transactions and human resources have not been developed. Further, the staff establishment and salary structure have not been approved by the Board of Directors.

In the circumstances, effectiveness of internal controls in finance and accounting processes and management of human resources could not be confirmed.

449. Weaknesses in Information, Communication and Technology

Review of the Company's ICT environment revealed that there were no approved ICT policies including Risk Management Policy, Data Security Policy and Disaster Recovery Plans. In addition, the ICT structure and Information Technology (IT) steering committee were not in place.

In the circumstances, the effectiveness of Information, Communication and Technology and risk management could not be confirmed.

450. Lack of Internal Audit Function

The Company did not have an internal audit function and there was no evidence of internal audits. This was contrary to Section 155(1) (a) of the Public Finance Management Act, 2012 which provides that a county government entity shall ensure that it has appropriate arrangements for conducting internal audit according to the guidelines issued by the Public Sector Accounting Standards Board.

In the circumstances, the effectiveness of internal controls, performance of risk assessment processes and evaluation of operational effectiveness could not be confirmed.

451. Lack of Board of Directors

The Company did not have a Board of Directors contrary to Section 128(2) of the Companies Act, 2015 which requires a Public Company to have at least two (2) Directors. This affected establishment of key committees including the Audit Committee.

In the circumstances, there was no oversight over the financial reporting process, compliance with laws and regulations and adequacy and effectiveness of the control environment.

OL KALOU WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

452. Long Outstanding Trade and Other Receivables

The statement of financial position and Note 19 to the financial statements reflects gross trade and other receivables balance of Kshs.9,497,754, out of which a balance of Kshs.3,734,497 had been outstanding for more than three (3) years. Further, the provision for bad and doubtful debts of Kshs.949,775 made for all trade and other receivables may be inadequate to cover the potential unrecoverable amounts.

In the circumstances, the accuracy and recoverability of the trade and other receivables balance of Kshs.9,497,754 could not be confirmed.

453. Unsupported Movement in Capital Reserves

The statement of financial position and Note 23 to the financial statements reflects nil balance in respect of capital reserves as at 30 June, 2022 and comparative balance of Kshs.1,666,431 as at 30 June, 2021. As per the explanatory Note 23 to the financial statements, the capital reserves relates to debtors inherited by the Company from the Ministry of Water and Irrigation and the balance of Kshs.1,666,431 was written off during the year. However, the approval for the write off and evidence on what the debts related to was not provided for audit review.

In the circumstances, the accuracy and completeness of the capital reserve Nil balance could not be confirmed.

454. Inaccuracy in Property, Plant and Equipment Balance

The statement of financial position and Note 16 to the financial statements reflects property, plant and equipment balance of Kshs.42,043,050. However, the balance excludes assets inherited from the defunct Rift Valley Water Services Board. The Management has not demonstrated any attempt to have the assets owned by the defunct Board transferred to the Company.

In the circumstances, the accuracy and completeness of the property, plant and equipment balance of Kshs.42,043,050 could not be confirmed.

455. Inaccuracy in the Statement of Cash Flows

The statement of cash flows reflects Kshs.1,297,951 in respect to customer deposits outflows for the year. However, Note 27 on customer deposits reflects a net increase of Kshs.575,460 resulting in an unreconciled variance of Kshs.722,491.

In the circumstances, the accuracy and completeness of the statement of cash flows could not be confirmed.

Other Matter

456. Unresolved Prior Year Audit Matters

In the audit report of the previous year, several matters were raised under Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management had not resolved some of the issues or given satisfactory reason for delay in resolving the issues.

In the circumstances, the audit matters remained unresolved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

457. Excessive Non-Revenue Water

The Company produced 580,025 cubic meters of water out of which 343,106 cubic meters was billed to customers. The balance of 236,919 cubic meters or approximately 41% of the total volume produced represents Non-Revenue Water (NRW) which is 16% over and above the allowable loss of 25% in accordance with the Water Services Regulatory Board guidelines.

In the circumstances, the significant level of Non-Revenue Water is an indication of inefficiency and ineffectiveness in the use of public water resources, which may impact negatively on the Company's profitability and long-term sustainability.

458. Use of Unapproved Water Tariffs

Review of records revealed that the Company billed its customers based on water tariffs which lapsed in financial year 2016/2017. There was no evidence that the Management had sought for approval from Water Services Regulatory Board (WASREB) for tariff adjustment.

In the circumstances, the Company continues to earn lower revenues as a result of using outdated water tariffs and this may impact negatively on the Company's profitability and long-term sustainability.

459. Long Outstanding Trade and Other Payables

The statement of financial position and Note 26 to the financial statements reflects trade and other payables balance of Kshs.14,095,459. However, the balance includes Kshs.13,255,203 being levies payable to Central Rift Valley Water Works Development Agency (CRVWDA), which have been outstanding for more than five (5) years. There was no proper explanation for the delay in remittance of the levies.

In the circumstances, the Water Company is exposed to possible legal actions and increased costs due to interests and penalties.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

460. Lack of a Risk Management Policy

The Company did not have a Risk Management Policy and Framework during the year under review, contrary to the requirements of Regulation 165(1)(a) and (b) of Public Finance Management (County Governments) Regulations, 2015, which provides that the Accounting Officer shall ensure that the Government entity develops risk management strategies, which include fraud prevention mechanism and a system of risk management and internal control that builds robust business operations.

In the circumstances, the Company may have been exposed to various unmitigated risks in the management of public resources.

461. Information Communication Technology (ICT) Control Deficiencies and Lack of Disaster Recovery Plan

The Company did not have a Disaster Recovery Plan in place for business continuity planning, reliable Information Technology infrastructure, process, and business model to reduce the impact of natural disasters and outages. The ICT infrastructure was

unprotected and may not be recovered in the event of disaster and other unforeseen eventualities.

In the circumstances, the reliability and safety of the Information Technology infrastructure, process and business model could not be confirmed.

462. Lack of Board of Directors

As reported previously, the Company did not have a Board of Directors during the year under review. This was contrary to Section 128(2) of the Companies Act, 2015, which requires a Public Company to have at least two (2) Directors.

In the circumstances, there was no oversight over the financial reporting process, compliance with laws and regulations and evaluation of the adequacy and effectiveness of the control environment.

NYERI COUNTY – NO.19

NYERI WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

463. Long Outstanding Trade and Other Receivables

Note 24 to the financial statements reflects Kshs.308,448,723 in respect of trade and other receivables as at 30 June, 2022 out of which Kshs.1,051,041, Kshs.45,506,293 and Kshs.2,197,259 are in respect of deposits and prepayments, VAT recoverable and other receivables respectively. However, the detailed ageing analysis for the balances were not provided for audit verification.

In addition, a provision for doubtful debts of Kshs.49,156,850 was made for the financial year under review. However, the basis for the provision was neither explained nor disclosed. Further, the trade and other receivables balance includes a balance of Kshs.129,046,748 which relates to long outstanding receivables which are neither terminated nor disconnected customers whose recoverability is in doubt.

In the circumstances, the validity, recoverability, accuracy and completeness of trade receivables balance of Kshs.308,448,723 as at 30 June, 2022 could not be confirmed.

464. Long Outstanding Trade and Other Payables

The statement of financial position and Note 32 to the financial statements reflects Kshs.258,565,100 in respect of trade and other payables. Included in this balance are revenue received in advance of Kshs.10,882,352 and other payables of Kshs.33,670,939. However, the balances were not supported with a detailed aging analysis.

In the circumstances, the validity and accuracy of the trade and other payables balance of Kshs.258,565,100 as at 30 June, 2022 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

465. Un-authorized Refuse and Conservancy Fees Collection

Review of revenue streams revealed that the Company collected Kshs.17,335,350 as refuse and conservancy fees on behalf of Nyeri County Government. However, Management did not provide the agreements between the two entities or appointment letter of the Company as an agency to collect the fees on behalf of the County Government of Nyeri.

In the circumstances, the nature of the engagement for the collection of refuse and conservancy fees could not be confirmed.

466. Non-Compliance with Law on Staff Ethnicity Diversity

Review of the staff records revealed that the Company had a total of two hundred and thirty-eight (238) employees as at 30 June, 2022. However, two hundred and thirty-one (231) or 97% of the total employees comprised of staff from one dominant ethnic community. This is contrary to Section 7(2) of the National Cohesion and Integration Act, 2008 which requires that no public establishment shall have more than one third of its staff from the same ethnic community.

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

467. Exceeding Industrial Benchmark on Personnel Expenses

The statement of profit or loss and other comprehensive income and as disclosed in Note 11 to the financial statements reflects Kshs.244,636,910 in respect of staff costs for the year ended 30 June, 2022. However, the expenditure represents 38% of the total operating expenditure of Kshs.638,968,937. However, this is higher than the recommended ratio of 35% prescribed by the Water Services Regulatory Board (WASREB) Corporate Governance Guidelines, 2018 Section 3.9(10) which states that, when fixing remuneration of the staff, the total expenditure for each financial year must not exceed the benchmarks set for the services sector nationally, so that personnel cost as share of operations and maintenance cost shall be contained within the 35%.

In the circumstances, the excess personnel costs may impact negatively on the Company's profitability and sustainability of services if measures are not put in place to contain the cost within the acceptable levels.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

468. There were no material issues relating to effectiveness of internal controls, risk management and governance.

TETU ABERDARE WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

469. Long Outstanding Trade Receivables

The statement of financial position and Note 16 to the financial statements reflects trade receivables balance of Kshs.20,144,571. However, the aging analysis provided indicated

that receivables amounting to Kshs.11,683,427 which is approximately 58% of the total trade receivables were outstanding for over 120 days as at 30 June, 2022. In addition, the general provision for doubtful debts made of Kshs.2,034,531 for all the trade receivables may be inadequate to cover the potential non-recoverable amounts.

In the circumstances, the accuracy and recoverability of the trade receivables of Kshs.20,144,571 could not be confirmed.

Other Matter

470. Prior Year Matters

In the audit report of the previous year, several paragraphs were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources. However, the Management has not resolved the issues nor given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

471. Use of Expired Water Tariffs

As previously reported, the Company in the year under review, billed its customers based on water tariffs, which expired in financial year 2013/2014. Although the Management had sought for approval from the Water Services Regulatory Board (WASREB) for regular tariff adjustment for the financial year 2016/2017 to financial year 2021/2022, no authority had been granted and the Company continued to bill water consumers using the expired water tariffs.

In the circumstances, the Company continued to earn lower revenue as a result of using expired tariffs.

472. Excessive Non-Revenue Water

During the year under review, the Company produced 2,928,652 cubic of water, and out of which, only 1,755,441 cubic meters was sold (billed) to consumers. The balance of 1,173,213 cubic meters or approximately 40% of the total volume of water produced represented Non- Revenue Water (NRW). The NRW is 15% over and above the allowable loss of 25% in accordance with the Water Services Regulatory Board guidelines.

In the circumstances, the significant level of non-revenue water negatively impacts on the Company's profitability and its ability to sustain its services.

473. Staff Ethnic Diversity

Review of the Company's human resource records revealed that during the year under review, the Company had a total of seventy-three (73) employees, out of which seventy

(71) or ninety seven percent (97%) were from the dominant ethnic community, contrary to provisions of Section 7 of the National Cohesion and Integration Act, 2008 which requires that all public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff and that no public establishment shall have more than one third of its staff from the same ethnic community.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

474. There were no material issues relating to effectiveness of internal controls, risk management and governance.

OTHAYA MUKURWEINI WATER SERVICES COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

475. Long Outstanding Trade and Other Receivables Balance

The statement of financial position and as disclosed in Note 23 to the financial statements reflects trade and other receivables balance of Kshs.169,101,123 which is net of provision for bad and doubtful receivables of Kshs.71,095,190. However, as previously reported, receivables debt balance of Kshs.209,487,318 relates to financial year 2020/2021 and earlier years and had not been collected as at 30 June, 2022. Further, the provision for bad and doubtful debts made by the Management of Kshs.71,095,190 appears inadequate considering the large debt balance and the long period of time that the debts have been outstanding.

In the circumstances, the validity, accuracy and recoverability of trade and other receivables amount of Kshs.169,101,123 could not be confirmed.

476. Long Outstanding Lease Fees Balance

The statement of financial position and as disclosed in Note 29 to the financial statements reflects creditors, prepayments and accruals balance of Kshs.77,568,632 which includes accrued related party balance of Kshs.57,539,050. However, as previously reported, the latter balance includes lease fee balance of Kshs.44,470,699 owed to Tana Water Services Board for the financial years 2018/2019 and earlier periods that had not been remitted as at 30 June, 2022.

In the circumstances, the validity, accuracy and completeness of creditors, prepayments and accruals balance of Kshs.77,568,632 could not be confirmed.

Other Matter

477. Unresolved Prior Year Audit Issues

In the audit report of the previous year, a number of paragraphs were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management has not resolved the issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

478. Lack of Ethnic Diversity

As previously reported, review of personnel records revealed that the Company has ninety-three (93) staff members out of which eighty-seven (87) or 94% of the total number of staff were members of one dominant ethnic community, contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that all public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff and that no public establishment shall have more than one third of its staff from the same ethnic community.

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

479. Personnel Cost in Excess of the Recommended Threshold

The statement of profit or loss and other comprehensive income and Note 11 to the financial statements reflects personnel costs of Kshs.76,755,136 representing 37.7% of the total expenditure. However, as previously reported, this ratio is higher than the limit of 35% as recommended by Section 3.9 (10) of Water Services Regulatory Board (WASREB) Corporate Governance Guidelines, 2018 for large companies where the water service provider is categorized.

In the circumstances, the excess personnel costs may negatively impact on the Company's profitability and sustainability of services if measures are not put in place to contain the cost within the acceptable levels.

480. Failure to Update Water Tariff Structure

The customer tariffs charged by the Company for billing water in the year under review were approved by WASREB and gazetted through the Kenya Gazette Notice Number 7826 on 07 June, 2013, for the period 2012/2013 and 2013/2014 and has since not been adjusted and approved contrary to provisions of Section 4.2 of WASREB tariff guidelines which require that the Water Service Providers (WSPs) shall develop the Tariff Adjustment Proposal in collaboration with the Water Services Board (WSB). When the WSB is satisfied that the Tariff Adjustment Proposal has been prepared in accordance with these Tariff Guidelines, the WSB shall submit the Tariff Adjustment Proposal to the Regulatory Board for analysis and approval.

In the circumstances, the tariff levied may negatively impact on the Company's profitability and sustainability of services.

481. High Non-Revenue Water Threshold

During the financial year under review, the Company produced a total of 6,461,280 cubic meters of water out of which 3,919,580 cubic meters was billed (sold). The difference of 2,563,580 cubic meters or approximately 39.7% represented Non-Revenue Water (NRW), which is 14.7% over and above the allowable water loss threshold of 25% as per the Water Service Regulatory Board guidelines.

In the circumstances, the high NRW is an indicator of inefficiency and ineffective use of public and water resources, which may negatively impact on the Company's profitability and ability to sustain service delivery.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

482. There were no material issues relating to effectiveness of internal controls, risk management and governance.

MATHIRA WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

483. Long Outstanding Trade and Other Receivables

The statement of financial position reflects trade receivables of Kshs.52,668,222 which as disclosed in Note 17 to the financial statements comprises of Kshs.52,629,226 and Kshs.38,996 in respect of trade receivables and staff salary advance respectively. The ageing analysis provided showed that debtors amounting to Kshs.39,667,424 which is 75% of the total receivables were outstanding for over six months as at 30 June, 2022. In addition, the provision for doubtful debts made of Kshs.2,769,959 for all the trade receivables may be inadequate to cover the potential unrecoverable amounts.

In the circumstances, accuracy and recoverability of the trade receivables amount of Kshs.52,668,222 could not be confirmed.

484. Revaluation and Disposal of Assets

The statement of financial position reflects Kshs.48,589,227 in respect of property, plant and equipment as disclosed in Note 14 to the financial statements. However, as previously reported, review of the Company's assets register revealed that the Company

had several assets with an initial cost of Kshs.3,750,860 which had been fully depreciated, but which were still in use. The assets had a significant future economic benefit embodied in them and should have been revalued to reflect the residual value and the useful life of an asset as required by paragraph 31 of International Accounting Standards (IAS)16 - Property, Plant and Equipment which requires that after recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

In addition, the assets register includes items with an initial cost of Kshs.1,203,192 which had been fully depreciated, and which were not in use. Although these assets have no economic value to the Company, they may earn the Company some income if disposed off.

In the circumstances, the accuracy and completeness of the reported balance of Kshs.48,589,227 for property, plant and equipment could not be confirmed.

Other Matter

485. Unresolved Prior Year Audit Matters

In the audit report of the previous year, several matters were raised under Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, the Management has not resolved the issues or given any explanation for the failure to adhere to the provisions of the Public Sector Accounting Standards Board templates.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

486. Un-Approved Water Tariffs

Review of records provided for audit revealed that the Company billed its customers based on water tariffs which expired in the financial year 2013/2014. Further, there was no evidence that the Management had sought for approval from Water Services Regulatory Board (WASREB) for tariff adjustment.

In the circumstances, the company continues to earn lower revenues as a result of using expired water tariffs and which may have affected the financial performance of the company.

487. Non-Revenue Water

During the year under review, the Company produced 2,191,012 cubic meters of water and out of this volume only 1,302,438 cubic meters was billed to consumers. The balance

of 888,574 cubic meters or approximately 41% of the total volume represents Non-Revenue Water (NRW) which is 16% over and above the allowable loss of 25% in accordance with the Water Services Regulatory Board guidelines.

The significant level of Non-Revenue Water is an indication of inefficiency and ineffectiveness in the use of public and water resources, which may negatively impact on the Company's profitability and ability to sustain its services.

488. Non-compliance with Ethnic Diversity

Review of human resource records revealed that during the year, the Company had a total of seventy-three (73) employees out of which sixty-seven (67) or 92% were from the dominant ethnic community. This is contrary to Section 65(e) of the County Governments Act, 2012 which requires the County Governments to ensure that at least thirty percent of the vacant posts at entry level are filled by candidates who are not from the dominant ethnic community in the county.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

489. There were no material issues relating to effectiveness of internal controls, risk management and governance.

NAROMORU WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

490. There were no material issues noted during the audit of the financial statements of the Water Company.

Other Matter

491. Unresolved Prior Year Audit Issues

In the audit report of the previous year, a number of paragraphs were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management has not resolved the issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

492. Operating Without a License

As previously reported, the Company was incorporated in 2012 and has been operating without a license from the regulator, Water Services Regulatory Board (WASREB). This is contrary to Section 72 (1) (c) and (d) of the Water Act, 2016 which gives the Water Services Regulatory Board (WASREB) powers and functions to set license conditions and accredit water services providers, monitor and regulate licensees and enforce license conditions.

In the absence of a license, it was not possible to confirm whether the Company met conditions and standards required to operate as a Water Service Provider. Further, Management was in breach of the law.

493. Non-Revenue Water

The Company produced 320,789 cubic meters of water. However, only 228,069 cubic meters was billed to customers at Kshs.13,126,100 with the balance of 92,720 cubic meters of water or twenty-nine (29%) percent of the total production is Non-Revenue Water which is above the sector recommended threshold of 25% as set by Water Services Regulatory Board guidelines.

In the circumstances, the Company may have lost revenue through Non-Revenue Water. Further, Management was in breach of the guidelines.

494. Staff Ethnic Diversity

Review of personnel records revealed that the Company had twenty-one (21) members of staff. However, all the members of staff were from one dominant ethnic community contrary to the provisions of Section 65(e) of the County Government Act, 2012 which requires County Governments to ensure that at least thirty percent of the vacant posts at entry level are filled by candidates who are not from the dominant ethnic community in the county.

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

495. Lack of Water Charging Tariff

The Company has been charging water tariffs adopted from another Water Services Provider. However, review of the tariff structure revealed that it expired in 2012 and the tariffs has not been reviewed or regularized by WASREB contrary to Section 72 (1) (b) of the Water Act, 2016 which states that the power and functions of Regulatory Board shall be to evaluate and recommend water and sewerage tariffs to the County Water Services Providers and approve the imposition of such tariffs in line with consumer protection standards.

In the circumstances, the tariff levied by the Company has outlived its economical effectiveness. Further, the Management was in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

496. Lack of an Internal Audit Function

The Company did not have an Internal Audit Function contrary to requirements of Section 155 of the Public Finance Management Act, 2012 which states that a County Government entity should have appropriate arrangement for conducting internal audit according to the guidelines issued by the Public Sector Accounting Standards Board.

In the circumstances, the Company lacks internal assurance mechanism and may experience weak internal controls system which pose risk to effective management of public funds.

497. Lack of Risk Management Policy and Framework

The Company did not have a Risk Management Policy and Framework contrary to requirement of Regulation 158(1) (a) and (b) of the Public Finance Management (County Governments) Regulations, 2015, which provides that the Accounting Officer shall ensure that the government entity develops risk management strategies, which include fraud prevention mechanism and a system of risk management and internal control that builds robust business operations. Further, the Company did not carry out regular risk assessments and did not maintain an up to date risk register.

In the circumstances, the Company may be exposed to risks in management of public resources.

498. Lack of Information and Communication Technology (ICT) Policy and Strategic Plan

Review of Information Communication Technology (ICT) controls and Information Management Systems revealed that, the Company had not developed and implemented an ICT policy and lacked an approved strategic plan. Further, there was no training program for the staff in IT department.

In the circumstances, the adequacy and effectiveness of the Company's ICT controls could not be confirmed.

KIRINYAGA COUNTY – NO.20

KIRINYAGA WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

499. Long Outstanding Receivables

As reported in the previous year, the statement of financial position and as disclosed in Note 8 to the financial statements reflects Kshs.146,013,737 in respect of trade receivables which includes Kshs.1,127,805 in respect of salary advances and Kshs.170,114 for staff loans to four (4) former officers to purchase laptops. However, supporting documentation including approvals and evidence that the Management has initiated recovery of the salary advances and staff loans were not provided.

In the circumstances, the accuracy and completeness of salary advances and staff loans totalling to Kshs.1,297,919 could not be confirmed.

500. Unsupported Property, Plant and Equipment

The statement of financial position and as disclosed in Note 5 to the financial statements reflects Kshs.105,822,107 in respect of property, plant, and equipment. However, the Company Management had not acquired title deed or ownership documents for parcels of land both at the Company's headquarters offices in Kerugoya and the regional office in Baricho Sub-location of Ndia Location. Further, the Company had in possession several parcels of land, buildings, various water installations, machines, water treatment plant, water tanks, equipment and motorcycles and other assets spread across Kirinyaga County whose details and documentation in regard to ownership status were not provided.

In the circumstances, the accuracy, completeness and ownership status of the property, plant, and equipment balance of Kshs.105,822,107 could not be confirmed.

501. Unsupported Short-Term Loan

As reported in the previous year, the statement of financial position and as disclosed in Note 13(c) to the financial statements reflects Kshs.147,518 in respect of short-term loan. However, details on the lending institution, interest charged, period of repayment, principal payments, Board approval and other terms and conditions for the loan were not provided.

In the circumstances, the validity, accuracy and completeness of the short-term loan balance of Kshs.147,518 could not be confirmed.

502. Long Outstanding Trade Creditors

The statement of financial position and as disclosed in Note 13(a) to the financial statements reflects Kshs.88,726,401 in respect of creditors and accruals as at

30 June, 2022, which includes trade creditors balance of Kshs.63,965,605 out of which, Kshs.16,743,785, Kshs.12,194,690 and Kshs.8,251,860 are for Tana Water Works Development Agency levies, WASREB levies and WARMA levies respectively, that have been outstanding since 2017. No plausible reason was provided for non-settlement.

In the circumstances, the Company risks incurring additional costs in terms of litigations, interest and penalties due to failure to settle outstanding obligations.

503. Unsupported Expenditure

The statement of profit or loss and other comprehensive income and as disclosed in Note 18(b) to the financial statements reflects administration costs of Kshs.40,947,120. Included in this amount is Kshs.5,489,764 in respect of strategic and business plan expenses and Kshs.3,763,424 for travelling and accommodation all totalling to Kshs.9,253,188. However, review of payment vouchers revealed that payments amounting to Kshs.3,357,907 were not supported by relevant documents such as motor vehicles work tickets, meeting minutes, workshop reports, attendance registers and signed payment schedules.

In the circumstances, the validity, accuracy, and completeness of payments totalling to Kshs.3,357,907 in respect to strategic and business plan, and travelling and accommodation could not be confirmed.

Other Matter

504. Progress on Follow-up of Prior Year Audit Matters

The progress on follow up on auditors' recommendations section of the financial statements does not list all the prior year audit issues. It also excludes key columns for identifying focal point person to resolve the issue, status on whether the issue is resolved or not and the time frame within which the issue(s) will be addressed as required by The National Treasury circular referenced AG.4/16/2 Vol.3 (72) dated 7 July, 2022.

In the circumstances, Management did not comply with the guidelines issued by the Public Sector Accounting Standards Board for the preparation of annual financial statements.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

505. Excessive Non-Revenue Water

During the year under review, the Company produced 6,341,902 cubic meters of water and out of this volume only 2,614,686 cubic meters was billed to customers. The balance of 3,727,216 cubic meters or approximately 59% of the total volume of water produced represents Non-Revenue Water (NRW) which is 34% over and above the allowable loss of 25% in accordance with the Water Services Regulatory Board guidelines.

In the circumstances, the significant level of Non-Revenue Water is an indication of inefficiency and ineffectiveness in the use of public and water resources, which may negatively impact on the Company's profitability and its ability to sustain services.

506. Non-Approved Water Tariffs

The Company has been operating without an approved water tariff structure from the Water Services Regulatory Board (WASREB) with effect from 2019/2020 financial year upon expiry of the previous tariff structure and which had not been renewed.

In the circumstances, failure to update the water tariffs results to low revenue which may not be adequate to cover operational costs.

507. Flat Rate Billing

The statement of profit or loss and other comprehensive income and as disclosed in Note 14(a) to the financial statements reflects an amount of Kshs.160,688,478 in respect of water sales. However, analysis of the customers records indicates that the Company had a total of 31,048 active connections as at 30 June, 2022, out of which 30,892 metered customers were each charged a flat rate of Kshs.500 per month irrespective of actual consumption and 156 active connections were not metered. The basis of the flat rate charge was not provided.

In the circumstances, the basis of the Company's customers billings during the year under review could not be confirmed.

508. High Wage Bill Above Allowed Threshold

The statement of profit or loss and other comprehensive income and as disclosed in Note 16 to the financial statements reflects an amount of Kshs.97,978,679 in respect of personnel expenses out of the total expenditure of Kshs.215,330,296 which translate to approximately 46% of total expenditure. However, this is higher than the recommended ratio of 35% prescribed by the Water Services Regulatory Board (WASREB) Corporate Governance Guidelines for the Water Services Sector, 2018 Part 3.9(10) which states that, when fixing remuneration of the staff the total expenditure for each financial year must not exceed the benchmarks set for the services sector nationally, so that personnel cost as share of operations and maintenance cost shall be contained within the 35% ratio.

In the circumstances, the excess personnel costs may negatively impact on the Company's profitability, effectiveness and sustainability of services if measures are not put in place to contain the cost within the acceptable level. Additionally, Management was in breach of the law.

509. Staff Ethnic Diversity

The Company had 153 employees as at 30 June, 2022. However, 146 members of staff or 95% were from the dominant ethnic Community. This is contrary to Section 7 (1) & (2) of the National Cohesion and Integration Act, 2008 which provides that no public establishment shall have more than one third of its staff from the same ethnic community.

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

510. Non-Payment of Corporation Tax

As reported in the previous year, the statement of financial position and as disclosed in Note 13(d) reflects Kshs.186,386 in respect of taxation relating to tax payable for the 2018/2019 financial year which has not been remitted to the Kenya Revenue Authority. Further, the Company had not filed tax returns since incorporation in 2006. This is contrary to Section 92(A) of the Income Tax Act, 2012 which states that where any person is required to furnish a return under Section 52B, the tax chargeable thereunder shall be due and payable on the last day of the fourth month following the end of the year of income or accounting period.

In the circumstances, the Company was in breach of the law and is exposed to fines and penalties.

511. Non-Remittance of Statutory Deductions

The statement of financial position and as disclosed in Note 13(a) to the financial statements reflects Kshs.88,726,401 in respect of creditors and accruals as at 30 June, 2022, which includes Kshs.23,421,510, out of which Kshs.14,625,219 is in respect of unremitted Lap Trust pension deductions for deductions from employees' salaries for the financial years 2017/2018, 2018/2019, 2019/2020 and 2021/2022. No plausible explanation was provided for failure to remit the statutory deductions.

In the circumstances, the Company is exposed to nugatory costs in terms of litigations, interest and penalties. In addition, Management was in breach of the law.

512. Excessive Directors Costs

The statement of profit or loss and other comprehensive income and as disclosed in Note 17 to the financial statements reflects Directors costs of Kshs.11,751,989 for the year ended 30 June, 2022. However, the expenditure is higher than the recommended annual limit of Kshs.7,000,000 by Kshs.4,751,989 or 68% contrary to Paragraph 3.4.6 of the WASREB's Corporate Governance Guidelines for the Water Services Sector, 2018 on board remuneration which provides that "to provide efficiency and act as an incentive to improve performance at oversight level, the limits for sitting allowances and other expenditures of the board and its committees for companies with annual turnover of up to Kshs.500,000,000 is capped at the higher of 2% of the turnover and Kshs.7 million per annum".

In the circumstances, the excessive directors' costs may negatively impact on the Company's profitability and sustainability of services if measures are not put in place to contain the cost within the acceptable level. Further, Management was in breach of the guidelines.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

513. There were no material issues relating to effectiveness of internal controls, risk management and governance.

RUKANGA WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

514. Presentation and Disclosure of the Annual Report and Financial Statements

Review of the annual report and financial statements for the year ended 30 June, 2022 revealed the following anomalies:

- i. The statement of performance against predetermined objectives and statement of environmental and sustainability reporting were omitted contrary to the requirements of the approved template by the Public Sector Accounting Standards Board (PSASB).
- ii. The annual report and financial statements reflect report of General Manager instead of report of the Managing Director and there is no blank page immediately after page (i) as prescribed by the template.
- iii. Appendix 1 to the financial statements on progress on follow up of auditor recommendations did not reflect any details on prior year audit issues.
- iv. The percentage utilization column has been omitted in the statement of comparison of budget and actual amounts for the period ended 30 June, 2022.

In the circumstances, the financial statements for the year under review are not in the format prescribed by the Public Sector Accounting Standard Board (PSASB).

515. Unsupported Property, Plant and Equipment

The statement of financial position reflects a balance of Kshs.26,819,405 in respect of property, plant and equipment as disclosed in Note 1 to the financial statements. However, ownership documents of three parcels of land valued at Kshs.1,938,269 were not provided for audit.

In the circumstances, the validity, accuracy, ownership and completeness of the property, plant and equipment balance of Kshs.1,938,269 could not be confirmed.

516. Failure to Account for Water Inventory

Review of the financial statements revealed that the Management did not account for water inventory as at 30 June, 2022. Further, there were no records provided for audit to indicate the produced and unsold water volumes, the value as at the end of the financial year and policy guidelines for the accounting of water inventory by the Company. In addition, the Company did not determine the volume of water in their treatment plants or the volume of the system input (water extracted, natural sources and boreholes).

In the circumstances, the validity, accuracy and completeness of the inventory balance could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

517. Unapproved Over-Expenditure

The statement of comparison of budget and actual amounts reflects final expenditure budget and actual on comparable basis of Kshs.8,795,200 and Kshs.9,024,145 respectively resulting to an over-expenditure of Kshs.228,945. However, review of the budget statement revealed that the Management spent Kshs.2,562,682 in eight items above the 10% allowable budgetary limit contrary to Regulation 43(2) of the Public Finance Management (County Governments) Regulations, 2015 which states that County Government entities shall execute their approved budgets based on the annual appropriation legislation, and the approved annual cash flow plan.

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

518. Long Outstanding - Creditors and Accruals

The statement of financial position reflects a balance of Kshs.448,727 in respect of creditors and accruals as disclosed in Note 5 to the financial statements as at 30 June, 2022. However, no explanation was provided by the Management for failure to settle the payables during the year under review.

Failure to settle bills during the year to which they relate distorts financial statements for the year and adversely affects the provisions for the subsequent year.

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

519. Staff Ethnic Diversity

The Company had a total staff of fifteen (15) officers during the year under review. However, the staff comprised fourteen (14) members of staff from the dominant ethnic community translating to 93% of the total staff composition. This is contrary to Section 65(e) of the County Governments Act, 2012 that requires the County Governments to ensure that at least thirty percent of the vacant posts at entry level are filled by candidates who are not from the dominant ethnic community in the County.

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

520. Non-compliance with Law on a Third Gender Rule

Review of staff records provided for audit revealed that the Company had a total staff of fifteen (15) officers during the year under review. The staff comprised twelve (12) males equivalent to eighty percent (80%) and three (3) females equivalent to twenty percent (20%) of the total staff contrary to Article 27(8) of the constitution of Kenya, 2010, which states that the state shall take legislative and other measures to implement the principle that not more than two-thirds of the members of elective or appointive bodies shall be of the same gender.

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

521. Lack of a Procurement Plan

The statement of profit or loss and other comprehensive income reflects total expenditure amounting to Kshs.9,773,893 for the year under review. However, the Company did not have a procurement plan, contrary to Regulation 40(1) of the Public Procurement and Asset Disposal Regulations, 2020 which requires that a procurement entity shall prepare a procurement plan for each financial year as part of the annual budget preparation process.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

522. Lack of Risk Management Policy

The Management did not provide supporting documents, for audit review, as evidence of existence of a risk management policy to guide the Management on risk assessment and formulation of risk mitigation strategies in the year under review. This is contrary to Regulation 158(1)(a) and (b) of the Public Finance Management (County Governments) Regulations, 2015 which requires the Accounting Officer to develop risk management strategies which include fraud prevention mechanism and internal control that builds robust business operations.

In the circumstances, it was not possible to confirm whether the internal controls built within the financial and operational systems were functioning as intended during the year under review.

523. Lack of Internal Audit Function and an Audit Committee of the Board

The Company has not established an internal audit function and an audit committee of the Board. This is contrary to Section 155 of the Public Finance Management Act, 2012 which provides for the establishment of the Internal Audit Function and an Audit Committee of the Board.

In the circumstances, the Company did not benefit from the assurance and advisory services of the internal audit function as well as oversight from the Audit Committee on the internal control systems in place.

524. Lack of Strategic Plan

During the year under review, the Company did not have a strategic plan in place contrary to Section 149(2)(g) and (h) of the Public Finance Management Act, 2012 which states that in carrying out a responsibility imposed by Sub-Section (1) of the section, an accounting officer shall, in respect of the entity concerned prepare a strategic plan for the entity in conformity with the medium-term fiscal framework and financial objectives of the County Government and prepare estimates of expenditure of the entity in conformity with the strategic plan referred above.

In the circumstances, the strategic objectives of the Company may not be achieved. Further, the Management was in breach of the law.

MURANG'A COUNTY – NO.21

MURANG'A WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

525. Long Outstanding Payables

The statement of financial position reflects trade and other payables balance of Kshs.131,046,849 which, as disclosed in Note 25 to financial statements, includes accrued bills amount of Kshs.61,673,731. However, as previously reported, the latter amount includes levies totalling to Kshs.49,458,717 between February, 2017 and July, 2018 owed to Tana Water Service Board (TWSB). In addition, the trade and other payables balance includes Kshs.1,812,500 in respect of provision for audit fees out of which Kshs.1,550,000 relates to 2020/2021 and earlier years. The Company has continued to classify the unpaid amounts for financial year 2020/2021 and earlier periods under current liabilities. Further, the trade and other payables balance includes Kshs.21,221,826 in respect of supplier creditors out of which creditors totalling to Kshs.17,862,864 have been outstanding for over 90 days without being cleared by the Company.

In the circumstances, the accuracy of reported trade and other receivable balance and the validity of the long outstanding payables could not be confirmed. Further, the Company risks legal suits which may lead to avoidable additional costs due to litigations, fine, penalties and interest.

526. Long Outstanding Receivables

The statement of financial position reflects receivables balance of Kshs.127,826,650 which, as disclosed in Note 17 to financial statements, includes trade receivables balance of Kshs.80,074,491 net of provision for doubtful debts of Kshs.10,926,434. However, the trade receivable balance includes debts amounting to Kshs.71,894,638 relating to the financial year 2020/2021 and earlier periods. Further, the receivable balance includes other receivables balance of Kshs.46,495,407 out of which an amount Kshs.23,838,555 is in respect of Value Added Tax (VAT) receivables from Kenya Revenue Authority that have been outstanding since 2018 and Kshs.18,353,069 in respect to receivables from a local company that have been outstanding for a considerably long period of time and thereby appears unrecoverable.

In the circumstances, the accuracy and recoverability of reported trade receivables of Kshs.80,074,491 and other receivables of Kshs.46,495,407 could not be confirmed.

527. Misclassified Investments

The statement of financial position reflects investment in subsidiary balance of Kshs.20,488,369. However, as previously reported, the investment that has remained

unrealized for long is classified as current asset, contrary to paragraph 66(c) of the International Accounting Standards 1 (IAS 1) which require an entity to classify an asset as current when it expects to realize the asset within twelve months after the reporting period and all other assets as non-current. In addition, the nature of the investment is not disclosed by way of explanation in the notes to the financial statements.

In the circumstances, the accuracy, existence and ownership of the reported investment balance of Kshs.20,488,369 could not be confirmed.

Other Matter

528. Unresolved Prior Year Audit Issues

In the audit report of the previous year, a number of paragraphs were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management has not resolved the issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

529. Staff Costs

529.1 Non-Compliance with a Third Rule on Salary Deductions

As previously reported, review of the Company's June payroll revealed that thirty six (36) staff had net salaries falling below a third of their basic pay contrary to section 19(3) of the Employment Act, 2007 which stipulates that without prejudice to any right of recovery of any debt due, and notwithstanding the provisions of any other written law, the total amount of all deductions made by an employer from the wages of his employee at any one time shall not exceed two thirds of such wages.

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

529.2 Staff Ethnic Diversity

As previously reported, review of staff records revealed the Company has one hundred and fifty-eight (158) staff out of whom, one hundred and thirty-one (131) or 83% of the total number were members of the dominant ethnic community in the county. Further, the Board of Directors of the Company consisted of nine (9) directors who all belonged to one dominant ethnic community contrary to provisions of Section 65(e) of the County Government Act, 2012 which requires County Governments to ensure that at least thirty percent of the vacant posts at entry level are filled by candidates who are not from the dominant ethnic community in the county.

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

529.3 Staff Cost in Excess of the Recommended Threshold

The statement of profit or loss and other comprehensive income reflects staff cost of Kshs.123,173,567 representing approximately 45% of total expenditure of Kshs.274,395,264 for the year under review. However, as previously reported, this is higher than the recommended limit of 35% for large companies where the water service provider has been categorized as recommended by Section 3.9(10) of Water Services Regulatory Board (WASREB) Corporate Governance Guidelines, 2018.

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

529.4 Lack of Approved Salary Structure for Top Management

The statement of profit or loss and other comprehensive income reflects staff cost of Kshs.123,173,567 as disclosed in Note 9 to the financial statements, out of which Kshs.15,281,643 relates to salaries paid to top Management as per Note 27, related party disclosures. However, the Company did not provide an approved salary structure/scheme from the Salaries and Remuneration Commission (SRC) in support of payment of salaries to the top managers. This is contrary to paragraph 11(c) of the Salary and Remuneration Act, 2011 which require that in addition to the powers and functions of the Commission under Article 230(4), the Commission shall advise the national and county governments on the harmonization, equity and fairness of remuneration for the attraction and retention of requisite skills in the public sector.

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

529.5 Irregular Payment of House Allowances

As disclosed in Note 9 to the financial statements, the staff cost balance of Kshs.123,173,567 includes house allowance amount of Kshs.21,125,034 out of which Kshs.11,981,984 was paid to various officers in excess of the rates recommended by the Salaries and Remuneration Commission (SRC) contrary to circular Ref. No: SRC/TS/MDP/3/1/2 (2) dated 11 August, 2015 on implementation of the revised house allowance in the public service.

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

529.6 Misclassification of Expenditure

The statement of profit or loss and other comprehensive income reflects administrative expenses of Kshs.50,376,537 which, as disclosed in Note 10 to the financial statements includes subsistence allowances amount of Kshs.12,920,702. However, the latter amount includes expenditure totalling to Kshs.4,077,814 in respect of payment for incentives, expenditure on Christmas party and payment of standby and late allowances that do not relate to daily subsistence. This is contrary to Regulation 99(1) of the Public Finance Management (County Government) Regulations, 2015, which stipulates that as a general rule, the classification of financial transactions in County government entity's accounts shall be based on the standard chart of accounts approved by the County Treasury.

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

529.7 Failure to Update Water Tariff Structure

The water tariffs charged by the Company were approved by Water Services Regulatory Board (WASREB) and gazette through Kenya Gazette notice on 23 May, 2014. However, a review of gazette notice number 3462 revealed that the approved water tariff adjustment related to water tariff structure for the period 2014/2015 and 2015/2016 but have remained without adjustment to date. This is contrary to provisions of Section 72(1)(a) of Water Act, 2016 which states that the power and functions of Regulatory Board shall be to evaluate and recommend water and sewerage tariffs to the County Water Services Providers and approve the imposition of such tariffs in line with consumer protection standards.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

530. Irregular Borrowing from Customers Deposit Account

As disclosed in Note 25 to the financial statements, the trade and other payables balance of Kshs.131,046,849 includes customers' deposits amount of Kshs.35,833,270. However, as reported in the previous year, the certificate of bank balance for the customer deposit account reflects a balance of Kshs.711, 434. The resulting difference of Kshs.35,121,836 being customers' deposit borrowed by the Company without a clear guideline or policy indicating utilization and how the amount will be refunded to the customers' deposit bank account.

In the circumstances, the borrowing of Kshs.35,121,836 from the Customers deposit account is irregular.

531. Lack of Data Recovery Plan

The Company did not have a data recovery strategy plan in place to safeguard it in case of unforeseen eventualities.

In the circumstances, the Company is not well prepared for disaster recovery and future occurrences are not anticipated and planned for.

532. Failure to Tag Assets

Physical verification of the Company's assets revealed that furniture, office lab equipment and computers were not tagged and did not bear serial numbers that could be matched with the fixed assets register for ease of identification.

In the circumstances, the Company's assets are exposed to the risk of misuse or loss.

KAHUTI WATER AND SANITATION COMPANY LIMITED

REPORT ON FINANCIAL STATEMENTS

Basis for Qualified Opinion

533. Long Outstanding Loan

As similarly reported in the previous year, the statement of financial position reflects a loan owed by the Company to the African Development Bank balance of Kshs.13,344,063. However, review of documents revealed that the Company had defaulted in servicing the loan for several years. Further, the outstanding repayments and interest and penalties if any, due on the unpaid amounts have, as in previous periods, not been provided for in the books of the Company.

In the circumstances, the disclosures made on the loan in the financial statements may not be accurate and complete.

534. Lack of Ownership Documents

The statement of financial position reflects property, plant and equipment balance of Kshs.77,963,374 as disclosed in Note 16(b) to the financial statements. This balance includes an amount of Kshs.8,265,000 in respect of 4 parcels of land held in various locations within Murang'a County. However, ownership documents including title deeds were not provided for audit. Further, the balance includes an amount of Kshs.2,332,500 in respect of motor vehicles and motorcycles, which includes two motor vehicles balance of Kshs.1,300,000 whose ownership documents are not in the name of the Company.

In the circumstances, the accuracy, completeness and ownership status of land and motor vehicles valued at Kshs.8,265,000 and Kshs.1,300,000 respectively could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

535. Excessive Non-Revenue Water

Water production records indicated that the Company produced 2,723,180 cubic meters of water, out of which 1,132,084 cubic meters were billed to customers and the difference totalling to 1,591,096 cubic meters or 58% of production reported as Non-Revenue Water (NRW). The NRW was 33 percentage points above the allowable loss of 25% set in guidelines issued by the Water Services Regulatory Board (WASREB).

In the circumstances, the high NRW ratio was an indication of unfavourable performance in harnessing the water produced and indicates substantial loss of resources which may pose a significant risk to sustainable delivery of services by the Company if not urgently controlled by Management.

536. Non-Compliance with Law on Staff Ethnic Diversity

As reported in the previous year, the Company had seventy-three (73) employees out of which, sixty-six (66) or 90% were drawn from the dominant ethnic community in the County. This was contrary to the requirements of Section 7(2) of the National Cohesion and Integration Act, 2008, which requires that no public establishment shall have more than one third of its staff from the same ethnic community.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

537. There were no material issues relating to effectiveness of internal controls, risk management and governance.

GATAMATHI WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

538. Material Uncertainty in Relation to Going Concern

The statement of financial position reflects current liabilities balance of Kshs.59,827,106 that exceeds the current assets balance of Kshs.32,765,448, resulting to a negative working capital of Kshs.27,061,658.

The financial performance and position is an indication of the existence of a material uncertainty which casts significant doubt on the Company's ability to continue as a going concern and meet its obligations as and when they fall due. The financial statements have therefore been prepared on a going concern basis on the assumption that the Company will continue to receive financial support from the County Government of Murang'a and its creditors. However, this material uncertainty in relation to going concern and any mitigating measures put in place by the Company Management to reverse the undesirable financial situation have not been disclosed in the notes to the financial statements.

539. Lack of Land Ownership Documents

The statement of financial position reflects of property, plant and equipment balance of Kshs.18,404,124 as disclosed at Note 9 to the financial statements. This balance includes Kshs.230,059 is in respect of land, buildings and fixtures. However, the land ownership documents were not provided for audit.

In the circumstances, the accuracy and ownership status of the land, buildings and fixtures of Kshs.230,059 could not be confirmed.

540. Long Outstanding Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.59,827,016 as disclosed at Note 14 to the financial statements. This balance includes Kshs.17,493,234 and Kshs.13,880,115 in respect of levy fees owed to regulatory bodies and gratuity to staff who were on contracts before being confirmed to permanent and pensionable terms respectively. However, the aging analysis provided indicated that the total amount payable of Kshs.31,373,349 had been outstanding for more than one year and related to the period between 2013/2014 to 2021/2022. No explanation was provided for failure to settle the debts as a first charge in the subsequent years.

In the circumstances, the Company may face suits and litigations to recover the amounts owed and liquidity difficulties were it to be made to meet the outstanding obligations.

541. Trade and Other Receivables

The statement of financial position reflects Kshs.30,237,058 in respect to trade receivables after provisions, which is an increase by Kshs.1,740,217 or 6% from previous year balance of Kshs.28,496,841. The persistent accumulation of trade and other receivables may have negatively affected the Company's cash flows.

Further, the Company made provisions of Kshs.30,553,513 or 50% for doubtful receivables which is an indication that the Company has a poor debt collection mechanism. In addition, there is no policy in place for the provision of bad and doubtful debts and the aged debtor's analysis provided for audit did not indicate the period that the receivables have been outstanding.

In the circumstances, the recoverability of the receivables balance of Kshs.30,237,058 is in doubt.

Other Matter

542. Unresolved Prior Year Audit Issues

The progress on follow-up on Auditor's recommendations section of the financial statements reflects issues raised in the previous year's audit report that remained unresolved as at 30 June, 2022. No satisfactory explanations were provided for not resolving the issues.

In the circumstances, the audit issues remained unresolved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

543. Exceeding Industrial Benchmark on Personnel Expenses

Note 5 to the financial statements reflects Kshs.36,260,277 in respect of staff costs which is 48% of the total operating expenses of Kshs.75,550,117. However, this is higher than the recommended ratio of 35% prescribed by Section 3.9(10) of the Water Services Regulatory Board (WASREB) Corporate Governance Guidelines, 2018 which states that, when fixing remuneration of the staff, the total expenditure for each financial year must not exceed the benchmarks set for the services sector nationally, so that personnel cost as share of operations and maintenance cost shall be contained within the 35%.

In the circumstances, the excess personnel costs may impact negatively on the Company's profitability and sustainability of services if measures are not put in place to contain the cost within the acceptable levels.

544. Staff Ethnic Diversity

The Company had a total staff of 61 out of which 60 (or 98%) were from one dominant ethnic community. This is contrary to Section 7 of the National Cohesion and Integration Act, 2008 which requires that all public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff and that no public establishment shall have more than one third of its staff from the same ethnic community.

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

545. Lack of an Updated Assets Register

Review of the assets register revealed that the Management has not tagged the Company's assets. In addition, assets locations and condition have not been disclosed contrary to Regulation 136(1) of Public Finance Management (County Governments) Regulations, 2015 which prescribes that the Accounting Officer shall be responsible for maintaining a register of assets under his or her control or possession as prescribed by the relevant laws.

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

546. Legal Services Without Approval

The statement of profit or loss and other comprehensive income reflects administrative cost of Kshs.14,664,989 as disclosed in Note 4 to the financial statements. This amount includes Kshs.1,353,291 in respect of legal fees. However, the criteria used to procure the legal services was not provided for audit. This is contrary to Section 17(1) of Office of the Attorney General Act, 2012 which states that no Ministry or Department shall engage the services of a consultant to render any legal services relating to the functions of the Attorney-General without the approval of the Attorney General.

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

547. Excess Non-Revenue Water

Examination of documents revealed that the Company produced 2,849,400 cubic meters of water, out of which 1,177,267 cubic meters representing forty-one percent (41%) was billed to customers and generated Kshs.60,040,540. The balance of 1,672,133 cubic meters or fifty-nine percent (59%) of production represents Non-Revenue Water (NRW) which is higher than the twenty-five percent (25%) provided for by Water Services Regulatory Board (WASREB) guidelines by twenty-four percent (24%).

In the circumstances, the high NRW is an indicator of inefficiency and ineffectiveness in use of public and water resources, which may negatively impact on the Company's profitability and ability to sustain service delivery.

548. Budgetary Control and Performance

Review of the budget estimates against actuals revealed over expenditures of Kshs.12,353,647 in fourteen (14) components without approvals contrary to Regulation 53(1) of the Public Finance Management (County Governments) Regulations, 2015 which states that except as provided for in the Act and these regulations, an Accounting Officer of an entity may not authorise payment to be made out of funds earmarked for specific activities other than those activities.

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

549. Expired Billing Tariff

The statement of profit or loss and other comprehensive income reflects Kshs.60,058,980 in respect of water billed to customers. However, it was noted that the existing tariffs were gazetted on 12 March, 2010 vide Kenya Gazette Notice Number 2610 effective for 12 months from the date of notice. At the time of the audit, no rates had been approved or gazetted for use by the Company.

In the circumstances, the Company may have earned lower incomes from the expired tariffs. Further, the Management was in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

550. Un-Serviced Fire Extinguishers

Audit verification revealed that firefighting equipment and facilities were not properly and adequately maintained. The fire extinguishers were not serviced and therefore could not be relied on to fight fire in case of a fire outbreak.

In the circumstances, the Company is at risk in case of fire outbreak.

551. Lack of Disaster Recovery Plan

The Company has no approved IT continuity plan and disaster recovery plan and therefore in the event of a disaster may lose data and would not recover from the disaster. Further, the Company does not have an IT steering and risk management committee contrary to Paragraph 3.6(a) and (d) of Chapter 3 of Code of Governance for State Corporations (Mwongozo) which states that the board should establish an ICT policy which is aligned to the objectives of the Organization and ensure that an appropriate Business Continuity Plan (BCP) is in place.

In the circumstances, it could not be confirmed how the Company would achieve its IT strategic objectives as well as recover data lost due to any eventuality.

GATANGA COMMUNITY WATER SCHEME

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

552. Inaccuracies in the Financial Statements

The financial statements presented for audit had the following anomalies.

552.1 Statement of Cash Flows

The statement of cash flows reflects total payments of Kshs.57,223,231 which differs with the re-computed total payments of Kshs.59,972,534 resulting to an unreconciled and unexplained variance of Kshs.2,749,303.

552.2 Statement of Comparison of Budget and Actual Amounts

The statement of comparison of budget and actual amounts reflects Nil total budget adjustment balances for both revenue and expenditure. However, the total adjustments add up to Kshs.18,030,317 and Kshs.18,766,881 for revenue and expenditure respectively resulting to an unreconciled and unexplained variance of negative Kshs.18,030,317 and Kshs.18,766,881 for each component.

In the circumstances, the accuracy and completeness of the respective financial statement balances could not be confirmed.

553. Long Outstanding Trade and Other Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.53,738,928 as disclosed in Note 18 to the financial statements. This balance includes trade receivables of Kshs.86,612,462 which is net of a provision of bad debts of Kshs.27,536,658. However as reported in the previous year, the trade receivables included debts amounting to Kshs.20,496,417 which have been outstanding for a long period. Although Management made a specific provision of Kshs.27,536,658 during the

year, no Board approval and break down of the specific debts being written off was provided for audit verification. Further, the Scheme had not established a Debt Management Policy as of 30 June, 2022 and no effort appears to have been made to recover the long outstanding account receivables.

In the circumstances, the accuracy and recoverability of the trade and other receivables balance of Kshs.53,738,928 could not be confirmed.

Other Matter

554. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

555. Unauthorized Tariff

The statement of profit or loss and other comprehensive income reflects operating revenue of Kshs.55,412,610 as disclosed under Note 6 of the financial statements from sales of one million, one hundred thousand, five hundred and twenty-five (1,100,525) cubic meters. However, the tariff used to bill the customers were not approved by WASREB contrary to provisions of Section 72(1) (a) of Water Act, 2016 which states that the power and functions of Regulatory Board shall be to evaluate and recommend water and sewerage tariffs to the County Water Services Providers and approve the imposition of such tariffs in line with consumer protection standards.

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

556. Estimated Water Bills

The statement of profit or loss and other comprehensive income reflects operating revenue of Kshs.55,412,610 as disclosed under Note 6 to the financial statements. Examination of documents provided for audit revealed that the scheme had a total of eight thousand six hundred thirty-one (8,631) customers out of which four thousand seven hundred and eighty-two (4,782) were metered, three thousand sixty-seven (3,067) were not metered meters and seven hundred eighty-two (782) were dormant. It was noted that all the clients who were unmetered were issued with estimated meter readings.

In the circumstances, the Scheme's revenue may have been lost through the unmetered customers.

557. Excess Staff Costs

The statement of profit or loss and other comprehensive income reflects staff costs of Kshs.27,660,885 as disclosed in Note 9 to the financial statements which is approximately 38% of total operating expenses of Kshs.72,401,030. This is contrary to the recommended ratio of 35% prescribed by the Water Services Regulatory Board (WASREB). Corporate Governance Guidelines, 2018 Section 3.9(10) which states that, when fixing remuneration of the staff the total expenditure for each financial year must not exceed the benchmarks set for the services sector nationally, so that personnel cost as share of operations and maintenance cost shall be contained within the 35%.

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

558. Irregular Absorption of Casuals

Review of documents provided for audit revealed that the Scheme changed the terms of employment of thirty-seven (37) persons from casual employment to one-year contract. However, no budgetary provision was made for the additional staff costs and there was no need assessment exercise carried out to determine whether the new staff were required. Further, the staff establishment provided did not include the additional staff count and the staff projection for the subsequent year. This is contrary to Paragraph 2.13 of Human Resource Manual for the Scheme which states that promotion shall be based on evaluation of current performance and of the staff members demonstrating potential for further responsibility. Promotions can occur when a post falls vacant or is newly created.

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

559. Staff Ethnic Diversity

The Scheme had a total staff of 74 out of which 66 (or 89%) were from one dominant ethnic community. This is contrary to Section 65(e) of the County Governments Act, 2012 which requires the County Governments to ensure that at least thirty percent of the vacant posts at entry level are filled by candidates who are not from the dominant ethnic community in the county.

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

560. Corporate Governance

Review of documents provided for audit revealed that five (5) Board members have no term limits and have been serving since the inception of the Water Scheme in the year 2009. This is contrary to Paragraph 3.4.5 of Water Services Regulatory Board (WASREB) corporate governance guidelines for the water services sector which requires that board members shall serve a maximum of six (6) years based on the approval of the shareholders and on performance issues.

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

561. Budgetary Control and Performance

Review of the budget estimates against actuals revealed over expenditure of Kshs.12,353,647 in eighteen (18) components without approval contrary to Regulation 43(2) of the Public Finance Management (County Governments) Regulations, 2015 which states that County Government entities shall execute their approved budgets based on the annual appropriation legislation, and the approved annual cash flow plan.

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

562. Lack of Ownership Documents

The statement of financial position reflects property, plant and equipment balance of Kshs.19,369,904 as disclosed in Note 5 to the financial statements. This balance includes motor vehicles and motor cycles balance of Kshs.741,785. However, examination of records revealed that one (1) motor vehicle's logbook was in the name of Athi Water Services Board while ten (10) motor cycles did not have logbooks.

In the circumstances, the ownership status of motor vehicles and motor cycles of Kshs.741,785 could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

563. Lack of a Functional Internal Audit

Review of records revealed that the Scheme does not have an internal audit function. This is contrary Regulation 153 (1) (a), (b) and (c) of the Public Finance Management (County Governments) Regulations, 2015 which states that the internal auditors shall review and evaluate budgetary performance, financial management, transparency and accountability mechanisms and processes in county government entities, including County Assembly, have a duty to give reasonable assurance through the audit committee on the state of risk management, control and governance within the organization and review the effectiveness of the financial and non-financial performance management systems of the entities.

In the circumstances, the efficiency and effectiveness of operations of the Scheme's internal controls and risk management processes could not be confirmed.

564. Lack Information Communication Technology Governance Structure

Examination of documents revealed that the Management had no Information Communication Technology (ICT) strategic plan and the strategic steering committees of the Board of Directors. Further, the Scheme has not developed, documented or implemented, the ICT strategic plan, security policy and the ICT continuity plan and disaster recovery plan.

In the circumstances, Management have not implemented information technology governance and the information technology goals that contribute to strategic objectives. Further, the Scheme may not be able to recover from unforeseen disasters that may lead to loss of data or information.

MURANG'A SOUTH WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

565. Long Outstanding Trade and Other Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.94, 550,828 as disclosed in Note 29 to the financial statements. This includes trade receivables of Kshs.73,545,823. However, as previously reported, the latter balance includes water sales receivables amounting to Kshs.56,763,840 relating to the financial year 2020/2021 and earlier years. Further, included is VAT receivables balance of Kshs.22,717,071 which have been outstanding for a long period without efforts to recover them. In addition, the balance reported as net trade and other receivables is overstated by Kshs.775,751 created by casting error.

In the circumstances, the accuracy and recoverability of trade and other receivables balance of Kshs.94, 550,828 could not be confirmed.

566. Long Outstanding Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.88,294,256 as disclosed in Note 42 to financial statements. This included is trade payable balance of Kshs.66,229,151 out of which an amount of Kshs.43,466,219 in respect to Tana Water Services Board, Water Services Regulatory Board and Water Resource Authority relates to financial year 2020/2021 and earlier years which have not been settled. Further, Management did not explain why the liabilities were classified under recurrent liabilities yet they relate to prior years.

In the circumstances, the completeness and accuracy of trade and other payables balance Kshs.88,294,256 could not be confirmed.

Other Matter

567. Unresolved Prior Year Audit Issues

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved the issues or given any explanation for failure to resolve the issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

568. Staff Ethnic Composition

As previously reported, review of the Company's staff records revealed that it had one hundred and fifty-six (156) staff out of which one hundred and forty-three (143) or 92% of the total number were members from one dominant ethnic community. This is contrary to Section 7 (1) (a) and (b) of the National Cohesion and Integration Act, 2008 which requires that all public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff and that no public establishment shall have more than one third of its staff from the same ethnic community.

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

569. Personnel Cost in Excess of the Recommended Threshold

The statement of profit or loss and other comprehensive income reflects staff cost of Kshs.95,255,790 representing approximately 37% of the total expenditure of Kshs.256,162,084. However, as previously reported, the ratio is higher than the recommended limit of 35% for large companies where the water service provider has been categorized as recommended by Section 3.9(10) of Water Services Regulatory Board (WASREB) Corporate Governance Guidelines, 2018.

In the circumstances, the excess personnel costs may negatively impact on the Company's profitability and sustainability of services if measures are not put in place to contain the cost within the acceptable levels.

570. Failure to update Water Tariff Structure

Review of the customer tariffs charged by the Company revealed that they were approved by Water Services Regulatory Board (WASREB) and gazetted through Kenya Gazette notice Number 11788 on 17 August, 2012 for the financial years 2012/2013 and 2013/2014. However, the tariffs have since not been adjusted contrary the provisions of Section 4.2 of WASREB tariff guidelines which require that the Water Service Providers (WSPs) shall develop the Tariff Adjustment proposal in collaboration with the Water Services Board (WSB). When the WSB is satisfied that the Tariff Adjustment proposal has been prepared in accordance with these Tariff Guidelines, the WSB shall submit the Tariff Adjustment proposal to the Regulatory Board for analysis and approval.

In the circumstances, the tariffs levied by the Company may negatively impact on the Company's profitability and sustainability of services if not updated.

571. High Non-Revenue Water Threshold

The Company produced a total of 6,120,275 cubic meters of water out of which only 3,250,753 cubic meters was billed (sold). The resulting difference of 2,869,522 cubic

meters on total volume of water produced or approximately 46.89% represents Non-Revenue Water (NRW), which is 21.89% above the allowable water loss threshold of 25% as per the Water Service Regulatory Board guidelines.

In the circumstances, the high NRW is an indicator of inefficiency and ineffectiveness in use of public and water resources, which may negatively impact on the Company's profitability and ability to sustain service delivery to the public.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

572. There were no material issues relating to effectiveness of internal controls, risk management and governance.

KIAMBU COUNTY – NO.22

KIAMBU WATER AND SEWERAGE COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

573. Trade and Other Payables

The statement of financial position and Note 18 to the financial statements reflect trade and other payables balance of Kshs.194,191,170. Review of the records in respect of the balance revealed the following:

573.1 Long Outstanding Payables

Although the balance of trade and other payables reduced from a balance of Kshs.210,383,114, as reported in the previous financial year, it includes long outstanding payables of Kshs.175,417,563 to eighty-two (82) entities and individuals out of which the bulk of the balance of Kshs.165,902,261 has been outstanding over the years and was owed to four (4) institutions namely; Nairobi Water Company Limited, Kshs.97,249,389; Water Services Regulatory Board, Kshs.22,231,925; Athi Water Services Board, Kshs.38,887,023; and Athi Water Works Development Authority, Kshs.7,533,924. No explanation was provided for the failure to settle the long outstanding bills and regulatory fees. In addition, confirmations of amounts owing to Water Services Regulatory Board, Athi Water Services Board and Athi Water Works Development Authority were not provided.

573.2 Payables on Complete Uncapitalized Projects

Included in the long outstanding payables is Kshs.7,533,924 owed to Athi Water Works Development Authority. Review of supporting documents revealed that the amount is loan and interest payable in six months for loan number AWSB/WASSIP AF/CAMPI/W-8/13, signed on July, 2014, of Kshs.521,000,000. The loan was channeled through the Authority from World Bank for two water dams and treatment plants at Riara and Kamiti Rivers in Duberi and Githunguri areas of Kiambu County. The repayment was to start from the month of March, 2022 and end in the month of September, 2022. Physical verification of the two projects carried out on 30 January, 2023 revealed that the projects were complete and in use by the Company since the year 2017. However, no explanation was provided as to why the works were not capitalized to property, plant and equipment (PPE) even though the Company continues to derive commercial benefits from the works.

In the circumstances, the accuracy, completeness of trade and other payables balance of Kshs.194,191,170 could not be confirmed.

573.2.1 Unwritten-off Payroll Liabilities

The statement of financial position reflects payroll liabilities balance of Kshs.10,909,799 as disclosed in Note 19(a) to the financial statements. The amount includes actuarial

deficit (NWCPC Superannuation Scheme) balance of Kshs.3,015,864 for nine (9) employees of the National Water Conservation and Pipeline Corporation redeployed to the Company. The liabilities had been partly paid by National Water Conservation and Pipeline Corporation, however the amount has not been written off in the Company's books of accounts.

In the circumstances, the accuracy and completeness of the payroll liabilities balance of Kshs.10,909,799 could not be confirmed.

573.2.2 Non-Disclosure of Water Inventory

The statement of financial position reflects inventories balance of Kshs.24,196,522 as disclosed in Note 15 to the financial statement. The breakdown was not provided for audit review. Further, records provided did not reveal any disclosure of the opening and closing balances in respect of water stocks held in reservoirs, water treatment plants and water system in the financial statements, as part of cost of sales, contrary to the International Accounting Standards 2, Sections 6 and 9 which defines inventory to include assets held for sale or distribution in the ordinary course of operations or in the process of production for sale or distribution.

In the circumstances, the accuracy and completeness of the inventories balance of Kshs.24,196,522 could not be confirmed.

Emphasis of Matter

574. Material Uncertainty in Relation to Going Concern

The statement of financial position reflects current liabilities balance of Kshs.219,612,709 and current assets balance of Kshs.174,151,335 resulting to a negative working capital of Kshs.45,461,374 or a current ratio of about 0.8. This is an indication that the Company does not have enough liquid assets to settle its short-term liabilities.

The Company may therefore have challenges in paying its bills as and when they fall due. A negative working capital may also imply that the accounts payables of the Company are not paid on time. The Company is therefore technically insolvent. Although Management has taken a number of steps including gazettelement of new higher water tariffs, hydrological survey awaiting final results at Lioki dam whose results are not yet known and target connection of 500 new applicants at Thindigua and 500 new applicants at Kia-Mumbi, no statistical assurance has been provided to confirm that once the projects are implemented, the Company can reverse the trend.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

575. Loss of Revenue

The statement of profit or loss and other comprehensive income indicates that the Company realized Kshs.220,689,671 in respect of operating revenue from water sales as disclosed in Note 6 to the financial statements. During the year under review, the

Company produced a total of 3,310,911 cubic meters of water, out of which 2,303,158 cubic meters of water was sold (billed) to customers. The difference of 1,007,753 cubic meters represents unaccounted for water, being 30% of the total water produced which is 5% points above the allowable loss of 25% set by Water Services Regulatory Board (WASREB) Guidelines. The unaccounted-for water may have resulted into loss of sales estimated at Kshs.94,169,018. Had the non-revenue water been billed, the total water and sewer billing would have been Kshs.310,363,179 instead of Kshs.216,194,161 disclosed.

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

576. Long Outstanding Trade and Other Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.136,090,174 as disclosed in Note 16 to the financial statements. The amount includes debtors balance of Kshs.99,230,599 which had remained unrecovered for more than one hundred and twenty (120) days and out of which receivables balance of Kshs.14,185,330 dated back to 23 December, 2020. However, no steps appear to have been taken by the Company to recover the long outstanding receivables.

In the circumstances, the recoverability of the trade and other receivables balance of Kshs.136,090,174 is doubtful.

577. Non-Adherence to Diversity in Employment

Examination of human resource records revealed that during the year under review the Company had the local dominant ethnic community employed with forty-nine (or 78%) of the total employees. This is 48% above what is provided for in Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 that no public establishment shall have more than one third of its staff from the same ethnic community.

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

578. Irregular Appointment of Board Members

The statement of profit or loss and other comprehensive income reflect board expenses of Kshs.5,299,171 as disclosed in Note 11 to the financial statements. However, information on the rates of allowances applied to pay the Board members were not disclosed. Included in this expenditure are allowances paid to the members of the caretaker board that was in place from 01 July, 2021 to 13 February, 2022, contrary to Section 79(1) of the Water Act, 2016, providing that each water service provider should have a Board of Directors constituted in accordance with the Companies Act, 2015 and any other written law. Available information indicate that the payment was made to twelve (12) Directors who held office during the period in question, appointed on 26 March, 2019 for a period of two years and which was extended for a further one year from 20 April, 2021. As previously reported, the appointment letters indicate that the Directors were appointed to act on behalf of Kiambu County Water and Sewerage Company, which is a separate entity from Kiambu Water and Sewerage Company Limited.

Review of Board appointment letters and other available information revealed that the Board has six (6) members, excluding the Managing Director, as opposed to the range of seven to nine members as provided in Mwongozo, Paragraph 1.1. A third gender rule was also not adhered to as the Board had only one female member against five males.

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

579. Failure to Convene Annual General Meeting (AGM)

The Budget statement indicated that the Company budgeted for an Annual General Meeting (AGM) at an estimated cost of Kshs.300,000. However, available information indicate that the Company has not held AGM since 2014, contrary to Section 310 of the Company's Act, 2015.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

580. Lack of IT Steering Committee

Review of IT Policy revealed that the Company has an approved disaster recovery plan. However, the plan has not been implemented and IT Steering Committee to oversee its implementation has not been constituted.

In the circumstances, in the event of disaster, the Company may lose data, which may affect planning, decision making and operations. Further, in the absence of IT Steering Committee, it is not possible to ascertain how the Company plans to achieve its IT strategic objectives.

KARURI WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

581. Excessive Non-Revenue Water (NRW)

The statement of profit or loss and other comprehensive income reflects operating revenue of Kshs.77,373,860 as disclosed in Note 6 to the financial statements in relation to water sales. The Company produced 1,599,344 cubic meters of water out of which 1,005,905 cubic meters of water was billed to customers resulting to NRW of 593,439 cubic meters or approximately 37.1% of the total water production which is above the allowable water loss of 25% as per the Water Service Regulatory Board guidelines by 12.1 percentage points.

In the circumstances, the accuracy of operating revenue of Kshs.77,373,860 could not be confirmed.

582. Inaccurate Bank and Cash Balance

The statement of financial position reflects bank and cash balance of Kshs.8,267,299 as disclosed in Note 20 to the financial statement. Management operated nine (9) bank accounts held in four (4) banks. However, review of bank reconciliations statements for various cash books and accounts held revealed that the Company held various unreceipted payments and deposits made to the wrong accounts totalling to Kshs.758,293 dating back to the year 2013 that have not been settled and recorded in the cashbooks. There was no satisfactory explanation as to why the amounts were yet to be cleared or evidence of action taken by the Company to settle the amounts.

In the circumstances, the accuracy and completeness of bank and cash balance of Kshs.8,267,299 could not be confirmed.

583. Accuracy of Customer Deposits Balance

The statement of financial position reflects a customer deposits balance Kshs.20,982,770 as disclosed in Note 25 to the financial statements. However, Note 20 to the financial statements on cash and cash equivalents reflects a balance of Kshs.8,267,299 which includes a balance of Kshs.7,095,927 maintained at a local bank in respect of customer deposits resulting to an unreconciled variance of Kshs.20,903,178. Further, the list of customers and the amounts owing to them has not been provided for audit.

In the circumstances, the accuracy of customers deposits balance of Kshs.20,982,770 could not be confirmed.

584. Non-Disclosure of Inventory of Water

The statement of financial position reflects inventory balance of Kshs.1,655,033 as disclosed in Note 18 to the financial statements which includes pipes and fittings and stationery. However, Management did not disclose the undetermined opening and closing water stocks held in the reservoirs, water treatment plant and in the water system in the financial statements. In addition, there was no documentary evidence provided showing that Management measured the water volume in the water treatment plant, reservoirs and distribution systems.

In the circumstances, the accuracy and completeness of the inventory balance of Kshs.1,655,033 could not be confirmed.

Emphasis of Matter

585. Failure to Disclose Material Uncertainty in Relation to Going Concern

The statement of financial position reflects accumulated negative retained earnings balance of Kshs.54,771,947 as disclosed in Note 22 to the financial statements. Even though the accumulated retained earnings reduced due to the surplus for the year under of Kshs.10,833,651, the Company registered a negative working capital of Kshs.85,669,753 as a result of the balance of current liabilities of Kshs.127,631,889

exceeding the balance of current assets of Kshs.41,962,136 an indication that the Company is technically insolvent, may not be able to meet its current obligations as and when they fall due and the material uncertainty casts significant doubts on its ability to continue as a going concern. Management has not put in place any mitigating measures to reverse the undesirable precarious financial position and the material uncertainty in relation to going concern have not been disclosed in the notes to the financial statements.

In view of the negative working capital, the ability of the Company to continue to meet her obligations as and when they fall due is doubtful.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

586. General and Operational Costs

The statement of profit or loss and other comprehensive income and as disclosed Note 11 to the financial statements indicate that general and operations costs totaled to Kshs.63,879,978. Review of records revealed the following:

586.1 Irregular Expenditure on Bulk Water

Included in general and operations costs is bulk water expenditure of Kshs.28,103,760. During the year under review, the Management purchased bulk water amounting to Kshs.28,103,760 from Nairobi and Limuru water and Sewerage Company Limited. However, no bulk water purchase contract agreements between the parties approved by the Regulatory Board were provided for review contrary to Section 100(2) of the Water Act, 2016 which states that a water service provider may enter into an agreement with any other licensee or water services provider on terms and conditions to be approved by the Regulatory Board for the supply of water in bulk for a specific period or where the supply is to be given by a water services provider, either within or outside the area of service of that water services provider.

586.2 Irregular Procurement of Fuel and Lubricants

Included in general and operations costs is fuel and lubricants expenditure of Kshs.2,008,324. Review of the payment vouchers and other supporting documents amounting to Kshs.1,978,548 revealed that the procurement of fuel and lubricants was awarded to a local Company. However, procurement documents were not provided for audit contrary to the provisions of the Public Audit Act 2015, Section 9(1)(e) which states that without prejudice to the powers given under the Constitution and this Act and for the purposes of carrying out his or her duties effectively, the Auditor-General, or an officer authorized for the purpose of this Act, shall have powers of unrestricted access to all books, records, returns, reports, electronic or otherwise and other documents of entities listed under Article 229(4) of the Constitution. In addition, a verification from the Energy and Petroleum Regulatory Authority portal revealed the vendor was not a licensed retailer of bulk LPG contrary to the provisions of Petroleum Liquified petroleum Gas Regulations, 2019.

586.3 Irregular Payment of Telephone Expenses

Included in general and operations costs is telephone expenses amounting to Kshs.1,149,836. Review of documents provided for audit revealed that staff were advanced amounts depending on their designation for airtime. For the year under review Kshs.979,842 was spent on airtime for members of staff. However, the airtime policy provided, showed the expenses were approved on 11 May, 2022 by the Board. In the circumstances, airtime expenses amounting to Kshs.819,622 were incurred before the policy was in force contrary to Regulation 22(2)(e) of Public Finance Management (County Government) Regulations, 2015 which require that Accounting Officer take into account all relevant financial considerations, including issues of propriety, regularity and value for money, when policy proposals affecting the Accounting Officer's responsibilities are considered, and when necessary, bring those considerations to the attention of the relevant authority.

586.4 Irregular Motor Vehicle Maintenance Expenditure

Included in general and operations costs is motor vehicle maintenance costs amounting to Kshs.926,987. Review of sampled payment vouchers worth Kshs.775,601 revealed that there were no pre-inspection reports indicating the need for repair. Further, the procurement process followed in acquiring the motor vehicle spare parts and sourcing for maintenance services were not in line with Regulation 174(1) of the Public Procurement and Asset Disposal Regulation, 2020 which states that a procuring entity shall utilize its own workshop or garage to repair and maintain motor vehicles, plant or equipment and that where the procuring entity lacks the capacity to carry out the repairs or maintenance, an Accounting Officer shall competitively procure such services from a pre-qualified list of service providers licensed to undertake such services in accordance with the Act, these Regulations and any other relevant laws.

586.5 Irregular Expenditure on Travelling, Accommodation and Subsistence Allowances

Included in general and operations costs is Kshs.1,578,190 for travelling accommodation and subsistence. Examination of payment vouchers relating to this expenditure revealed that members of staff were provided with imprest in a way of signed forms while working away from duty station, but the Company does not maintain imprest register and therefore these imprests are not recorded. Further, no imprest warrant was used to support the imprest issued contrary to Regulation 93(1) of the Public Finance Management (County Governments) Regulations, 2015 which directs that an imprest shall be issued for a specific purpose, and any payments made from it, shall be only for the purposes specified in the imprest warrant.

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

586.6 Irregular Payment of Board Expenses

The statement of profit or loss and other comprehensive income and as disclosed in Note 12 to the financial statement indicate that an expenditure of Kshs.2,046,137 was in respect of board expenses. Included in this expenditure is Kshs.1,444,647 paid to the members of the Board that was in place from 01 July, 2021 to 13 February, 2022 as sitting

allowances. Available information indicate that the payment was made to twelve (12) Directors who held office during the period and who were appointed on 26 March, 2019 for a period of two years which was extended for a further one year from 20 April, 2021 contrary to Chapter 1 of the code of governance for state corporations (Mwongozo) on the appointment, composition and size of the Board of Directors require that the board appointment be made in line with Article 27 of the Constitution, the Board will be appointed through a transparent and formal process governed by the overriding principle of merit and that the board membership of all state corporations shall be between seven (7) and nine (9) members. As previously reported, the appointment letters indicate that the directors were appointed to act on behalf of Kiambu County Water and Sewerage Company, which is a separate entity from Karuri Water and Sanitation Company Limited.

In the circumstances, Management was in breach of the law and the regularity of expenditure totalling to Kshs.2,046,137 incurred on could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

587. There were no material issues relating to effectiveness of internal controls, risk management and governance.

RUIRU-JUJA WATER AND SEWERAGE COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

588. Non-Disclosure of Water Inventory

The statement of financial position reflects inventories balance of Kshs.8,775,225 as disclosed in Note 20 to the financial statement. This balance comprises of pipes and fittings of Kshs.6,904,059, chemicals of Kshs.1,726,892 and stationery and general stores of Kshs.144,274. However, disclosure of the opening and closing balances in respect of water stocks held in the reservoirs, water treatment plant and in the water system in the financial statements, which should have been part of cost of sales was not done, contrary to International Accounting Standards 2 Section 6 and 9 which defines inventory to include assets held for sale or distribution in the ordinary course of operations or in the process of production for sale or distribution.

In the circumstances, the accuracy and completeness of the inventories balance of Kshs.8,775,225 could not be confirmed.

Other Matter

589. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised. However, Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

590. Excess Non-Revenue Water

The statement of profit or loss and other comprehensive income and Note 6 to the financial statements indicates that the Company realized Kshs.849,642,906 in respect of operating revenue from water sales. Review of records revealed that the non-revenue water for the year was 36.2%. The actual non-revenue water exceeded the acceptable limit of 25% by 11% percentage points over and above the recommended threshold contrary to the guidelines on NRW issued by the Water Services Regulatory Board (WASREB) that allow a maximum loss of 25% of the quantity of water produced. Management did not provide a satisfactory explanation for the high NRW ratio which implied that the Company's water supply system was inefficient. Should the NRW losses not be controlled, the profitability and sustainability of the Company's operations is likely to be curtailed. Further, Management did not explain the mechanisms it has put in place to ensure a reduction of the high rate of non-revenue water.

In the circumstances, the significant level of non-revenue water is an indication of lack of effectiveness in the use of public resources and, may negatively affect the Company's profitability and its long-term sustainability.

591. Non-Adherence to National Cohesion and Integration Act, 2008 on Diversity in Employment of Staff Members

Review of the human resource records maintained revealed that the Company had two hundred and eighteen (218) members of staff, one hundred and eighty (180) or 83% of whom were from one dominant ethnic community contrary to Section 7(2) of National Cohesion and Integration Act, 2008 which provides that the staff establishments of public entities to reflect the diversity of the people of Kenya with least 30% of employees are expected to be from other ethnic communities.

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

592. Irregular Appointment of Board Members

The statement of profit or loss and other comprehensive income and Note 14 to the financial statements indicate that an expenditure of Kshs.5,970,614 was in respect of Board expenses. However, information on the rates of allowances due or paid to the Board members was not disclosed. Similarly, the expenditure includes allowances paid to the members of the caretaker board that was in place from 1 July, 2021 to

13 February, 2022 contrary to the provisions of Section 79(1) of the Water Act, 2016 which provides that each water service provider should have a Board of Directors constituted in accordance with the Companies Act, 2015 and any other written law. Provided information indicate that the payment was made to twelve (12) directors who held office during the period and who were appointed on 26 March, 2019 for a period of two years which was extended for a further one year from 20 April, 2021. Further, as previously reported, the appointment letters indicate that the directors were appointed to act on behalf of Kiambu County Water and Sewerage Company, which is a separate entity from Ruiru-Juja Water and Sewerage Company Ltd.

In addition, according to a letter dated 17 February, 2022 the County Executive Committee Member (CECM) appointed three county officers to be directors of the Water Company. However, according to the Water Act, 2016 the County is supposed to nominate two officers namely Chief Officer Finance and Chief Officer Water Services and not Chief Officer Administration. The CECM Water attended a three-day board meeting and earned all the allowances for a Board member but his role in the meeting was not supported.

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

593. Poor Workmanship on Construction of Perimeter Wall at Kibendera Staff Quarters

The contract was awarded to a local construction firm through request for quotation at a contract sum of Kshs.4,770,268. Field inspection carried out in February, 2023 revealed that the substructure of the entire project was not up to standard as the strip foundation was not elevated above the ground subjecting the foundation to possibilities of flooding. Further, the perimeter fence had developed numerous cracks. In addition, there was no material testing report to approve the materials that were used in the construction.

594. Drilling and Equipping Boreholes and Elevated Tanks

Review of procurement records revealed that a local engineering firm was awarded a contract Ref. No. RUJWASCO/T/75/2021/22 for provision of drilling and equipping two boreholes and elevated tanks at Murera and Muthaara Primary Schools at a cost of Kshs.19,258,349. Management later changed the location of the borehole from Muthaara Primary School to Karamaini Primary School, vide Ref: RUJWASCO/T/75/2021/22(2) for a similar cost due to dry yield at 200m. However, a sum of Kshs.1,446,520 was paid for the first certificate yet no works had been done at the site.

In the circumstances, value for money on expenditure of Kshs.1,446,520 could not be confirmed.

595. Stalled Project

Field verification carried out in the month of February, 2023 revealed that a capital project was undertaken by Ruiru-Juja Water Company for the construction of Kenyatta Road - Thiririka River Sewer Project at a cost of Kshs.19,489,102 by a local firm with a completion date of 5 June, 2021. However, the project had stalled after the contractor

encountered some difficulties while excavating the sewer line around Juja City Mall. It was agreed that work be suspended pending evaluation and feasibility study on different options available to reroute the sewer line. As at the time of the field inspection the contractor was not on site and a decision had not been made on the way forward. The project was 75% complete and the value of work certified was Kshs.13,472,076 or 69% of the contract price.

In the circumstances, the projects may not have been properly planned and commissioned and may lead to loss of public funds.

596. Failure to hold an Annual General Meeting

The Company did not hold an Annual General Meeting contrary to Section 310(1) of the Companies Act, 2015 which provides that every public company shall hold a general meeting as its annual general meeting within six months from and including the day following its accounting reference date in each year, whether or not it holds other meetings during that period.

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

597. Establishment and Functioning of the Internal Audit Function

Review of the internal audit function revealed that although an internal audit Charter had been prepared, it had not been approved by the Board. Further, the internal audit department was understaffed and not adequately facilitated as there was no clear budget line including staffing and training. This is contrary to Regulation 162 (2)a of the Public Finance Management (National Government) Regulations, 2015 which provides that an Accounting Officer shall ensure that the organizational structure of the internal audit facilitates the entity to accomplish its internal audit responsibilities.

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

598. Unbalanced Budget

The statement of comparison budget and actual amounts reflects final revenue budget of Kshs.864,595,728 and total expenditure budget of Kshs.831,300,000 resulting to a budget surplus of Kshs.33,295,728 contrary to Regulation 31(c) of the Public Finance Management (County Governments) Regulations, 2015 which provides that unless provided otherwise in the Act, these Regulations or any other guidelines developed in furtherance of the Act or these Regulations, the budget revenue and expenditure appropriations shall be balanced.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

599. Failure to Prepare a Strategic Plan

Review of records revealed that the Company did not have in place a strategic plan as required by Section 149(2)(g) of Public Finance Management Act, 2012. This was

occasioned by a planned merger of all water companies in Kiambu County, whereby a single strategic plan was prepared for Kiambu Water and Sewerage Company Limited into which the various water companies were to be consolidated. However, as at 30 June, 2022, the merger had not been affected and therefore the water companies operated independently.

In circumstances, the strategic goals not may not be achieved.

600. Lack of a Risk Management Policy

The Company did not have an approved risk management policy and did not carry out the risk assessment on risky areas. This is contrary to Regulation 165(1) the Public Finance Management (National Government) Regulations, 2015 which provides that the Accounting Officer shall ensure that the Government entity develops risk management strategies, which include fraud prevention mechanism; and a system of risk management and internal control that builds robust business operations.

In the circumstances, it was not possible to confirm the existence and effectiveness of the Company's risk management strategies.

601. Lack of Approved ICT Policy

Review of the Company's ICT environment revealed that there was no formal approved ICT policy in place. Further, the ICT organization structure was not provided for audit.

In the circumstances, the security and reliability of the Company's data including the management information system could not be confirmed.

LIMURU WATER AND SEWERAGE COMPANY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

602. Inaccurate Statement of Cash Flows

Review of the statement of cash flows revealed purchase of property, plant and equipment amounting to Kshs.1,557,199 for the comparative year. However, the prior year audited financial statements reflects an amount of Kshs.2,485,200 for property, plant and equipment purchased during that year. The variance amounting to Kshs.928,001 was not reconciled.

In the circumstances, the accuracy of the statement of cashflows could not be confirmed.

603. Excessive Non-Revenue Water

The statement of profit or loss and other comprehensive income reflects operating revenue amounting to Kshs.129,417,084 as disclosed in Note 6 to the financial

statements. Review of revenue records revealed that the Company produced a total of 2,104,947 cubic meters of water out of which 1,415,777 cubic meters of water was sold (billed) to customers. The difference of 689,170 cubic meters represents unaccounted for water being 32.74% of the total water produced which is 7.74 percentage points above the allowable loss of 25% set by Water Services Regulatory Board (WASREB) Guidelines. The unaccounted-for water may have resulted into loss of sales estimated at Kshs.41,350,200 worth of water.

In the circumstances, the accuracy of operating revenue of Kshs.129,417,084 could not be confirmed.

604. Unexplained Variance of Customer Deposits Balance

The statement of financial position reflects customer deposits balance of Kshs.13,068,000 as disclosed in Note 21 to the financial statements. However, review of the bank statement for deposit bank account revealed a balance of Kshs.1,795,957 resulting to a variance of Kshs.11,272,043. Management provided approval for borrowing of Kshs.6,000,000 and Kshs.1,000,000 during 2020/2021 and 2021/2022 financial years' respectively from the customers' deposits account. However, authority of the County Treasury to use the customers' deposits was not provided.

In the circumstances, the accuracy and completeness of customer deposits balance of Kshs.13,068,000 could not be confirmed.

605. Long Outstanding Trade and Other Receivables Balance

The statement of financial position reflects trade and other receivables balance of Kshs.25,937,769 as disclosed in Note 15 to the financial statements. Review of the account's receivables listing revealed long outstanding balances of Kshs.43,571,979 which had been outstanding for a period of more than ninety (90) days. Included in the balance are debts due from a local shoe manufacturer out of which Kshs.11,470,926 was outstanding for over five (5) years.

In the circumstances, the completeness and recoverability of the trade and other receivables balance of Kshs.25,937,769 could not be confirmed.

606. Non-Disclosure of Inventory of Water

The statement of financial position reflects inventory balance of Kshs.1,807,660 as disclosed in Note 14 to the financial statements in respect of pipes and fittings, chemicals, water meters and stationery. However, Management did not disclose the opening and closing water stocks held in the reservoirs, water treatment plants and in the water system in the financial statements.

In the circumstances, the accuracy and completeness of the inventory balance of Kshs.1,807,660 could not be confirmed.

Emphasis of Matter

607. Failure to Disclose Material Uncertainty in Relation to Going Concern

The statement of financial position reflects total current assets balance of Kshs.30,888,759 and total current liabilities balance of Kshs.100,245,573 resulting to a negative working capital of Kshs.69,356,814. Further, the statement reflects accumulated deficit amounting to Kshs.78,611,716. This material uncertainty casts significant doubts on the Company's ability to continue as a going concern and may not be able to meet its current obligations as and when they fall due.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

608. Irregular Board Expenditure

The statement of profit or loss and other comprehensive income reflects board of Kshs.4,350,280 as disclosed in Note 11 to the financial statements. However, information on the rates of allowances due or paid to the Board members was not disclosed. Included in this expenditure are allowances paid to the members of the caretaker board that was in place from 1 July, 2021 to 13 February, 2022 contrary to the provisions of Section 79(1) of the Water Act, 2016 which provides that each water service provider should have a Board of Directors constituted in accordance with the Companies Act, 2015 and any other written law. Available information indicate that the payment was made to twelve (12) directors who held office during the period in question and who were appointed on 26 March, 2019 for a period of two years which was extended for a further one year from 20 April, 2021. As previously reported, the appointment letters indicate that the directors were appointed to act on behalf of Kiambu County Water and Sewerage Company, which is a separate entity from Limuru Water and Sewerage Company Ltd.

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

609. Incomplete Fixed Assets Register

The statement of financial position reflects property, plant and equipment balance of Kshs.29,693,181 as disclosed in Note 13 to the financial statements. Review of the assets register revealed that the register did not have details such as tag numbers, invoice numbers, serial numbers and conditions of the assets contrary to Section 149(2)(o) of the Public Finance Management Act, 2012 which provides that an Accounting Officer should ensure that the respective County Government entity has adequate systems and processes in place to plan for, procure, account for, maintain, store and dispose of assets, including an asset register that is current, accurate and available to the relevant County Treasury or the Auditor-General.

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

610. Long Outstanding Trade and Other Payables Balance

The statement of financial position reflects trade and other payables balance of Kshs.87,077,025 as disclosed in Note 20 to the financial statements. This balance includes long outstanding payables to Water Services Regulatory Board, Water Resource Management Authority, Thika Water and Sewerage Company and Athi Water Services Board amounting to Kshs.48,787,490 as per the table below:

Payee Description	Amount (Kshs.)
Water Resource Management Authority Abstraction Fee	1,141,989
Thika Water and Sewerage Company Limited Billing Charges	2,663,670
Athi Water Services Board Lease Fee	29,215,454
Water Services Regulatory Board Regulatory Fee	15,766,377
Total	48,787,490

Further, payables balance includes amounts owed to a local firm of advocates and Federation of Kenya Employers of Kshs.225,500 and Kshs.132,850 respectively which have been outstanding for long with no movement over the years.

In the circumstances, the long outstanding payables may expose the Company to litigation charges resulting to additional costs and the risk of liquidation.

611. Non-Compliance with Minimum Requirement on Employee Ethnic and Gender Balance

The statement of profit or loss and other comprehensive income reflects staff costs amounting to Kshs.66,124,755 as disclosed in Note 9 to the financial statements. Review of employee records revealed that the Company had a total of twenty (20) employees on permanent and pensionable terms. Out of the total number of employees on permanent and pensionable terms, seventeen (17) or 85% are from the dominant ethnic community. Further, review of the current board composition revealed that the newly appointed Board had seven (7) members, six (6) of whom were male. Management was therefore in breach of Section 7(1) and (2) of the National Cohesion and Integration Act, 2008, which provides that no public establishment shall have more than one third of its staff from the same ethnic community and the Articles of Association which requires that at least one third of the Board members should be from either gender.

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

612. Idle Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.29,693,181 as disclosed in Note 13 to the financial statements. Review of records

provided for audit showed that the Company received fixed meter calibration/test bench worth Kshs.6,000,000 from Athi Water Works Development Authority. However, the equipment was delivered on 24 November, 2020 but had not been put in to economical use contrary to Section 153(1)(a) and (b) of the Public Finance Management Act, 2012 which provides that the Accounting Officer for a County Government entity is responsible for the management of the entity's assets and liabilities and shall manage those assets in such a way as to ensure that the County Government entity achieves value for money in acquiring, using or disposing of those assets.

In the circumstances, there was no value for money on the idle equipment and Management was in breach of the law.

613. Irregular Payment of Airtime Allowances

The statement of profit or loss and other comprehensive income reflects general and operations expenses of Kshs.87,187,119 as disclosed in Note 10 to the financial statements. This amount includes Kshs.710,100 that relates to airtime allowance paid to officers. However, the payments were not backed by any policy approved by the Board contrary to the provisions of the Articles of Association that requires the Board of Directors to approve all policies.

In the circumstances, Management was in breach of its Articles of Association.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

614. Lack of Risk Management Policy

The Company did not have a risk management policy. This was in contravention of Regulation 158(1)(a) and (b) of the Public Finance Management (County Governments) Regulations, 2015 which requires the Accounting Officer to ensure that the County government entity develops risk management strategies, which include fraud prevention mechanism; and the county government entity develops a system of risk management and internal control that builds robust business operations.

615. Lack of Information Technology (IT) Steering Committee and Approved Disaster Recovery Plan

The Company did not have an approved IT continuity and disaster recovery plans. As a result, the Company may lose data in the event of disaster, which may affect planning, decision making and operations. Further, the company did not have an IT steering and risk management committee. In the circumstances, it was therefore, not possible to ascertain how the Company planned to achieve its IT strategic objectives.

THIKA WATER AND SEWERAGE COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

616. Inaccuracies in the Financials Statements

The financial statements presented for audit had the following inaccuracies;

615.1 Statement of Cash Flows

The statement of cash flows reflects net cash from operating activities of Kshs.54,510,000 while Note 47 to the financial statements reflects cash generated from operations of Kshs.54,324,000 resulting to an unreconciled variance of Kshs.186,000. Further, the statement reflects general and operation expenses of Kshs.374,073,000 while the cash payment schedules reflect Kshs.368,144,000 resulting to an unexplained variance of Kshs.5,929,000. In addition, the statement reflects purchase of property, plant and equipment amounts of Kshs.58,577,000 while the cash payment schedules reflect Kshs.63,624,000 resulting to an unreconciled variance of Kshs.5,047,000. Also, the statement of cash flows reflects items with a balance of Kshs.1,219,738 while the corresponding notes to the financial statements reflects Kshs.1,279,811 resulting to unexplained variance of Kshs.60,073.

615.2 Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.322,638,000 while Note 20 reflects Kshs.351,234,000 resulting to an unexplained variance of Kshs.28,596,000. Further, Note 20 reflects capital work in progress and water and sewerage and infrastructure balance of Kshs.224,727,770 as at 1 July, 2020 while audited financial statements for the year ended 30 June, 2021 reflect Kshs.222,172,000 resulting to an unreconciled variance Kshs.25,179,770.

615.3 Tax

Note 30 to the financial statements reflects tax recoverable balance of Kshs.73,942,000 which differs with the recomputed balance of Kshs.78,500,000, resulting to an unreconciled variance of Kshs.4,558,000. Further, the statement of cash flows also reflects nil payment of tax while Kshs.19,672,000 was paid resulting in unexplained variance of Kshs.19,672,000.

615.4 Inventories

The statement of financial position reflects inventories balance of Kshs.29,356,000 as disclosed in Note 28 of to the financial statements. However, the stock take report reflects Kshs.30,609,646 resulting to an unexplained variance of Kshs.1,253,646. Further, the stock take report revealed unvalued water meters which were donated several years back by Athi Water Service Board that had no documents to show their movement and cost. In addition, physical count of stocks revealed three hundred and fifty-eight (358) meters of various sizes but the stock take report indicted thirteen (13) meters while the financial

statements indicated thirty-four (34) meters. Also, consumable stores such as stationery and cleaning materials were not included in the financial statements.

In the circumstances, the accuracy and completeness of the inventories balance of Kshs.29,356,000 could not be confirmed.

615.5 Lease Liability

Note 39 to the financial statements reflects lease liability balance at the start of the year of Kshs.23,532,000 which was not reflected in the previous year's audited financial statements.

In the circumstances, the accuracy and completeness of the financial statements could not be confirmed.

617. Unsupported Long Term Accrued Expense

The statement of financial position reflects long term accrued expense balance of Kshs.218,014,000 as disclosed in Note 42 to the financial statements. The balance includes long outstanding other payables to defunct Municipal Council of Thika of Kshs.48,502,827 and to defunct Athi Water Services Board of Kshs.169,511,521. However, the balances were not supported with documents detailing their nature and Management did not explain why they have been outstanding for several years.

In the circumstances, the accuracy and completeness of the long term accrued expense balance of Kshs.218,014,000 could not be confirmed.

618. Unsupported Trade and Other Payables Balance

The statement of financial position reflects trade and other payables balance of Kshs.122,636,000 which includes long outstanding amount of Kshs.5,215,349 dating back the year 2017. However, documents detailing the nature of this balance were not provided for audit. Further, trade and other payables balance include Kshs.3,106,770 for consulting services for the proposed Thika Water Supply Augmentation Project Karimenu-Maryhill Water Works at a contract sum of Kshs.26,782,500. The project was funded by the World Bank through Water Sector Trust Fund (WSTF) and was implemented by Athi Water Works Development Agency (AWWDA) who paid the consultant directly. It is therefore not clear why the balance is recognized as a liability in the books of the Company.

In the circumstances, the accuracy and completeness of the trade and other payables balance of Kshs.122,636,000 could not be confirmed.

619. Variance in Customer Deposits Balance

The statement of financial position reflects customer deposits balance of Kshs.100,705,000 while the deposit bank account balance was Kshs.21,106,168 resulting to a variance of Kshs.79,598,832. Analysis of the variance revealed that Kshs.18,875,000 was a borrowing from customer deposits and Kshs.40,000,000 was an investment in fixed deposit resulting to an unexplained variance of Kshs.20,723,832.

Further, approval of the borrowing from customer deposits and investment in fixed deposit account were not provided for audit.

In the circumstances, the accuracy and completeness of customer deposits balance of Kshs.100,705,000 could not be confirmed.

620. Non-Disclosure of Water Inventory

The statement of financial position reflects inventories balance of Kshs.29,356,000 as disclosed in Note 28 to the financial statements. However, the balance does not include opening and closing water stocks held in the reservoirs, water treatment plant and in the water systems. Further, documentary evidence indicating that Management measured the water volume in the water treatment plant, reservoirs and distribution systems was not provided for audit.

In the circumstances, the accuracy and completeness of the inventory balance of Kshs.29,356,000 could not be confirmed.

621. Inaccurate Income Tax

The statement of profit or loss and other comprehensive income reflect income tax expense of Kshs.22,869,000 which is 29% of the profit before taxation. The tax expense for the previous year was Kshs.22,351,000 which was 30% of the profit before taxation for that year. However, the taxation expense does not take into account the disallowable such as depreciation of Kshs.22,807,000 (2020-2021 - Kshs.20,419,000) provisions, wear and tear, investment deduction, donation and grants. Further, the taxation liability appears to be static over the years with no evidence of settlement and therefore attracting penalties and interest which are not captured.

In the circumstances, the accuracy of the income tax expense of Kshs.22,869,000 could not be confirmed.

622. Lack of Ownership Documents

The statement of financial position reflects property, plant and equipment balance of Kshs.351,234,000 as disclosed in Note 20 to the financial statements. The balance includes motor vehicles/bikes balance of Kshs.28,479,000. Review of the fixed asset register revealed that in June, 2019, seven (7) motor cycle were purchased at a cost of Kshs.2,031,799 out of which four (4) did not have log books or any ownership documents.

In the circumstances, the ownership of the motor cycles valued at Kshs.2,031,799 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

623. Over Expenditure on Budgeted Amounts

The statement of comparison of budget and actual amounts reflects general and operation expenses actual on comparable basis amount of Kshs.402,806,000 which

exceeded the approved budget amount of Kshs.337,799,000, resulting to an over expenditure of Kshs.65,007,000. Similarly, the statement of comparison of budget and actual amounts reflects board expenses actual on comparable basis amount of Kshs.14,009,000, while the approved budget reflects an amount of Kshs.12,000,000 for the item, resulting to an over expenditure of Kshs.2,009,000. This was contrary to Section 147(1)(a) of the Public Finance Management Act, 2012 on the role of Accounting Officers in management of public finances, which states that subject to the Constitution, the Accounting Officer shall monitor, evaluate and oversee the management of their public finances, including promoting and enforcing transparency, effective management and accountability with regard to the use of their finances.

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

624. Deficiencies in Fleet Management System

An expenditure of Kshs.2,704,350 was incurred on the contract for supply and installation of a fleet management system to manage fuel consumption and real time motor vehicle tracking and monitoring. However, audit inspection in the month of January, 2023 revealed that the system had not been configured to monitor fuel usage, reporting on the fuel consumption and giving alerts on fuel pilferage. Further, it had not been configured to capture fuel issued to the vehicles per day, week, month and per year and also, it could not generate fuel analysis reports.

In the circumstances, value for money of the expenditure of Kshs.2,704,350 on supply and installation of a fleet management system could not be confirmed.

625. Long Outstanding Trade and Other Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.493,917,000 as disclosed in Note 29 to the financial statements. This balance includes Kshs.1,735,000, Kshs.10,847,000 and Kshs.14,342,000 in respect of staff debtors, billing services for Water Service Providers (WSPs) and VAT recoverable respectively. However, the balances have been due for more than five (5) years and no settlement have been made over the years.

In the circumstances, the recoverability of the staff debtors, billing services for WSPs and VAT recoverable balances totalling to Kshs.26,924,000 could not be confirmed.

626. Non-Compliance with Law on Ethnic Composition

Review of employee records revealed that forty-five staff or 90% were from the dominant ethnic community. This was contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008, which provides that no public establishment shall have more than one third of its staff from the same ethnic community or gender and the Articles of Association which requires that at least one third of the Board Members should be from either gender.

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

627. Excessive Expenditure on Staff Costs

The statement of profit or loss and other comprehensive income reflects staff costs amount of Kshs.306,270,000 which translates to 37% of total operational costs of Kshs.824,190,000. This is higher by 7% of the recommended ratio of 30% in accordance with the Water Services Regulatory Board (WASREB) guidelines.

In the circumstances, Management was in breach of the WASREB guidelines.

628. Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.351,234,000 as disclosed in Note 20 to the financial statements. However, the following audit issues were noted:

628.1 Delayed Completion of Sewer Rehabilitation

The Company entered into a contract agreement on 1 April, 2019 for rehabilitation of Kangoki Trunk Sewer at a contract sum of Kshs.27,587,849 for a duration of six (6) months. However, the initial contract was terminated and a second one to finalize the project was entered at a cost of Kshs.4,918,620 commencing on 25 March, 2022 for a duration of six (6) months ending 07 August, 2022. However, audit verification revealed that the project was incomplete with one sewer manhole not covered and a drainage channel running parallel to the sewer line used for draining the damaged sewer to the treatment plant before rehabilitation of the sewer line was uncovered.

628.2 Delay Completion of Registry Container Plinth

Included in work in progress balance of Kshs.60,691,000 is Kshs.2,059,945 in respect of construction of a registry container store which commenced in financial year 2018/2019. The amount includes balance brought forward of Kshs.1,660,855 and Kshs.399,090 incurred in the year on finishing materials for the store. However, audit inspection revealed that the Project was incomplete and the Bill of Quantities and status report were not provided for audit.

In the circumstances, value for money of the expenditure of Kshs.2,059,945 on the project could not be confirmed.

628.3 Failure to Maintain a Comprehensive Fixed Assets Register

The fixed asset register had no tag/barcode number column making the identification process difficult. Further, all assets purchased during the year were not tagged and general and specific location column for most assets was blank, hence the number of boreholes, location and cost per borehole could not be confirmed. This was contrary to Section 149(2) (o) of the Public Finance Management Act, 2012, which provides that an accounting officer should ensure that the respective County Government entity has adequate systems and processes in place to plan for, procure, account for, maintain, store and dispose of assets, including an asset register that is current, accurate and available to the relevant County Treasury or the Auditor-General.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

629. Non-Revenue Water

Review of revenue records revealed that the Company produced 14,022,595 cubic meters of water out of which 10,035,328 cubic meters was billed to customers. The difference of 3,987,267 cubic meters represents non-revenue water being 28.4% of the total water produced, which is 3.4% points above the allowable loss of 25% set by WASREB Guidelines. The unaccounted-for water may have resulted in loss of sales estimated at Kshs.199,363,350 at a rate of Kshs.50 per cubic meter. Further, the Company had no organizational policies and strategies of managing non-revenue water to the acceptable levels.

In the circumstances, the effectiveness of internal controls on water production and billing could not be confirmed.

GATUNDU WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

630. Irregular and Unsupported Board Expenses

The statement of profit or loss and other comprehensive income reflects Board expenses of Kshs.3,282,583 as disclosed in Note 12 to the financial statements. Review of records revealed that included in the expenditure is an amount of Kshs.1,957,160 paid as allowances to the Members of a Caretaker Board appointed to act on behalf of the Kiambu County Water and Sewerage Company from 26 March, 2019 to 13 February, 2022. This is contrary to the provisions of Section 79(1) of the Water Act, 2016 which provides that each water service provider should have a Board of Directors constituted in accordance with the Companies Act, 2015 and any other written law.

Further, records and information on the rate of allowances, amounts paid and due were not provided for audit review.

In the circumstances, Management was in breach of the law and the accuracy of Board expenses amounting to Kshs.1,957,160 could not be confirmed.

631. Undisclosed Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.29,162,041 as disclosed in Note 15 to the financial statements. However, review of records and field verification revealed that the balance excludes beneficial assets of unknown values consisting of land and buildings registered in the name of Karimenu

Water and Sanitation Company Limited, eight (8) treatment plants owned by Athi Water, three (3) offices erected on parcels of land that belong to the defunct Thika County Council and seven (7) motor vehicles registered in the name of Athi Water Works Development Agency.

In the circumstances, the completeness and accuracy of property, plant and equipment balance of Kshs.29,162,041 could not be confirmed.

632. Doubtful Trade and Other Receivables Balance

The statement of financial position reflects trade and other receivables balance of Kshs.143,655,222 as disclosed in Note 18 to the financial statements. Review of records revealed that receivables amounting to Kshs.123,973,575 or 88% of the trade receivables balance had been outstanding for over one hundred and twenty (120) days. Further, the debt that is over one hundred and twenty (120) days has increased from Kshs.98,124,089 to Kshs.123,973,575 while the increase in provision for bad and doubtful debts was only Kshs.789,122, which is way below the growth in old debts. Management did not provide explanation for failure to collect the due amounts on time.

In the circumstances, the recoverability of the trade and other receivables balance of Kshs.143,655,222 could not be confirmed.

633. Lack of Share Certificates

The statement of financial position reflects ordinary share capital and capital reserve balance of Kshs.19,542,952 which includes ordinary share capital balance of Kshs.100,040 as disclosed in Note 20 to the financial statements. The balance of ordinary share capital comprises of authorized 5,000 ordinary shares of Kshs.20 par value each amounting to Kshs.100,000 and 2 issued and fully paid to ordinary shares of Kshs.20 par value each amounting to Kshs.40.

Further, related party disclosure in Note 25 to the financial statements indicates that the Company is fully owned by the County Government of Kiambu. However, the share certificate relating to the paid-up share capital was not provided for audit review. This is contrary to Section 495 of part XVIII of the Companies Act, 2015 which states that a certificate duly executed in accordance with section 37 specifying any shares held by a member is, in the absence of proof to the contrary, evidence of the member's title to the shares.

In addition, the financial statements reflect share capital balance of Kshs.100,040 but there are only two (2) issued and fully paid shares. The balance of 4998 shares have not been issued and paid and should therefore not be part of the share capital of the Company.

In the circumstances, the ownership of the Company as at 30 June, 2022 could not be confirmed.

634. Unsupported Long Outstanding Trade and Other Payables Balance

The statement of financial position reflects trade and other payables balance of Kshs.66,680,779 as disclosed in Note 22 to the financial statements. This balance

includes trade payables amounts of Kshs.63,122,109. Review of records revealed that included in this balance are Kshs.5,779,411, Kshs.51,024,323 and Kshs.6,318,375 owed to Water Services Regulatory Board (WASREB), Athi Water Services Board and Water Resources Management Authority (WRMA), respectively. However, the supporting demand notices/invoices and statements were not provided for audit.

Further, the amounts have been outstanding for a long period of time and Management has not provided explanation for not settling the amounts due on time. This is contrary to Section 89 (1) Water Act, 2016, which provides that a licensee shall pay to the Regulatory Board, as the case may be, on issue of the licence and at prescribed intervals thereafter, such licence fees as the Regulatory Board may determine.

In the circumstances, the Company's ability to settle the outstanding amount of Kshs.63,122,109 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

635. Non-Compliance with Law on Ethnic Composition

Review of human resource records revealed that the Company had one hundred and forty-three (143) employees, out of whom one hundred and forty (140) or 98% were from the same ethnic community. This is contrary to Section 7(1) and (2) of National Cohesion and Integration Act, 2008 which provides that "all public offices shall seek to represent the diversity of the people of Kenya in the employment of staff and that no public institution shall have more than one-third of its staff establishment from the same ethnic community".

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

636. Irregular Recruitment and Appointment of Employees

The statement of profit or loss and other comprehensive income reflects staff costs of Kshs.93,094,732 as disclosed in Note 10 to the financial statements. Review of records revealed that it includes expenditure of Kshs.510,315 in respect of four (4) newly recruited members of staff for three (3) months from 1 April, 2022 to 30 June, 2022. However, the recruitment did not comply with the provisions of Section B.2 of the Human Resource Policies and Procedures Manual for the Public Service, 2016 and Section 2.2 of GATWASCO Human Resource Manual, 2015 which provides that the recruitment and selection process has four key elements; the procedure which includes vacancy determination, advertisement, selection and appointment.

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

637. Excessive Non-Revenue Water (NRW)

Review of records revealed that the total water production for the year was 7,415,508 cubic meters from the nine (9) production stations. However, only 4,793,117 litres of water was billed resulting to unaccounted for water or NRW of 2,622,391 or 35%, which is 10 % over and above the allowable loss of 25% in accordance with the Water Services Regulatory Board (WASREB) guidelines. The Non-Revenue Water represents a loss of

Kshs.222,903,235 in earnings for the Company at the average rate of Kshs.85 per cubic meter.

In the circumstances, the significant level of Non-Revenue Water is an indication of inefficiency in the use of public and water resources, which may negatively impact on the Company's profitability and its ability to sustain its services.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

638. There were no material issues relating to effectiveness of internal controls, risk management and governance.

KIKUYU WATER COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

639. Omissions and Inaccuracies in Presentation and Disclosure in the Financial Statements

Review of the financial statements prepared and presented for audit revealed the following observations:

- i. The table of contents does not indicate the page references to the corporate social responsibility/sustainability statement and report of the independent auditors section;
- ii. Page iv requires alignment under the independent auditors and principal legal advisers;
- iii. Management team under page ix does not begin on its own page as per the prescribed reporting format;
- iv. The statement of financial position has deferred income with reference to Note 27. However, Note 27 to the financial statements is a Note to the statement of cash flows. Therefore, the deferred income balance is not referenced by way of a Note to the financial statements;
- v. The statement of changes in equity for the year ended 30 June, 2022 reflects a prior year adjustment of Kshs.903,889 (debit) which is not supported or explained;
- vi. The statement of cash flows balances are not cross referenced to the Notes to the financial statements;

- vii. The statement of financial position reflects intangible assets of Kshs.555,335. However, recasting of Note 18 to the financial statements revealed intangible assets balance of Kshs.591,335 resulting to unexplained variance of Kshs.36,000 and;
- viii. Note 20 to the financial statements refers to Note 29a which is not in the financial statements.

In the circumstances, the accuracy and completeness of the financial statements could not be confirmed.

640. Variance in Donations from County Government

The statement of profit or loss and other comprehensive income reflects grants income of Kshs.81,066,109 as disclosed in Note 7 to the financial statements. This amount includes donations of Kshs.46,361,563 from County Governments. However, review of records and information revealed that an amount of Kshs.10,000,000 was received from Kiambu County Government, resulting to an unexplained variance of Kshs.36,361,563.

In the circumstances, the accuracy and completeness of donations from County Governments of Kshs.46,361,563 could not be confirmed.

641. Irregular and Unsupported Board Expenses

The statement of profit or loss and other comprehensive income reflects board expenses of Kshs.2,040,300 as disclosed in Note 12 to the financial statements. Review of records revealed that included in the expenditure is Kshs.925,470 paid to the members of the caretaker board appointed to act on behalf of Kiambu County Water and Sewerage Company, a separate entity, from 26 March, 2019 to 13 February, 2022. This is contrary to the provisions of Section 79(1) of the Water Act, 2016 which provides that each water service provider should have a Board of Directors constituted in accordance with the Companies Act, 2015 and any other written law.

Further, records and information on the rate of allowances, amounts paid and due were not provided for audit.

In the circumstances, Management was in breach of the law and the accuracy and regularity of board expenses of Kshs.925,470 could not be confirmed.

642. Unsupported Trade and Other Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.84,141,342 as disclosed in Note 20 to the financial statements. This balance is net of provision of bad and doubtful receivables of Kshs.25,667,148. However, aging analysis and the basis for provision of bad and doubtful receivables were not provided for audit.

In the circumstances, the accuracy, completeness and recoverability of trade and other receivables balance of Kshs.84,141,342 could not be confirmed.

643. Inaccuracies in Customer Deposits

The statement of financial position reflects a customer deposits balance of Kshs.22,901,525 as disclosed in Note 26 to the financial statements. However, Note 21 to the financial statements in relation to cash and cash equivalents reflects a balance of Kshs.4,477,184 which includes customer deposits balance of Kshs.3,378,366 maintained at the Keya Commercial Bank (KCB) resulting to an unexplained and unreconciled variance of Kshs.19,523,159. Further, a list of customers and the amounts owing to them was not provided for audit.

In the circumstances, the accuracy and completeness of customers deposits balance of Kshs.22,901,525 could not be confirmed.

644. Lack of Share Certificate

The statement of financial position reflects ordinary share capital of Kshs.100,000 as disclosed in Note 22 to the financial statements. The balance comprises of 5,000 issued and fully paid ordinary shares of Kshs.20 par value each amounting to Kshs.100,000. Background information on page iii to the financial statements indicates that the Company is fully owned by the County Government of Kiambu. However, the share certificate relating to the paid-up share capital was not provided for audit. This is contrary to Section 495 of part XVIII of the Companies Act, 2015 which states that a certificate duly executed in accordance with Section 37 specifying any shares held by a member is, in the absence of proof to the contrary, evidence of the member's title to the shares.

In the circumstances, the ownership of the Company could not be confirmed.

645. Undisclosed Material Uncertainty Related to Going Concern

The statement of financial position reflects total current assets balance of Kshs.89,931,156 while the total current liabilities balance was Kshs.112,404,476, resulting to a negative working capital of Kshs.22,473,320 or a ratio of 0.8.

The financial statements have been prepared on a going concern basis on the assumption that the Company will continue to receive financial support from the County Government of Kiambu and its creditors. However, the mitigating measures put in place by the Management to reverse the undesirable trend have not been disclosed in the Notes to the financial statements.

In the circumstances, it has not been possible to ascertain the appropriateness of use of the going concern basis of reporting and the survival of the Company depends on support from its stakeholders.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

646. Non-Compliance with Law on Ethnic Composition

Review of human resource records revealed that the Company had ninety-two (92) employees, out of whom eighty-one (81) or 85% were from the same ethnic community.

This is contrary to Section 7(1) and (2) of National Cohesion and Integration Act, 2008 which provides that “all public offices shall seek to represent the diversity of the people of Kenya in the employment of staff and that no public institution shall have more than one-third of its staff establishment from the same ethnic community”.

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

647. Non-Remittance of Statutory Deductions

The statement of profit or loss and other comprehensive income reflects staff costs of Kshs.56,631,967 as disclosed in Note 10 to the financial statements. Included in the expenditure is Kshs.3,979,362 relating to employer’s contributions to pensions scheme and Kshs.220,000 in respect of employer’s contribution to social security schemes. However, records of remittances of the deductions effected on employees’ salaries to the statutory beneficiary institutions were not provided for audit.

Further, available records indicates that the Company owes LAPTRUST/Central Provident Fund (CPF) Kshs.13,806,906 including a penalty of Kshs.2,375,158 as interest charged at a rate of 1.25% per month on compounded basis and Kshs.699,175 as actuarial deficit debt. In addition, remittance of Kshs.1,219,826 for the months of May and June, 2022 to LAPTRUST were not made.

This is contrary to Section 53A (1) of the Retirement Benefits Act, 2012 which provides that where an employer, having with the agreement of an employee who is a member of a scheme, makes a deduction from the employee’s emoluments for remittance to the scheme, and fails to remit the deduction within fifteen days of the deduction, the scheme may, after giving such employer not less than seven days’ notice, institute proceedings for the recovery of the deduction.

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

648. Irregular Recruitment and Payment of Salary Advance to Seconded Staff

The statement of profit or loss and other comprehensive income reflects general and operation expenses of Kshs.82,860,586 as disclosed in Note 11 to the financial statements. This amount includes domestic travelling and subsistence expenditure of Kshs.6,293,676. Review of records revealed that Kshs.240,000 was incurred in respect of salary advances. However, the following anomalies were observed:

- i. Payment voucher number 3755 was supported by six (6) application letters for salary advance of Kshs.20,000 each, dated 2 June, 2022. However, Kshs.140,000 was paid out instead of Kshs.120,000 resulting to an unexplained variance of Kshs.20,000.
- ii. Out of the seven (7) members of staff seconded five (5) were absorbed by the Company and two (2) were not, and it is not clear whether the salary advance totalling to Kshs.80,000 was recovered.
- iii. Evidence of recovery of the salary advance totalling to Kshs.240,000 issued in the month of March and April, 2022 was not provided for audit.

- iv. The seven (7) employees who were issued the salary advance in March and April, 2022 were not employees of the Company as their contracts had expired on 28 February, 2022.
- v. It was also observed that five (5) seconded employees were recruited without following the provisions of Section 4.4.2 of the Human Resources Policy and Procedure Manual, 2015 which provides that the recruitment and selection process has four key phases; the procedure for which includes vacancy determination, advertisement, selection and appointment.
- vi. No explanation was provided for charging salary advance under domestic travel and subsistence expenditure.

In the circumstances, the regularity of the salary advance of Kshs.240,000 could not be confirmed and Management was in breach of the policy.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

649. Excessive Non-Revenue Water (NRW)

Review of records revealed that the Company total water production was 2,493,757 cubic meters from the four (4) production stations. However, only 1,533,733 cubic meters of water was billed resulting to unaccounted for water or NRW of 960,024 cubic meters or 35%, which is 13% over and above the allowable loss of 25% in accordance with the Water Services Regulatory Board (WASREB) guidelines. The Non-Revenue Water represents a loss of Kshs.14,714,127 in earnings for the Company at the average rate of Kshs.83 per cubic meter.

In the circumstances, the effectiveness of controls on water production and billing could not be confirmed.

GITHUNGURI WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

650. Water Sales Revenue

The statement of profit or loss and other comprehensive income reflects operating revenue amount of Kshs.55,486,200 which, as disclosed in Note 6 to the financial statements, relates to water sales. However, examination of records relating to water sales, provided for audit revealed the following anomalies:

650.1 Unapproved Adjustments on Water Sales

During the financial year, the Company made adjustments amounting to Kshs.214,555 in water billings, thereby reducing the total revenues from water sales and meter rent to Kshs.55,486,200. An interrogation of the billing process revealed instances of non-compliance with internal control measures as documented in the Company's Financial Management Systems Manual. Further, there was no evidence to support the existence of a bills adjustment committee to verify and correct exception reports using either monetary or non-monetary adjustment advice as well as approve corrections made by the Accountant. Further, there was no monthly reports presented to show how Management continually monitors meter readings and adjustments.

In the circumstances, the accuracy of the operating revenue of Kshs.55,486,200 could not be confirmed.

651. Omission of Water Inventory

The statement of financial position reflects inventories balance of Kshs.1,563,470. However, although the Company's main item of trade is water, and as disclosed in Note 28 to the financial statements, water was not considered and included as part of inventory at the end of the financial year.

In the circumstances, the accuracy and completeness of the inventories balance of Kshs.1,563,470 could not be confirmed.

652. Unsupported Travelling and Accommodation Expenses

The statement of profit or loss and other comprehensive income reflects general and operations expenses balance of Kshs.54,599,951 which, as disclosed in Note 12 to the financial statements. includes expenditure on domestic travel and subsistence of Kshs.2,878,081 whose supporting documents, including details of how the imprests were surrendered, work tickets and documents indicating the reasons for the travel were not provided for audit. Further, the latter amount exceeded approved budget for domestic travel and subsistence of Kshs.2,760,000, resulting in an over expenditure of Kshs.118,081 whose approval was not provided for audit.

In the circumstances, the accuracy, completeness and authenticity of the expenditure of Kshs.2,878,081 could not be confirmed. Further, the regularity of the over-expenditure of Kshs.118,081 could not be ascertained.

653. Long Outstanding Accounts Payable

The statement of financial position reflects trade and other payables balance of Kshs.176,808,279. According to a schedule on aging analysis provided for audit, the balance includes long outstanding balances totaling to Kshs.170,469,648 payable to Nairobi Water and Sewerage Company Kshs.141,569,510, Athi Water Service Board Kshs.15,541,893, Water Service Regulatory Board Kshs.8,683,513, Water Resources Management Authority Kshs.3,407,892 and gratuity Kshs.1,266,840.

Further inquiry and analysis of the water bills revealed that the Company was purchasing bulk water from Nairobi Water and Sewerage Company Limited amounting to more than

Kshs.2,000,000 per month out of which, it was paying approximately Kshs.500,000 only. This trend of repayment is not sustainable and has resulted to accumulation of bulk water bills.

In the circumstances, the Company was not able to meet its obligations as and when they fell due.

654. Unsupported Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.20,986,393 which, as disclosed in Note 20 to the financial statements, includes a balance of Kshs.8,580,290 in respect of buildings. Scrutiny of documents provided revealed that the latter balance included Kshs.7,604,974, being the net book value of a building donated by the Water Sector Trust Fund. However, details of the transfer and documentary evidence on land and buildings ownership, including the title deeds were not provided for audit.

In the circumstances, the ownership and existence of the donated building valued at Kshs.7,604,974 could not be confirmed.

655. Undisclosed Material Uncertainty in Relation to Going Concern

The statement of profit or loss and other comprehensive income reflects a loss after taxation of Kshs.13,254,859 which was an increase by Kshs.3,595,848 from the loss of Kshs.9,659,011 realized in the year 2020/2021. Further, the statement of financial position reflects current liabilities totalling Kshs.194,987,765 which exceed current assets of Kshs.73,230,909 by Kshs.121,756,856, an indication that the Company was technically insolvent. In addition, the increase in payables for the year of Kshs.17,965,196 surpassed the increase in receivables of Kshs.4,522,272. The increase may be indicative of the inability by the Company to settle its obligations as and when they arise.

Management has not made specific disclosure in the financial statements in regard to these matters.

These conditions indicate the existence of a material uncertainty, which may cast significant doubt on the Company's ability to continue as a going concern for the foreseeable future.

Other Matter

656. Unresolved Prior Year Audit Matters

In the audit report of the previous year, several matters were raised under Report on the Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management did not resolve the issues or provide explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board reporting templates.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

657. General and Operations Expenses

The statement of profit or loss and other comprehensive income reflects general and operations expenses balance of Kshs.54,599,951 as disclosed in Note 12 to the financial statements. However, the following anomalies were noted:

657.1 Lack of Staff Training Need Assessment

The balance of Kshs.54,599,951 includes staff training and education amount of Kshs.928,169. However, Management did not conduct a Training Need Assessment to ascertain the nature of training required.

In the circumstances, value for money of the expenditure of Kshs.928,169 could not be confirmed.

657.2 Irregular Payments to Merger Fund

The expenditure of Kshs.54,525,073 also includes Kshs.936,344, being a contribution to the merger fund, a fund formed to provide funding for the management and administrative expenses of Kiambu County Water and Sewerage Company which was formed as a merger of all water companies in Kiambu County. Documents provided indicated that Kiambu County Water and Sewerage Company was irregularly formed and that the water companies had since withdrawn from the merger agreement. However, no satisfactory explanation was provided on why the Company was still sending contributions towards the merger fund.

In the circumstances, value for money for the expenditure of Kshs.936,344 could not be confirmed.

658. Irregular Procurement of Billing System

The Company engaged a supplier for the supply of billing system for a period of two years. The following anomalies were noted;

- i. The supplier was engaged by the Company through negotiation of a borrowed contract from Ruiru-Juja Water and Sewerage Company Limited. Ruiru Water had signed a three years' contract with the supplier to be renewed on annual basis until 2020, based on tender number RUJWASCO/T/30/2018/19-20. The Public Procurement and Asset Disposal Act, 2015 only allows adoption of list of prequalified suppliers and not tender contracts for goods, works and services. Therefore, the Company acted in contravention of the law in engaging the supplier for the supply of the billing system.
- ii. The contract did not have specific start and end date.

- iii. The contract was awarded to the supplier by the Company only through a negotiation and hence qualifying for an irregular direct procurement for the service.
- iv. Award letter for the tender was not provided for audit.
- v. There were no tender specifications for the contract, hence not possible to determine the terms the contract was negotiated upon.
- vi. The contract between Ruiru-Juja and the supplier upon which the Company depended on, expired in 2020, but the Company still continues to renew the contract.
- vii. The Company had negotiated for a two years' contract starting in December, 2019 and ending in December, 2021. However, the Company had continued to use the billing system to date without termination nor renewal of the contract.

In the circumstances, the regularity of the procurement of the billing system could not be confirmed.

659. Staff Costs

The statement of profit or loss and other comprehensive income reflects staff costs of Kshs.23,004,336 as disclosed in Note 11 to the financial statements. The following anomalies were noted:

659.1 Irregular Payment of Casual Wages

The expenditure of Kshs.23,004,366 includes Kshs.331,263 spent on casual wages paid to temporary employees. However, the recruitment process and the documentation of the said employees, including the departments in which they were deployed and proof that they actually undertook the duties for which they were engaged was not provided for audit. Further, no evidence was provided to show that approval of the Managing Director was sought before the engagement and at payment of the casuals as required by the Company's Human Resource Policy. In addition, the amounts paid could not be independently verified as the authority upon which the daily rates applied was based was not provided for audit, while the daily attendance register showing the number of days the casuals worked was not marked.

In the circumstances, Management was in breach of the Human Resource Pol.

659.2 Irregularities in the Procurement and Operation of Staff Medical Cover

The staff costs balance of Kshs.23,004,366 includes medical expenses of Kshs.1,563,839. Analysis of the payment schedules and supporting documents revealed that the Company entered into a contract with a supplier for provision of medical cover for its staff for a period of one (1) year beginning on 1 October, 2020 at a contract price of Kshs.1,563,839. However, scrutiny of the documents provided for audit revealed the following anomalies:

- i. The evaluation process took place on 20 March, 2020 and professional opinion signed by the head of procurement on 21 March, 2020. However, the Managing

Director signed the opinion one month later on 21 April, 2020 which was irregular as per the requirements of the law.

- ii. Award decision and notification of award to the winning bidder were done four months after the professional opinion on 09 July, 2020 and 24 July, 202 respectively.
- iii. Signing of the contract took place more than two months later, on 1 October, 2020, contrary to the Public Procurement and Asset Disposal Act, 2015.
- iv. The particulars of insured staff members' dependents/kin were not provided for audit.
- v. It was not clear what instructions were given to the administrator of the scheme as concerns the eligibility and the identification of the members at medical facilities.
- vi. The service was awarded to a broker dealing for an unidentified underwriter and the specific services to be offered by the underwriter were not detailed.
- vii. The Company did not sign any contract with the underwriter.
- viii. Price schedule, abstract of service available with previous charges, underwriter's authorization letter and original underwriter's quotation were not provided for audit verification.
- ix. The original bid document or form of tender which specifies the deliverables sent to bidders was not provided for audit.
- x. The individual bids submitted by the individual suppliers and the tender opening committee minutes were not provided for audit verification.
- xi. There was no evidence of preliminary evaluation of the bidders, meaning the company profile of the service provider, the physical address and the financial standing including compliance with statutory laws and regulations was not known to the Company.

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

660. Failure to Insure Property, Plant and Equipment

The statement of financial position and corresponding Note 20 to the financial statements reflects property, plant and equipment balance of Kshs.20,986,393. A scrutiny of the documents provided for audit revealed that, during the financial year under review, property plant and equipment worth Kshs.20,986,393 was not insured against the risks of fire, burglary, theft and accident in line with Section 11.2.3 of the company's Financial Management Systems Manual of October, 2012, thus exposing the Company to possible losses in the event calamities.

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

661. Irregular Prequalification of Suppliers

During the financial year under review, the Company carried out a prequalification of suppliers for the financial years 2021-2023 through an open tender method dated

08 September, 2021. Opening of the tender took place on 29 September, 2021 followed by a tender evaluation on 04 to 08 October, 2021. However, analysis of the tender file and related documentation revealed the following irregularities:

- i. Evaluation of the tender was carried out by the heads of departments from four different water companies. The basis of the merger between the companies to carry out a procurement process could not be determined since no authorizing documentation was provided in support.
- ii. The advertisement was done only through the newspaper and none on the Government portal, hence an irregularity under the Public Procurement and Asset Disposal Act, 2015.
- iii. The Public Procurement and Asset Disposal Act, 2015 allows consortium for only buying goods, works and services. The Company therefore acted in breach of the law by engaging a consortium to carry out prequalification of suppliers.
- iv. Due to the irregularity of the consortium, it was not possible to sign professional opinion since the evaluated list could not belong to a specific entity. Therefore, the list was approved for use among the companies without a professional opinion.

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

662. Non-Adherence to National Cohesion Requirement on Ethnicity

Analysis of the payroll provided for audit revealed that the Company had a total of 50 employees out of which, 48 (or 96%) belonged to one ethnic group, contrary to Section 7(2) of the National Cohesion and Integration Act, 2008, which requires that at least 30% of employees are from other ethnic communities.

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

663. Imprest Management

It was observed that no imprest register was kept for the purpose of managing imprests as required by Regulation 93(4)(c) of the Public Finance Management (County Governments) Regulations, 2015, and no requisitions and approvals were made before the issuance of the imprests. Also, the Management did not issue any warrants when issuing imprests, contrary to Regulation 93(1) of the Public Finance Management (County Governments) Regulations, 2015, which provides that an imprest shall be issued for a specific purpose, and any payments made from it, shall only be for the purpose specified in the imprest warrant. In the absence of an imprest register, it was not possible to ascertain whether imprest was issued for official duties, after authorization, within the correct rates and that the same was surrendered within the stipulated time and that no additional imprests were issued before retiring of a previous one.

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

664. Non-Revenue Water

During the year under review, the Company produced 2,231,134 cubic meters of water which was an increase by 21,083 cubic meters compared to the previous year's production of 2,210,051 cubic meters. However, only 582,412 cubic meters had been billed to customers, resulting to a non-revenue water of 1,648,722 cubic meters or approximately 74% which is 49% points above the acceptable rate of 25% as per the Water Services Regulatory Board (WASREB) guidelines.

In the circumstances, Management was in breach of WASREB guidelines.

664.1 Irregular Billings/Connection Fees

The statement of profit or loss and other comprehensive income reflects. However, the rates used for billing water sales of Kshs.55,486,200 were not listed in the approved tariff structure as per Gazette Notice No.5139 Vol. CXVI-No.87, dated 25 July, 2014.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

665. IT Controls Weakness

A review of Information Technology (IT) Controls and information management systems of the Company revealed that, the Company had not established an ICT Committee and lacked ICT Strategic Plan. In addition, the Company had three (3) different software which were not integrated, a situation that poses a risk of data inconsistencies. Further, it was observed that migration of data from the previous billing system by a supplier was not efficiently done, posing a risk of data integrity on balances brought forward for various zones which could result to loss of revenue.

In the circumstances, the effectiveness of the Company's IT controls could not be confirmed.

666. Lack of a Risk Management Policy

It was observed that the Management did not have an approved risk management policy and they did not carry out the risk assessment on key risky areas like expenditure.

In the circumstances, it was not possible to confirm how the Company identified risks, the significance of the risks and likelihood of the risks occurring.

667. Lack of Internal Audit

It was observed that, although the Company had an audit committee in place, it had not established an internal audit function, contrary to the provision of Section 155(1)(a) of the Public Finance Management Act, 2012.

In the absence of the internal audit function, the efficiency and effectiveness of the Company's internal controls and risk management could not be confirmed.

TURKANA COUNTY – NO.23

LODWAR WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

668. Inaccuracies in Financial Statements

668.1 Inaccurate Comparative Balances

The financial statements reflect balances that differed with the prior year comparative balances as detailed below:

Component	Sub-Component	Financial Statement 2021/2022 Balance	Audited Financial Statement 2020/2021 Balance	Variance
		Kshs.	Kshs.	Kshs.
General and Operations Expenses Note 12	Communication Services and Supplies/ Telecommunication	1,390,607	1,984,591	593,984
Non-Current Asset - Note 20	Property Plant and Equipment	18,132,276	14,475,923	3,656,353
Current Assets - Note 32	Cash at Bank	1,118,422	1,117,920	502
	Total	20,641,305	17,578,434	4,420,839

668.2 Variance Between Financial Statements and Supporting Schedules

The financial statement reflect amounts that differed with the supporting schedule amounts as detailed below:

Item	Note	Financial Statement Amounts	Supporting Schedule Amounts	Variance
General and Operation Expenses		Kshs.	Kshs.	Kshs.
Fuel and Lubricants	12	1,392,750	1,192,750	200,000
Printing and Stationery	12	486,920	499,920	13,000
Total		1,879,670	1,692,670	213,000

668.3 Variance Between Financial Statements Amounts and Notes

The financial statements reflect amounts that differed with the notes to the statements as detailed below:

Item	Note	Financial Statement Amount (Kshs)	Notes Amount (Kshs)	Variance (Kshs)
Operating Revenue	6	71,354,164	-	71,354,164
Depreciation and Amortization	15	1,896,236	-	1,896,236
Trade and Other receivable	29	47,457,922	-	47,457,922
Ordinary Share Capital	33	100,000	-	100,000
Retained Earnings	36	2,142,799	-	2,142,799
Provisions (Audit Fee)	40	382,000	-	382,000
Trade and Other Payables		6,709,015	-	6,709,015
Customer Deposits	43	32,027	-	32,027

668.4 Inaccuracies in the Financial Statements

The statement of financial position reflects total assets of Kshs.65,427,786 and total capital and liabilities balance of Kshs.9,365,841 resulting to an unreconciled variance of Kshs.56,061,945. The statement of cash flows reflects cash and cash equivalents of Kshs.3,034,517 while the statement of financial position reflects a balance of Kshs.1,452,324 resulting to an unreconciled variance of Kshs.1,582,193. The trial balance used to prepare the financial statements was also not provided for audit.

In the circumstances, the accuracy and completeness of the financial statements balances could not be confirmed.

669. Staff Cost

The statement of profit or loss and other comprehensive income reflects staff costs of Kshs.34,551,806. However, the amount differed with the payroll amount of Kshs.33,770,585 resulting to an unreconciled variance of Kshs.781,221. Further, the amount excludes gross salary of Kshs.1,474,080 paid to team leaders seconded from Turkana County Department of Water during the year under review.

In the circumstances, the accuracy and completeness of employee cost of Kshs.34,551,806 could not be confirmed.

670. Property, Plant and Equipment

The statement of financial position reflects net book value of property, plant and equipment amount of Kshs.16,517,540. However, some unvalued land, equipment, motor vehicles/cycles and office equipment included in the Company's asset register were excluded from the financial statement balance.

In the circumstances, the completeness and accuracy of property, plant and equipment balance of Kshs.16,517,540 could not be confirmed.

671. Unsupported Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.6,709,015. However, trade and other payables general ledger, supporting schedules, and aging analysis were not provided for audit.

In the circumstances, the completeness and accuracy of trade and other payables amount of Kshs.6,709,015 could not be confirmed.

672. Refundable Customer Deposits

The statement of financial position reflects refundable deposits from customers balance of Kshs.32,027. However, the movement schedule indicating how the prior year balance of Kshs.123,200 reduced to the current balance was not provided for audit.

In the circumstances, the completeness and accuracy of refundable deposits from customers of Kshs.32,027 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

673. Presentation of Financial Statements

The financial statements of the Company do not include the following reports and statements; the particulars and qualification of the board of directors, Chairman's statement, Corporate Governance Statement, Environmental and Sustainability Reporting and Information regarding CSR activities undertaken during the year, Statement of Directors' Responsibility and Statement of comparison of budget and actual amounts for the period ended 30 June, 2022 is not included in the financial statements.

In the circumstances, the financial statements do not conform to the format prescribed by the Public Sector Accounting Standard Board (PSASB) in accordance with Section 194(1) (d) of the Public Finance Management Act, 2012 which states that PSASB shall prescribe the formats for financial statements and reporting by all state organs and public entities.

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

674. Un-approved Water Tariffs

The statement of profit or loss and other comprehensive income reflects water sales amount of Kshs.71,354,164. During the year under review the company billed customers at rates ranging from Kshs.33 per cubic meter to a maximum of Kshs.6,850. However, evidence of approval of water tariff for water sales from Water Services Regulatory Board was not provided for audit review.

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

675. Late Submission of Financial Statements

The financial statements of the Company were submitted to the office of Auditor-General on 27 October, 2022 instead of the statutory deadline of 30 September, 2022 contrary to Section 149(2)(k) of the Public Finance and Management Act, 2012 states that in carrying out a responsibility imposed by subsection (1), an accounting officer shall, in respect of the entity concerned not later than three months after the end of each financial year, prepare annual financial statements for that financial year and submit them to the Auditor-General for audit, with a copy to the County Treasury. In addition, the financial statements were not approved and signed by board contrary to Section 652(1) of the Companies Act, CAP 486 which requires directors to approve and sign financial statements as soon as practicable after a Company's annual financial statement has been prepared, and section 652(2) which states that the directors shall sign their names on the company's balance sheet.

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

676. Lack of Operational Budget

The statement of profit or loss and other comprehensive income reflects total expenses amounting to Kshs.69,211,365. However, Management did not provide the approved budget estimates contrary to Section 149 (2) (h) of the Public Finance Management Act, 2012 which requires the accounting officer to prepare estimates of the expenditure of the entity in conformity with strategic plan.

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

677. Non-Revenue Water

The statement of profit or loss and other comprehensive income reflects water sales of Kshs.71,354,164. The Company extracted 2,304,940 cubic meters of water at a production cost of Kshs.55 Per cubic meter out of which 1,060,299 cubic meters or 46% was distributed and billed to customers during the year under review while 1,244,641 cubic meters or 54% water extracted was not accounted for. However, unaccounted for water loss of 54% exceeds the industry threshold of 25% contrary to the Water Services Regulatory Board (WASREB) schedule E and the Key Performance indicators (KPI's) impact No.13 benchmarks, which provides for a Non-Revenue Water level of under 20% as good, 20-25% as acceptable, while above 25% is not acceptable. Further, the amount of water loss increased from 50% in the prior year to 54% in the current year implying that the management has not instituted measures to curb the loss to below recommended rates.

In the circumstances, Management was in breach of law.

678. Late Remittance of Statutory Deductions

The statement of profit or loss and other comprehensive income reflects staff cost amount of Kshs.34,551,806 as disclosed in Note 11 to the financial statements. However, audit

review of Pay as You Earn (PAYE) and National Hospital Insurance Fund (NHIF) remittances revealed late remittance of Kshs.1,176,287 to respective Government agencies after the deadline of ninth of each following month which attracted penalties.

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

679. Non-compliance with Affirmative action on Gender, Ethnicity and Regional Distribution

Review of the company's payroll , revealed the Company had a staff establishment of eighty (80), out of whom sixty- seven (67) or 84% of staff are from the dominant ethnicity leaving thirteen (13) or 16% from other ethnicities contrary to Section 7(1) and (2) of the National Cohesion and integration Act, 2008 which requires that all public establishments shall seek to represent the diversity of the people of Kenya in employment of staff and that no public establishment shall have more than one third of its establishment from the same ethnic community. Further, out of a total staff establishment of 80 employees, thirteen (13) employees or, 16% are female while the remaining majority of 67 employees or 84% are men contrary to the Public Service Commission Human Resource Policies and Procedures Manual for the Public Service, 2016 Section B.22 (1) and (2) on Non Discrimination in Employment which provides that the Government shall promote equality of opportunity in employment and will not discriminate directly or indirectly against an employee on any grounds including race, sex, pregnancy, marital status, health status, ethnic or social origin, color, age, disability, religion, conscience, belief, culture, dress, language or birth and that the Government will endeavor to have a gender balanced Civil Service by ensuring that not more than 2/3 of positions in its establishment are filled by either gender.

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

680. Lack of Register of Bank Accounts

The statement of financial position reflects bank & cash balances of Kshs.1,452,324 held in six (6) bank accounts and one (1) pay point account as disclosed in Note 32 of the financial statements. However, a register of the bank accounts, indicating: bank, branch, account number, purpose of account, authorization details, opening date, authorized signatories, date of closure among others is not kept and maintained by the company contrary to Regulation 87(3) of the Public Finance Management-County Regulation 2015, states that the accounting officer of a county government entity shall, by the 30 September of each year, provide the County Treasury with an up-dated list of bank accounts held by the county government entity.

In the circumstances, Management was in breach of law.

681. Failure to file Annual Company Returns

Review of information indicates that the company was incorporated on 9 February, 2007 under the Companies Act Cap 486 of the laws of Kenya. However, as at the time of audit on 26 January, 2023, there was no evidence provided for audit review to indicate that the Company submitted annual returns on or before 09 February, 2022 to the Registrar of

Companies. This is contrary to Section 705(1) of the Companies Act CAP 486 states that (1) Every company shall submit to the Registrar successive annual returns each of which is made up to a date not later than the date that is from time to time the company's return date. (2) The company's return date is (a) the anniversary of the company's incorporation; or (b) if the company's last return lodged in accordance with this Part was made up to a different date – the anniversary of that date.

In the circumstances, Management was in breach of the law and risks deregistration for failure to file annual company return.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

682. Billing System

The statement of profit or loss and other comprehensive income reflects water sales amount of Kshs.71,354,164. However, the revenue system is not interlinked with the bank for live monitoring of payments and accurate ledger posting. Further, the revenue system does not produce revenue reports such as: billing, collections, customer statement, aging analysis to aide management in timely and periodic decision making.

In the circumstances, errors in customer accounts are likely to occur due to human intervention in updating customer records.

683. Governance Structure

The Company operated without a board of directors during the year. This is contrary to Section 177 of the Companies Act, CAP 486 which states that every company (other than a private company) registered after the appointed day shall have at least two directors, and every company registered before the appointed day and every private company shall have at least one director. Further, at the time of audit in January, 2023, the board was yet to be constituted.

In the circumstances, the company is not likely to meet its objectives effectively and efficiently due to lack of oversight and management of the board.

684. Lack of Payroll Reconciliations

The Company did not prepare monthly payroll reconciliations to explain/justify month to month payroll changes contrary to Section 120(3) of the Public Finance Management (County Government) Regulations, 2015 which require that at least once every month, the accounting officer shall certify the correctness of the payroll.

In the circumstances, errors in payroll processing are not likely to be detected in good time in absence of monthly payroll reconciliations.

685. Non -Compliance with Approved Establishment

The company operated without important human resource instruments including: organizational structure, staff grading and Establishment, career guidelines and Human Resource Policy and Procedures Manual contrary to State Corporation Advisory Committee Circular OP/SCAC.9/21/1/1 issued on 15 May, 2017 requiring all State Corporations to submit the HR Instruments for approval by 31 August, 2017.

In the circumstances, Management was not effectively and efficiently managing human resource for the benefit of the company.

686. Tagging of Fixed Assets

The statement of financial position reflects net book value of property plant and equipment amount of Kshs.16,517,540. However, building, water and sewer works (Kshs.15,910,934, Meters and equipment (Kshs.49,718), Computers and related equipment (Kshs.224,234) and office equipment (Kshs.332,654) that do have unique registration and identification numbers have not been tagged contrary to Section 132(1) Public Finance Management Act, 2012 (County Regulations) 2015 which states that the Accounting Officer of a county government entity shall take full responsibility and ensure that proper control systems exist for assets and that preventative mechanisms are in place to eliminate theft, security threats, losses, wastage and misuse;

In the circumstances, the Company's assets are prone to abuse due to weak controls in asset monitoring and control.

687. Lack of Internal Audit Function

The Company did not have an internal audit function contrary to Section 155(1)(a) of Public Finance Management Act, 2012 which states that a county government entity shall ensure that it complies with this Act and has appropriate arrangements for conducting internal audit according to the guidelines issued by the Accounting Standards Board.

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

688. Lack of Internal Audit Committee

The Company did not have an audit Committee in place contrary to Section 155(5) of Public Finance Management Act, 2012 the Act which requires county government entities to establish audit committees in accordance with prescribed regulations. An audit committee is responsible for among other functions: Monitoring the entity governance process, accountability process and control systems of the entity and offering objective advice on issues concerning risk, control, regulatory requirement and governance of the Company.

In the circumstances, lack of audit committee may lead to weak internal controls arising from lack of oversight.

689. Lack of Risk Management Policy

The company operated without a risk management policy in place contrary to Section 158(1) of the Public Finance Management County Government Regulations, 2015 which requires each county government entity to develop risk management strategies and a system of risk management.

In the circumstances, Management is not likely to identify risks and put in place appropriate measures to mitigate such risks.

WEST POKOT COUNTY – NO.24

KAPENGURIA WATER AND SEWERAGE SERVICES COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

690. Inaccuracies in the Statement of Profit or Loss & Other Comprehensive Income

The statement of profit or loss & other comprehensive income reflects opening amount for total expenses of Ksh.12,673,451 while the prior year audited financial statements reflects Kshs.8,370,499 resulting to an unexplained and unreconciled variance of Kshs.4,302,952.

In the circumstances, the accuracy of the opening balance for total expenses amounting to Kshs.12,673,451 could not be confirmed.

691. Inaccuracies in the Statement of Financial Position

The statement of financial position reflects total assets amount of Kshs.17,112,216 and total equity and liabilities amount of Kshs.(4,964,883) resulting to an unexplained variance of Kshs.22,077,099 which has not been reconciled. In addition, the total equity and liabilities is reflected as Kshs.(4,964,883) while the recalculated balance was Kshs.2,405,259 resulting to an unexplained variance of Kshs.7,370,142.

Further, the statement did not disclose pre-paid electricity expenses amounting to Kshs.572,863 under the current assets.

In the circumstances, the accuracy and completeness of the above balances in the statement of financial position could not be confirmed.

692. Inaccuracies in Cash and Cash Equivalent

The statement of financial position reflects cash and bank balance of Kshs.406,609. However, the balance differs with total verified cash book balance of Kshs.2,185,569 as per the bank reconciliation statements, cashbooks and board of survey report resulting to an unexplained variance of Kshs.1,778,960. In addition, the cash and bank balances were not supported with bank confirmation certificates and Mpesa statements.

Further, cash and bank balance reflects Kshs.406,609 as disclosed in Note 32 to the financial statements which differs with recalculated balance of Kshs.429,827 resulting to an unexplained variance of Kshs.23,218.

In the circumstances, the accuracy and completeness of the cash and bank balance of Kshs.406,609 could not be confirmed.

693. Inaccuracies in the Financial Statement

The Financial Statements reflects balances which were not in agreement with the supporting schedules as shown below:

Item	Balance as per Schedule (Kshs.)	Balance as per Financial Statement (Kshs.)	Variance (Kshs.)
Water Sales	3,878,380	3,879,380	1,000
Bulk Water Sales	516,411	554,311	37,900
Trade Receivables	13,992,462	16,705,607	2,713,145
Customer Deposits	1,558,200	1,559,200	1,000
Office Supplies	460,246	442,246	(18,000)
Staff Costs	4,896,320	4,982,800	86,480
Trade and Other Payables	20,817,899	19,968,151	849,748
Cash in Hand	23,518	23,218	(300)

In the circumstances, the accuracy and completeness of the above balances in the financial statements could not be confirmed

694. Property, Plant and Equipment

The statement of financial position reflects a Nil balance on property, plant and equipment. As reported in the previous year, all the company assets are leased from Rift Valley Water Works Development Agency. However, the lease agreement for these leased assets was not provided for audit. Further, the nature of the lease was not confirmed and also the leases were not accounted for in line with IAS 17 Paragraph 22 which requires that at the commencement of the lease term, lessees shall recognise finance leases as assets and liabilities in their statements of financial position. IAS 17 Paragraph 31 further requires a lessee to disclose for finance leases the net carrying amount at the end of the reporting period and a reconciliation between the total of future minimum lease payments at the end of the reporting period, and their present value.

In the circumstances, the accuracy, validity and completeness of the property, plant and equipment of nil balance could not be confirmed.

695. Unsupported Inventory Balance

The statement of financial position reflects a nil balance in respect of inventory as disclosed in Note 28 to the financial statements. However, evidence of physical stock taking, and board of survey certificate balance were not provided for audit.

In the circumstances, the accuracy and completeness of the nil inventories balance could not be confirmed.

696. Unpaid Share Capital

The statement of financial position reflects ordinary share capital balance of Kshs.100,000. However, there is no evidence that the management has made any efforts

to have the amounts paid. Further, the financial statement have not disclosed in the Notes to the financial statements the number of shares issued and fully paid, and the number issued but not fully paid as per the requirements of Paragraph 79 of IAS 1.

In the circumstances, the validity, accuracy and existence of share capital balance of Kshs.100,000 could not be confirmed.

697. Undisclosed Material Uncertainty Relating to Going Concern

The statement of financial position reflects total current liabilities of Kshs.22,377,099 which is more than the total current assets of Kshs.17,112,216 resulting to a negative working capital of Kshs.5,264,883. Further, the company has continued to make losses resulting to accumulated losses of Kshs.20,071,840. These are indicators of the company's uncertainties on meeting its financial obligations. However, this material uncertainty related to events or conditions that may cast significant doubt upon the company's ability to continue as a going concern have not been disclosed.

In the circumstances, the Company's going concern assumption is in doubt.

698. Non-Installation of Water Meters

The statement of profit or loss & other comprehensive income and as disclosed in Note 6 to the financial statements reflects operating revenue amounting to Kshs.6,321,641 which includes meter rent balance of Kshs.130,150. However, audit review of water production records revealed that out of five (5) production/intake points, only one (1) point (Makutano) is installed with bulk meters with the four (4) other points not fitted with bulk meters.

Further, a review of customer records provided for audit revealed that the company had a total of 2,539 customers out of which only 1,544 or 60.9% were fitted with meters which is less than the acceptable 95% as per the requirements of WASREB. The remaining 995 or 39.1 % of the total customers were not fitted with water meters in all the 5 zones and instead billing is based on a flat rate and not volume of water consumed.

In the circumstances, the accuracy, recoverability and completeness of the revenue balance of Kshs.6,321,641 could not be confirmed.

699. Long Outstanding Trade Debtors

The statement of financial position reflects trade and other receivables balance of Kshs.16,705,607 relating to debts owed from water sales. However, no documentary evidence was provided for audit to indicate measures or efforts being made by the management to recover these debts. Further, an aging analysis for the trade debtors was not provided for audit and the provision for doubtful debts amount of Kshs.1,300,000 made during the year was not supported by any documented policy guidelines by the management.

In the circumstances, the accuracy and existence of the trade receivable balance of Kshs.16,705,607 could not be confirmed.

700. Unsupported Trade and Other Payables

The statement of financial position and as disclosed in Note 42 of the financial statements reflects trade and other payables balance of Kshs.20,817,899 which includes trade payables amounting to Kshs.19,184,299. However, supporting documents including invoices, vendor's statements and aging analysis were not provided for audit.

In the circumstances, the accuracy and existence of the trade payables balance of Kshs.19,184,299 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

701. Presentation and Disclosures in the Financial Statements

The annual reports and financial statements prepared and presented did not comply with the prescribed reporting Template issued by the Public Sector Accounting Standard Board (PSASB) in accordance with Section 194(1)(d) of the Public Finance Management Act, 2012. In addition, the financial statements had the following omissions;

- i) The front page and headers of annual reports and financial statements reflects the name of the Company as Kapenguria Water and Sewerage Services Ltd instead of Kapenguria Water and Sewerage Service Company Ltd as reflected in the certificate of incorporation (Conversion) dated 20 November, 2022.
- ii) Table of Contents has incorrect page numbering for management discussion. The page numbers for the report of the management team and chairman's statement have been omitted.
- iii) The chairman's statement inaccurately states that the company had favorable results while the company continues making losses. Further, the report inaccurately states that human resource policy and new salary structure is in place.
- iv) The statement of Performance against Predetermined objectives has not been customized to include the strategic pillars, objectives, key performance indicators, activities and achievements of the company and actual figures.
- v) The Corporate Governance Statement inaccurately states that the company has a Board work plan and calendar and a number of standing committees which does not exist. It further states that the Board held four (4No) meetings during the year and yet there was no Board during the year.
- vi) The reports have not been customized to include details relating to the activities of the company as they contain XXX as it is in the reporting template instead of actual figures.
- vii) The financial statements have not been signed by the managing director, head of finance and the chairman of the Board and have no approval date.

- viii) The company did not prepare the Statement of Changes in Equity for the year ended 30 June, 2022 and Statement of Cash Flows.
- ix) Statement of Comparison of budget and actual amounts for the Period has not been prepared by the entity in accordance with the approved reporting template.
- x) The notes to the financial statements have not been customized to include figures relating to the financial activities of the company.
- xi) A detailed analysis of the grants received or transfers from the County Government has not been provided.
- xii) The transactions with related parties have not been disclosed.
- xiii) Progress on follow up of Prior year auditor's recommendations has no information.
- xiv) A trial balance was not provided for audit review to confirm the figures as reported in the financial statements.

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

702. Irregular Cash Procurement of Maintenance Expenses

The statement of profit or loss & other comprehensive income and Note 14 to the financial statements reflects maintenance expenses amounting to Kshs.437,450 which includes payments totalling to Kshs.252,690 made through cash. This is contrary to Section 92 of the Public Procurement and Disposal Regulations, 2020 which states that a procuring entity may use low value procurement method under Section 107 of the Act, where the estimated cost of the goods, works or services being procured per item per financial year is as per the threshold matrix in the Second Schedule. The threshold for procuring entities under "low value procurements" which can be done in cash is Kshs.50,000 for goods, works and services per procurement per item per financial year.

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

703. Late Submission of Financial Statements

The financial statements of Kapenguria Water and Sewerage Services Company Limited were submitted to the office of Auditor-General on 8 November, 2022. This is contrary to section 149(2)(k) of Public Finance Management Act, 2012 which states that the statutory deadline is 30 September, 2022

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

704. Unremitted Statutory Deductions

The statement of profit or loss and other comprehensive income reflects staff costs amounting to Kshs.4,982,800 which includes Kshs.386,159 for statutory deduction out of which Kshs.297,199 had not been remitted to the statutory state organs. This is contrary to Section 37(1) of the Income Tax Act, Section 16 (1) of the National Hospital Insurance Fund Act, 2012 and Section 10(1) of the National Social Security Fund. Further, the Company paid for NSSF deductions for the months of August and September in June, 2022 having delayed for 9 and 8 months respectively. This payment attracted a total fine

of Kshs.11,220 a payment that the Company could have avoided had it paid the statutory deductions in time.

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

705. Non-Compliance with the One-Third of Basic Salary Rule

Verification of employees payrolls revealed that thirty-two (32) employees earned a net salary of less than a third (1/3) of the basic salary contrary to Section C.1(3) of the Public Service Commission (PSC) Human Resource Policies, 2016. The Management has not given an explanation for the failure to comply with the policy.

In the circumstances, Management was in breach of Regulations.

706. Non-Compliance with Law on Ethnic Composition

During the year under review, the total number of employees of the Company was thirty-nine (39) out of which twenty-nine (29) or 81% of the total number were members of the dominant ethnic community in the county. This is contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that, "all public offices shall seek to represent the diversity of the people of Kenya in the employment of staff and that no public institution shall have more than one-third of its staff establishment from the same ethnic community".

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

707. Lack of Approved Budget

The statement of comparison of budget and actual amounts reflects Kshs.20,500,000 final budget. However, the Company did not have an approved budget estimates. This is contrary to Section 99(2) of the Public Financial Management (County Governments) Regulations, 2015 which requires that the approved budget estimates of expenditure shall form the basis of the financial statements for the financial year.

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

708. Lack of Procurement Function

During the year under review, the Company did not have a procurement function/department. This is contrary to Section 24(1) of the Public Procurement and Asset Disposal Regulations, 2020 which states that for the purpose of section 45 of the Act and for a procuring entity to be able to make corporate decisions and for purposes of internal controls, the procuring entity shall have segregated responsibilities including a procurement function headed and staffed by procurement professionals.

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

709. Unresolved Prior Year Audit Matters on Recommendations of Oversight Bodies

Recommendations from the oversight bodies on the issues raised in the audit report for 2020/2021 financial year were not submitted for audit verification and clearance contrary to Section 149(2)(I) of the Public Finance Management Act, 2012 which require

accounting officers designated for county government entities to try to resolve any issues resulting from an audit that remain outstanding.

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

710. Unaccounted for Water

The statement of profit or loss and other comprehensive income reflects operating revenue totalling to Kshs.6,321,641 and as disclosed in Note 6 to the financial statements which includes water sales amount of Kshs.3,879,380. However, review of the water records revealed that the Company produced 243,026 cubic meters of water during the year out of which 72,359 cubic meters was billed to customers resulting to 170,667 cubic meters as unaccounted for water or 70% of the total water produced which is 45% over and above the recommended maximum of 25% as per the requirements of WASREB. No verifiable explanation was provided for the high percentage of unaccounted for water.

In the circumstances, Management was in breach of Regulations.

711. Unsupported Domestic Travel and Subsistence Expenditure

The statement of profit or loss & other comprehensive income and as disclosed in Note 12 to the financial statements reflects general and operations expenses amounting to Kshs.11,554,095 which includes domestic travelling and subsistence amounts of Kshs.991,550. However, this expenditure was not supported by motor vehicle work tickets or bus tickets, attendance registers for the meetings and trainings, back to office reports and minutes.

In the circumstances, value for funds could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

712. Lack of a Substantive Board

During the year under review, the Company did not have a fully constituted Board. The management of the company affairs was being carried out by the Acting Managing Director with the assistance of three West Pokot County Government officials contrary to Section 79(1) of the Water Act, 2016 which requires that a water services provider should have a Board of directors and in the case of a company, the members of its Board of Directors shall be constituted in accordance with the Companies Act, 2015 or any other written law and that the directors be nominated to serve on the Board in accordance with the Company's memorandum and articles of association.

In the circumstances, the effectiveness of the Company's governance could not be confirmed.

713. Secondment of the Acting Managing Director

Review of the personnel records revealed that the current acting Managing Director was seconded to the Company by the County Government of West Pokot. However, the

secondment letter was not provided for audit and therefore, the terms of engagement could not be confirmed.

In the circumstances, the effectiveness of the Company's governance could not be confirmed.

714. Lack of a Service Provision Agreement

During the year under audit, the Company did not have a Service Provision Agreement with Rift Valley Water Works Development Agency for the provision of water and sewerage services within West Pokot County.

715. Lack of Internal Audit Function and an Audit Committee of the Board

The Company has not established an internal audit function and an Audit Committee of the Board. This is contrary to Section 155 of the Public Finance Management Act, 2012 which provides for the establishment of the internal audit function and an Audit Committee of the Board. As such the Company did not benefit from the assurance and advisory services from the internal audit function as well as oversight from the Audit Committee.

In the circumstances, the effectiveness of internal controls and governance could not be confirmed.

716. Lack of Risk Management Policy and Strategy

The Company Management had not put in place risk management policy, strategies, and risk register to mitigate against risk. It was, therefore, not clear how the management manages risk exposures. This is in contravention of Regulation 158 (1)(a) and (b) of the Public Finance Management (County Governments) Regulations, 2015 which requires the Accounting Officer to ensure that the county government entity develops risk management strategies, which include fraud prevention mechanism; and the county government entity develops a system of risk management and internal control that builds robust business operations.

In the circumstances, existence of an effective risk management measures could not be confirmed.

717. Lack of Approved Information Communication Technology (ICT) Security Policy

Review of the Company's information technology systems revealed that the Company did not have an approved IT policy for governance and management of its ICT resources. In addition, there is no ICT steering committee in place to assist in the development of ICT policy framework to enable the company to realize long-term ICT strategic goals. Lack of an approved IT policy may result in an unclear direction regarding maintenance of information security across the organization and safeguarding the Company's ICT assets. Further, without a sound and approved framework, users do not have any rules and procedures to follow in order to minimize risk of errors, fraud and the loss of data confidentiality, integrity and availability.

In the circumstances, existence of effective ICT controls could not be confirmed.

718. Lack of Segregation of Duties

Review of cash books and bank reconciliations statements revealed that, the officer who prepared the cash book was the same officer who prepared the monthly bank reconciliation statements. Further, the cashbooks were not checked by a senior officer on a regular basis and were not signed by the preparer for ownership of responsibility.

In the circumstances, the effectiveness of the internal controls on management of cash and cash equivalents could not be confirmed.

SAMBURU COUNTY – NO.25

SAMBURU WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

719. Unsupported Trade and Other Receivables

Note 27(a) to the financial statements reflects an amount of Kshs.21,651,413 in respect to trade and other receivables. However, debtors age analysis showing individual debtors and age of the debts was not provided for audit review.

In the circumstances, the accuracy and recoverability of these receivables balance of Kshs.21,651,413 could not be confirmed.

720. Material Uncertainty in Relation to Going Concern

The statement of financial position reflects Kshs.22,138,220 and Kshs.54,272,678 in respect to total current assets and total current liabilities respectively resulting to a negative working capital of Kshs.32,134,458. In addition, the water company received grants of Kshs.45,544,400 from Samburu County Government as compared to its own generated revenue from water sales of Kshs.6,661,905. This implied that the water company could not be able to meet its obligations as and when they fall due. This is an indication that the company may be experiencing difficulties in meeting its maturing obligations and therefore the company's financial position appeared precarious. However, the financial statements have been prepared on a going concern basis on the assumption that the company will continue to receive support from the County Government and its creditors. Additionally, measures being put in place to improve the Company's financial performance have not been disclosed by way of notes to the financial statements as required by the standards and, therefore, the existence of this material uncertainty casts a significant doubt on the Company's ability to continue as a going concern.

In the circumstances, the recurring negative working capital threatens the going concern status of the Company.

721. Inaccuracies in the Financial Statements

- (i) The statement of changes in equity reflects retained earnings balance brought forward of negative Kshs.11,837,671. However, the reported closing balance in the 2020/2021 certified financial statements reflects a negative balance of Kshs.13,120,225 resulting in an unexplained variance of Kshs.1,282,554. In addition, the statement of financial position reflects general reserves balance of Kshs.51,823,589 whereas the balance reflected in the statement of changes in equity is Kshs.67,617,994 resulting in an unexplained variance of Kshs.15,794,405.

- (ii) The statement of financial position reflects a negative balance of Kshs.15,443,548 in respect to retained earning whereas the statement of changes in equity reflects a negative balance of Kshs.15,794,405 resulting to unexplained variance of Kshs.350,857.
- (iii) Note 12(a) on administration costs include staff expenses which should be a separate line item as required by the Public Sector Accounting Standards Board (PSASB).
- (iv) There is Non-disclosure of Board of Directors expenses of Kshs.2,520,000 as a line item as required by the PSASB and as disclosed in the prior year.
- (v) The statement of profit or loss and other comprehensive income reflects a loss after tax of Kshs.2,323,323. However, a recast of total expenses amounted to Kshs.48,935,964 and not Kshs.54,529,628 resulting in an unexplained variance of Kshs.5,593,664.
- (vi) The statement of financial position reflects total equity and liabilities of Kshs.96,652,719 and total assets of Kshs.96,590,499. However, a recast of total equity and liabilities totalled to Kshs.90,652,719 resulting to an unexplained variance of Kshs.6,062,220. Consequently, total assets are more than total equity and liabilities by Kshs.5,937,780 hence unbalanced statement of financial position.
- (vii) The statement of financial position reflects total current assets opening balance of Kshs.20,858,549 instead of Kshs.20,585,549 giving rise to an unexplained variance of Kshs.273,000.
- (viii) The statement of cash flows has omitted all payments and grants as items of cash flows. Therefore, the accuracy of cash and cash equivalents balance of Kshs.495,946 could not be confirmed.
- (ix) The balances in the statement of comparison of budget and actual amounts could not be confirmed as there was no approved budget provided for audit review.
- (x) Management has quoted standards applicable in 2019/2020 financial year, instead of applying standards provided by the PSASB for year 2021/2022.
- (xi) The Company processes water and distributes to clients and in the process incurs costs. However, the costs have not been quantified and disclosed as cost of sales as required by the PSASB template.
- (xii) The Company incurred costs in selling and distribution of water. However, the same has not been quantified and disclosed as required by the PSASB template.
- (xiii) Note 15 on operating profit (Loss) has disclosed depreciation of property, plant and equipment of Kshs.4,597,460 and amortization of intangible assets of Kshs.52,0929. However, Note 41 on the statement of cash flows reflect depreciation of Kshs.8,123,489 and amortization balance of Kshs.22,299. Further

the same was not disclosed in the statement of profit or loss and other comprehensive income.

- (xiv) Under Appendix I on progress on follow up of auditors recommendations, no progress is reflected. Consequently, the Management is non-compliant to the Public Audit Act, 2015 and PSASB requirements.

In the circumstances, the accuracy and completeness of the financial statements could not be confirmed.

722. Consumer Deposits

The statement of financial position reflects consumer deposits balance of Kshs.7,126,249 as disclosed in Note 39 to the financial statements. However, Management did not maintain records such as customer deposits ledger, separate bank account for customer deposits and register of the individual customers whose deposits it is holding.

In the circumstances, the accuracy and completeness of the customer deposit balance of Kshs.7,126,249 could not be confirmed.

723. Uncapitalized Pipeline Extensions Works

Note 12(a) to the financial statements on administration costs includes other operating expenses of Kshs.14,931,987 out of which Kshs.12,453,600 relates to capital expenditure for pipeline extension works that were expensed during the year instead of being capitalized and depreciated over the useful life of the assets.

In the circumstances, the accuracy of other operating expenses of Kshs.14,931,987 could not be confirmed and the fixed assets balance is understated by a similar amount.

724. Unsupported Trade and Other Payables

The statement of financial position reflects a balance of Kshs.47,146,429 for trade and other payables as disclosed in Note 37 to the financial statements. However, Note 37 to the financial statements reflects a nil balance. Further, no detailed analysis showing name of creditors, amount owing or age of credit was provided for audit review. It was, therefore, not possible to analyze the age of these liabilities and to whom the amount was owed.

In the circumstances, the existence, accuracy and completeness of the trade and other payables balance of Kshs.47,146,429 could not be confirmed.

725. Unsupported Directors Emoluments

Note 12(a) on administration costs includes Kshs.2,520,000 in respect to directors' emoluments. Included in the amount is Kshs.1,940,000 which was not supported with signed attendance register and Board minutes.

In the circumstances, the accuracy and regularity of Kshs.1,940,000 expenditure on directors emoluments could not be confirmed.

726. Property, Plant and Equipment

The statement of financial position reflects a balance of Kshs.74,400,200 in respects to property, plant and equipment as disclosed in Note 19 to the financial statements. However, the following anomalies were noted:

- i) A fixed asset register was not provided to support the disclosed balances.
- ii) Ownership documents for a motor vehicle valued at Kshs.383,584 was not provided for audit verification.
- iii) There was no valuation carried out for the company's assets.
- iv) Total property, plant and equipment is reflected as Kshs.112,935,002 as at July, 2021. An accumulated depreciation of Kshs.36,572,099 was charged as at 30 June, 2022 but a net book value of Kshs.74,400,200 is reflected instead of Kshs.76,362,903 resulting in an unexplained variance of Kshs.1,962,703.

In the circumstances, the accuracy, completeness, valuation and ownership of property, plant and equipment balance of Kshs.74,400,200 could not be Confirmed.

727. Unapproved Over-Payment of Gratuity

Note 12(b) on staff costs reflects Kshs.18,964,000 in respect to staff costs which includes leave pay and gratuity of Kshs.6,924,000. However, a further analysis of the payment vouchers and schedules indicated that two employees were paid gratuity amounting to Kshs.4,506,000 instead of Kshs.3,537,720 resulting to unexplained variance of Kshs.968,280.

In the circumstances, the accuracy of the leave pay and gratuity expense of Kshs.6,924,000 could not be confirmed.

728. Unsupported Works for Pipeline Extension

Note 12(a) on administration costs includes other operating expenses of Kshs.14,931,987. Included in the balance, is an amount of Kshs.7,700,000 in respect to pipeline extension works. However, the following anomalies were observed;

- i) No requisition was raised in respect to the above works.
- ii) Procurement documents were not provided for audit review.
- iii) Bills of quantities quantifying the works done were not provided.
- iv) Engineer's certificates, Inspection and acceptance certificates were not provided to certify the works done.

In the circumstances, the regularity of the expenditure of Kshs.7,700,000 on pipeline extension could not be confirmed.

Other Matter

729. Unresolved Prior Year Audit Matters

The audit report for the previous year highlighted several issues in respect of the Financial Statements, Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. Although the Management has indicated that the issues have been responded to, the matters have remained unresolved as the County Assembly Public Account and Investment Committee has not met to deliberate on the same.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

730. Lack of Approved Budget

The Management did not provide an approved budget estimates to indicate the estimated revenue and expenditure for the year under review. The basis of the expenditure incurred amounting to Kshs.52,206,305 was contrary to Section 128(1) of the Water Act, 2016 which require that three months before the commencement of each financial year, each body corporate established under this Act shall cause to be prepared estimates of the revenue and expenditure of the body corporate for that year.

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

731. Lack of Mandatory Board Committees

The Company had not established the following mandatory Committees as required by the Water Services Regulatory Board (WASREB) corporate governance guidelines.

- i) The Audit Committee,
- ii) The Technical Services Committee and
- iii) The Finance, Human Resources and Administration Committee.

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

732. Lack of Pre-qualified List of Suppliers

During the year under review the Company did not provide for audit the list of pre-qualified suppliers contrary to Section 57(1) and 71(1) of the Public Procurement and Asset Disposal Act, 2015 which provides that the head of the procurement function of a procuring entity shall maintain and update lists of registered suppliers, contractors and consultants in the categories of goods, works or services according to its procurement needs.

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

733. Lack of an Approved Procurement Plan

During the year under review the Company did not provide for audit an approved procurement plan contrary to Regulation 40 (1) of the Public Procurement and Assets Disposal Regulations, 2020 which provides that a procuring entity shall prepare a procurement plan for each financial year as part of the annual budget preparation process.

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

734. Excess Number of Board of Directors

The Company had eleven (11) Directors instead of the recommended five (5) Board Members for small water companies. This was in breach of Clause 3.4.1(1) of the Corporate Governance guidelines for the water services sector, 2018 that requires small companies and companies relying on subsidy for operation and maintenance from the County Government to have a maximum of five (5) Directors which shall include two from County Government Executive.

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

735. Un-Taxed Gratuity

Note 12 (a) to the financial statements reflects Kshs.18,964,000 in respect to staff costs which includes Kshs.6,924,000 in respect to gratuity paid to six (6) contracted employees. However, review of the payment vouchers and schedules revealed that gratuity paid was not subjected to Pay As You Earn (PAYE) deductions. The unremitted PAYE amounted to Kshs.2,029,610. This was contrary to the Income Tax Act, Cap 470, Section 37 (1) which provides that an employer paying emoluments to an employee shall deduct therefrom, and account for tax thereon, to such extent and in such manner as may be prescribed.

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

736. Late Submission of the Financial Statements for Audit

The financial statements for the Company were to be submitted latest on 30 September, 2022 following the closure of the financial year on 30 June, 2022. However, the company submitted these financial statements for audit on the 8 November, 2022 more than five (5) weeks contrary to Section 129 (2) of the Water Act, 2016.

Consequently, Management was in breach of the law.

737. Non-Revenue Water

During the year under review, the Company produced 420,485 cubic meters of water and out of this volume only 210,918 cubic meters was billed to customers. The balance of 209,567 cubic meters or approximately 50% of the total volume produced represents Non-Revenue Water (NRW) which is 25% over and above the allowable loss of 25% in accordance with the Water Services Regulatory Board guidelines.

Further, it was observed that the company failed to bill its customers in the months of August, September and December, 2021 and no explanations were offered to justify the same.

In the circumstances, Management was in breach of the WASREB guidelines.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

738. Lack of a Risk Management Policy

As previously reported, the Management of the Company had not developed a Risk Management Policy to guide Management on risk management assessment and fraud preventive mechanisms. Without such, it was not possible to ascertain how the company assessed its risks, put in place mechanism to prevent or mitigate effects of risks and prevent fraud.

In the circumstances, effectiveness of internal controls, risk management and governance could not be ascertained.

739. Lack of a Service Charter

During the audit, Management did not provide service charter for which delivery of services is benchmarked. This contravened the requirements by WASREB Corporate Governance Guidelines for the Water Services Sector, 2018 Section 3.5.6.

In the circumstances, it could not be established how the company operations were guided without a service charter to gauge performance.

740. Failure to Perform Staff Performance Appraisals

Note 12 presents staff costs of Kshs.18,964,000.00 that was incurred in the compensation of contractual and permanent staff engaged during the financial year. Review of the personal files revealed that the Organization did not evaluate performance of employees through performance appraisals. The appraisals play a critical role in management decision making such as contract renewals. Without the performance appraisals, therefore, it was not possible to confirm the criteria upon which contract renewals of some of the contractual employees was arrived at.

Further, without the appraisals it was not possible to link individual performance with organization performance.

In the circumstances, efficiency and effectiveness in human resource management could not be confirmed.

741. Lack of ICT Strategic Plan, Strategic Committee and Steering Plan

Information available indicates that the Company had no ICT Strategic Plan, ICT Steering Committee and ICT Strategic Committee. This was contrary to the Information Communication Technology Authority (ICTA) regulations which require the establishment of the same.

TRANS NZOIA COUNTY – NO.26 AND BUNGOMA COUNTY – NO.39

NZOIA WATER SERVICES COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

742. Inaccuracies in the Financial Statements

The statement of financial position reflects comparative balances of Kshs.506,832,199 and Kshs.28,767,270 in respect of total assets and retained earnings respectively. However, the balances are at variance with the corresponding balances of Kshs.507,911,659 and Kshs.29,846,730 reflected in the audited financial statements for the year ended 30 June, 2021 resulting to unreconciled variance of Kshs.1,079,460 for both balances. Further, the statement of profit or loss and other comprehensive income and the statement of financial position reflect cost of sales and intangible assets balance of Kshs.148,377,080 and Kshs.1,777,214 respectively while Note 6 and 16 to the financial statements reflects balances of Kshs.146,336,128 and Kshs.1,765,757 respectively resulting in unreconciled variance of Kshs.2,040,952 and Kshs.11,457.

In addition, review of the financial statements provided for audit reflected variances between amounts in the financial statements and those in supporting schedules as indicated below:

Component	Financial Statements Balances (Kshs.)	Schedules Balances (Kshs.)	Variance (Kshs.)
Cost of Sales Note 6	148,377,080	146,336,128	2,040,952
Staff and Other Related Expenses – Note 8(a)	144,520,230	143,528,743	991,487
Other Income - Note 7	34,332,949	-	34,332,949
Grant CLSG - Note 7	37,598,469	-	37,598,469
Repairs and Maintenance – Note 10	23,770,516	28,958,336	(5,187,820)
Specialized Services – Note 10	11,482,749	10,664,749	818,000
Furniture – Note 15	7,895,929	1,560,129	6,335,800
Computer & Equipment – Note 15	15,872,093	3,181,908	12,690,185
Network (Water Pipeline & Infrastructure) – Note 15	78,377,013	17,134,766	61,242,247
Water Meters – Note 15	40,843,647	26,069,123	14,774,524
Water Pump - Matisi T/W – Note 15	6,604,600	5,806,346	798,254
Motor Cycles – Note 15	1,219,086	678,585	540,501
Mobile Phones – Note 15	713,505	323,905	389,600
Capital Works – Note 15	-	12,623,575	(12,623,575)
Depreciation - Note 15	20,633,191	9,025,716	11,607,475
Amortization Charges for the year - Note 16	142,607	476,991	(334,384)

In the circumstances, the accuracy and completeness of the financial statements could not be confirmed.

743. Long Outstanding Trade and Other Receivables

The statement of financial position and Note 19 to the financial statements reflects trade and other receivables balance of Kshs.376,922,075. Included in the balance, is an amount of Kshs.6,985,655 in respect of deposits and pre-payments, unpaid share capital, customer water deposits and unclaimed Value Added Tax (VAT) which have remained the same from the previous year. No explanation was provided for the failure to recover the long outstanding receivables.

In the circumstances, the recoverability of the receivables balance totalling to Kshs.6,985,655 was doubtful.

744. Unaccounted for Interest Income

The statement of financial position and Note 20 to the financial statements reflects an amount of Kshs.15,815,266 in respect to short-term deposits. Review of the fixed deposit placement certificate revealed that the amount had been deposited for a fixed period of 11 months starting 30 July, 2021 to 30 June, 2022 and that the funds, upon maturity were to be transferred to the Company's operations account together with interest. However, review of the bank statements provided revealed that the funds were wired to the operations account on 16 August, 2022 instead of 30 June, 2022 as provided for in the fixed deposit placement certificate. No explanation was provided as to why the funds were transferred thirty-six (36) days after the stipulated date and how the accrued interest income was accounted for.

In addition, the statement of cash flows reflects an amount of Kshs.6,746,359 in respect of adjustments in fixed deposit. However, no explanation or documentary evidence was provided on the nature and purpose of the adjustment.

In the circumstances, the accuracy and completeness of the short-term deposit and other income could not be confirmed.

Other Matter

745. Inconsistent Information in Respect of Ownership of the Company

Note 22 to the financial statements indicates that the Company has an authorized share capital of Kshs.150,100,000 divided into 7,505,000 shares of Kshs.20 each, out of which 2,005,000 shares have been fully paid up while 2,500,000 shares of Kshs.20 per value have been issued but not paid for. Further, review of the Memorandum of Association revealed that the Company had an authorized share capital of Kshs.100,000 divided into 5,000 shares of Kshs.20. However, Management did not provide explanations for the contradiction in the information between the financial statements and the Memorandum of Association. Further, no evidence was provided to confirm that the company made regular returns with the Registrar of Companies as required by law.

In the circumstances, the correct shareholding and ownership of the company could not be confirmed.

746. Prior Year Matters

In the audit report of the previous year, several paragraphs were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources. However, the Management has not resolved the issues nor given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

747. Non-Revenue Water

During the year under review, the company produced 8,333,282 cubic meters of water, out of which only 4,304,400 cubic meters were billed for Kshs.303,265,106 as indicated in Note 5 to the financial statements. The balance of 4,028,882 cubic meters or approximately 48.35% of the total production, which represents non-revenue water, was not billed. This translates to 23.35% above the 25% loss allowed by Water Services Regulatory Board (WASREB). No explanation was provided on the disallowable loss of 23.35% representing 1,945,821 cubic meters of water which is equivalent to Kshs.137,092,187.

Further, and as previously reported, all the Company's eight production plants at Matisi, Kapolet, Nzoia, Nabuyole, Terem, Kapkateny, Chesikaki and Kamutiong did not have abstraction meters implying that the amount of water drawn from the rivers was based on estimates.

In the circumstances, Management was in breach of the WASREB regulations, and the accuracy of the water sales could not be confirmed.

748. Non-Remittance of Pension Scheme Contributions

The statement of profit or loss and other comprehensive income reflects an amount of Kshs.222,453,610 in respect of administration costs as disclosed in Note 8(a) to the financial statements. Included in the balance, is an amount of Kshs.144,520,230 relating to staff and other related expenses out of which Kshs.12,246,462 related to employees' benefits not remitted to pension scheme. No explanation was provided for the failure to remit the amounts deducted from staff salaries as required by Section 19(5) of the Employment Act which provides that failure by the employer to remit deductions from an employee's remuneration, the court may, in addition to fining the employer, order the employer to refund to the employee the amount deducted from the employee's wages and pay the intended beneficiary on behalf of the employee with the employer's own funds.

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

749. Non-Compliance with the Provision on Ethnic Balance

Review of the human resource records revealed that during the year under review, the Company had a total of two hundred and seventy-three (273) employees out of which two

hundred and eleven (211) employees (77%) were from the same ethnic community. This was contrary to Section 7(2) of the National Cohesion and Integration Act, 2008 which provides that no public establishment shall have more than one third of its staff from the same ethnic community.

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

750. Unauthorized Staff Establishment

Review of the human resource records revealed that the Company had twelve (12) more staff in some cadres than what was provided for in its staff establishment. This was contrary to Part 2.3(v)(b) of the Company's Human Resource Policy Manual.

In the circumstances, Management was in breach of the Human Resource Policy Manual.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

751. There were no material issues relating to effectiveness of internal controls, risk management and governance.

UASIN GISHU COUNTY – NO.27

ELDORET WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

752. Long Outstanding Trade Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.596,060,717 as disclosed in Note 21 to the financial statements includes trade receivables amount of Kshs.510,394,830 and cleansing amount of Kshs.87,009,979. However, review of the debtors' aging analysis revealed that a total of Kshs.529,379,701 has been outstanding for over six (6) months, and no clear recovery measures were in place.

Further, included in Kshs.596,060,717 is Kshs.12,766,397 owed by customers whose accounts had been terminated.

In the circumstances, the accuracy, completeness and recoverability of the trade receivable balance of Kshs.596,060,717 could not be confirmed.

753. Doubtful Recovery of VAT Refunds

The statement of financial position reflects trade and other receivables balance of Kshs.596,060,717 as disclosed in Note 21 to the financial statements includes VAT refunds amount of Kshs.48,584,233. Examination of documents provided for audit revealed the applications for VAT refunds were made between April, 2011 and June, 2018 to Kenya Revenue Authority. However, as at the time of audit, no refund had been received by the Company in respect of these applications.

In the circumstances, the recoverability of the VAT refunds balance of Kshs.48,584,233 could not be confirmed.

754. Outstanding Temporary Imprests

The statement of financial position reflects trade and other receivables balance of Kshs.596,060,717 which includes debtors general amount of Kshs.2,654,480. Review of the records provided to support the balance revealed outstanding temporary imprests of Kshs.1,491,327 which were long overdue. No evidence of action taken by Management to recover the imprests was provided.

In the circumstances, the completeness and recoverability of the long outstanding imprest balance of Kshs.1,491,327 could not be confirmed.

755. Estimated Water Supply Bills

The statement of profit or loss and other comprehensive income and Note 6 to the financial statements reflects operating revenue totalling to Kshs.836,513,411 which included water sales of Kshs.589,621,022. However, analysis of the ledger provided for audit revealed that, the Company issued estimated water bills totalling to Kshs.43,123,657 which is approximately 7.3% of the total bills. However, estimation of water bills is not included in the company's financial regulations and procedure manual as a method of recognizing revenue.

In the circumstances, the accuracy and completeness of sales of water of Kshs.43,123,657 could not be confirmed.

756. Work-In-Progress

The statement of financial position reflects property, plant and equipment balance of Kshs.2,594,206,911 as disclosed in Note 16 to the financial statements. Included in the balance is an amount of Kshs.8,518,229 in respect to work in progress. Review of records provided for audit revealed that excavation, laying and backfilling of new High-Density Polyethylene (HDPE) pipes for Shayona Sports Club project with a total estimated cost of Kshs.2,805,824 had not commenced by the time of audit. However, pipes which were delivered for the project lay idle at Kapsoya Treatment Plant two years after they were delivered.

In the circumstances, the accuracy and completeness of work in progress balance of Kshs.8,518,229 could not be confirmed.

Other Matter

757. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.1,773,508,192 and Kshs.980,714,070 respectively resulting to an under-performance of Kshs.792,797,122 or 45% of the budget. Similarly, the company expended Kshs.1,150,078,066 against an approved budget of Kshs.1,773,508,192 resulting to an under-expenditure of Kshs.623,430,126 or 35% of the budget.

The underperformance affected the Company's planned activities and may have impacted negatively on service delivery to the public.

758. Unresolved Prior Year Matters

In the audit report of the previous year, a number of paragraphs were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management has not resolved the issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

759. Non-Revenue Water

The statement of profit or loss and other comprehensive income reflect operating revenue totalling to Kshs.836,513,411 as disclosed in Note 6 to the financial statements includes water sales amount of Kshs.589,621,022. Analysis of the water production and billing records revealed that the Company produced a total of 15,446,345 cubic meters of water but billed a total of 9,370,474 cubic meters therefore leaving a total of 6,075,871 cubic meters as on-Revenue Water (NRW) which is approximately 39% of the total production. This is 14% over and above the threshold of 25% recommended by the Water Service Regulatory Board (WASREB) guidelines.

This may therefore, impact negatively on the Company's profitability and its long-term sustainability.

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

760. Unapproved Over Expenditure on Board Expenses

The statement of profit or loss and other comprehensive income reflects board expenses of Kshs.15,502,098 as disclosed in Note 12 to the financial statements. However, Water Service Regulatory Board (WASREB) caps board expenses for the Company at Kshs.12,000,000 being the higher of 1% of annual turnover and Kshs.12,000,000, resulting to unexplained unapproved over expenditure of Kshs.3,502,098 contrary to Regulation 3.4.6(c) of the WASREB regulations.

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

761. Trade Creditors and Other Payables

The statement of financial position reflects trade creditors and other payables balance of Kshs.384,370,035 as disclosed in Note 31 to the financial statements. Included in this balance is accrued expenses payable of Kshs.220,636,018 which include Kshs.186,087,504 due to Uasin Gishu County Government on account of lease charges for assets pursuant to an addendum to the lease agreement signed between the Company and the defunct Municipal Council of Eldoret on 27 May, 2002 and the amount has been outstanding since 30 June, 2016.

Records provided for audit showed that the Company, in an extra ordinary general meeting held on 22 June, 2022, shareholders resolved that the Company request for an amendment through the office of the CEC – Water, Energy, Natural Resources, Tourism and Wildlife Management to provide for a waiver of the accrued liability of Kshs.186,087,504. However, there was no evidence that the request was honoured.

In addition, an accrued balance of Kshs.34,548,514 was owed to Lake Victoria North Water Works Development Agency (LVNWWDA).

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

762. WASREB Penalties

The statement of profit or loss and other comprehensive income reflects general and operating expenses of Kshs.324,414,483 as disclosed in Note 11 to the financial statements. Included in this expenditure is an amount of Kshs.34,477,624 in respect to WASREB fees as disclosed in Note 11 to the financial statements.

Examination of the documents provided for audit revealed that the company paid Kshs.4,320,000 as penalty to WASREB for non-compliance with the regulations, being material non-compliance with the approved tariffs leading to the Company overcharging its customers for both water and sewer charges totalling to Kshs.166,440,569.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

763. There were no material issues relating to effectiveness of internal controls, risk management and governance.

ELGEYO/MARAKWET COUNTY– NO.28

ITEN TAMBACH WATER AND SEWERAGE COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

764. Property, Plant and Equipment

764.1 Unconfirmed Value and Ownership of Land

The statement of financial position reflects property, plant and equipment balance of Kshs.5,601,615 which includes buildings balance of Kshs.1,275,853, as disclosed in Note 12(a) to the financial statements. However, the value of land on which these buildings have been put up has not been disclosed in the financial statements. Further, the title deed to confirm ownership of the land by the Company was not provided for audit verification.

764.2 Un-Transferred Work-In-Progress

The statement of financial position reflects work-in-progress (un-transferred) balance of Kshs.16,880,122 as disclosed in Note 12(b) to the financial statements. Review of supporting documentation revealed that the work in progress relates to assets which were financed by the Water Services Trust Fund. According to the financing agreement between Water Services Trust Fund, Rift Valley Water Services Board (RVWSB) and Iten Tambach Water and Sewerage Company Limited (ITWASCO) dated 25 July, 2012, ITWASCO was the implementor of the project while Rift Valley Water Service Board (RVWSB) was to acquire the ownership of the new assets developed. Rift Valley Water Services Board requested for the transfer of the completed work in progress to the Board as per the terms of the financing agreement. However, at the time of audit, the project had not been transferred and therefore the completed assets are wrongly classified in the financial statements as work in progress and are not being depreciated although they are in use.

764.3 Property, Plant and Equipment with Nil Book Values

The statement of financial position reflects property, plant and equipment balance of Kshs.5,601,615 as disclosed in Note 12(a) to the financial statements. However, the balance excludes property, plant and equipment with historical cost of Kshs.3,422,300 which had been fully depreciated/amortized but was still in use, and had neither been revalued nor disposed as at 30 June, 2022.

In the circumstance, the accuracy, completeness and ownership of property, plant and equipment balance of Kshs.5,601,615 could not be confirmed.

765. Non-Recoverability of Trade and Other Receivables

The statement of financial position reflects trade and other receivables amount of Kshs.32,862,191 as disclosed in Note 14(a) to the financial statements which includes water debtors. However, included in the amount are bills amounting to Kshs.27,996,390 whose credit period has expired or exceeded the normal credit period of fifteen (15) days and therefore contravening section 12.4 of the Iten Tambach Water and Sewerage Company Limited Finance Regulations and Procedures Manual 2019 which states that normal credit period shall be fifteen (15) days from the date of billing.

In the circumstances, the recoverability of the outstanding debts amounting to Kshs.27,996,390 could not be confirmed.

766. Unsupported Authorized Share Capital of the Company

The statement of financial position reflects share capital of Kshs.100,000 in respect of 5000 shares with a par value of Kshs.20 each and as disclosed in Note 17(a) to the financial statements. However, the Management did not provide share certificate and share register to enable confirmation of ownership of the shares.

In the circumstances, the ownership and value of the authorized share capital of Kshs.100,000 could not be confirmed.

767. Lack of Policy on Payables, Provisions and Accruals

The statement of financial position reflects payables, provisions and accruals amount of Kshs.27,292,292 which include provision for audit fees amount of Kshs.2,552,000 owed to the Auditor-General, regulatory levies amount of Kshs.17,823,710, board of directors' allowances of Kshs.233,000 and Internal borrowings from customer deposits amount of Kshs.4,554,200 which are outstanding, as detailed in Note 18 to the financial statements. However, an approved policy document detailing the nature and rates of provisions was not provided for audit.

In the circumstances, the accuracy of the payables, provisions and accruals balance of Kshs.27,292,292 could not be confirmed.

Other Matter

768. Budgetary Control and Performance

The statement of comparison of budget and actual amounts had an approved final receipts budget of Kshs.42,126,323 against actual receipts of Kshs.39,101,163 resulting in an under-receipt of Kshs.3,025,160 or 7% of the approved budget.

Similarly, out of the approved final expenditure budget of Kshs.41,894,719, the Company realized an actual expenditure of Kshs.36,512,693 leading to an under-expenditure of Kshs.5,382,026 or 13% of the approved budget.

The underperformance may have negatively affected the planned development projects and service delivery to the public.

769. Unresolved Prior Year Audit Issues

In the report of the previous year, several issues were raised under Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, the matters remained unresolved as Management did not provide any evidence to support action taken to resolve the prior year reported issues contrary to Section 149(2)(l) of the Public Finance Management Act, 2012 which require Accounting Officers designated for county government entities to try to resolve any issues resulting from an audit that remain outstanding.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

770. Non-Revenue Water

The statement of profit or loss and other comprehensive income reflects water sales revenue balance of Kshs.32,235,663 as disclosed in Note 4 to the financial statements. Records provided for audit indicated that the Company produced a total of 1,100,600 cubic meters of water. However, out of this volume, only 748,404 cubic meters was billed to customers at Kshs.32,235,663. The balance of 352,196 cubic meters or approximately 32% of the total volume represented Non-Revenue Water (or Unaccounted for Water (UFW) which is 7% over and above the acceptable loss of 25% of the total production as per guidelines published by the Water Services Regulatory Board (WSRB). Management has not justified the high volume of Non-Revenue Water.

In the circumstances, the significant level of Non-Revenue Water may negatively impact on the Company's profitability and its long-term sustainability.

In addition, the management was in breach of the regulations.

771. Lack of Staff Establishment

The statement of profit or loss and other comprehensive income reflects staff cost of Kshs.13,747,952 as disclosed in Note 7 to the financial statements. Review of the Human resource operations revealed that the Company has a total workforce of forty-nine (49) staff serving on permanent, contract and temporary terms. However, the Company has not developed and approved a staff establishment, and therefore determination of the optimal level of staffing needs and competencies for the Company could not be confirmed.

In the circumstances, the effectiveness and productivity of the Company's staff could not be determined.

772. Non-Compliance with Staff Ethnic Composition Requirement

Examination and analysis of the human resource records of the company indicated that, the company had five (5) members of the board, four (4) senior management staff and twenty-seven (27) other permanent and pensionable and contractual staff all of which

were from the dominant community. The staff composition contravenes Section 7(1) and (2) of National Cohesion and Integration Act, 2008 which provides that all public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff and that no public establishment shall have more than one third of staff from the same ethnic community.

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

773. Failure to Convert Terms of Employment from Casual to Permanent

The statement of profit or loss and other comprehensive income reflects staff costs amount of Kshs.13,747,952 as disclosed in Note 7 to the financial statements. Included in this amount are wages to temporary employees amounting to Kshs.7,541,696. Review of records provided including the monthly payrolls revealed that the casual and temporary employees have been engaged for more than one year without being absorbed to permanent basis or contracts being renewed during the year contrary to Section 35 of the Employment Act, 2007. Further, the Company is operating without an approved scheme of service to guide the issues relating to engagement of staff.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

774. There were no material issues relating to effectiveness of internal controls, risk management and governance.

CHERANG'ANY MARAKWET WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

775. Unsupported Property, Plant and Equipment

The statement of financial position reflects nil balance for property, plant and equipment. However, review of documents and records revealed that Cherang'any Marakwet Water and Sanitation Company Limited (CHEMAWASCO) was formed by the merging of two community water supplies, the Kapcherop and Kapsowar Water Schemes. The assets and liabilities of the two community water supplies were vested in the Company upon its formation and incorporation.

After incorporation of the Company, the County government of Elgeyo Marakwet and the North Rift Valley Water Works Development Agency (NRVWWD) transferred assets including land, buildings, furniture, motor vehicles, motor bikes, water pumps, tanks and

office equipment to the Company. Though an inventory of the assets transferred and vested in the Company was provided for audit, their respective values were not indicated and these assets were not formally handed over to the Company. In addition, the Company did not have title deeds, logbooks and other ownership documents for parcels of land, motor vehicles and other property it took over when it was formed and incorporated.

In the circumstances, the ownership, accuracy and completeness of the nil balance for property, plant and equipment could not be confirmed.

776. Unsupported Operating Revenue

The statement of profit or loss and other comprehensive income and as disclosed in Note 4 to the financial statements reflects operating revenue amount of Kshs.1,030 which comprises of revenue from Kapsowar scheme and Cherengany Scheme. However, the company did not have records to show the volume of water produced and the volume of water sold which could be used to determine the unaccounted-for water and the non-revenue water.

In the circumstances, the accuracy and completeness of Kshs.1,030 for operating revenue could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

777. Non-Compliance with Law on Ethnic Composition

During the year under review the Board of Directors who served the Company comprised of nine (9) Board members, all of whom were from the same ethnic community. This is contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which requires that all public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff and that no public establishment shall have more than one third of its staff from the same ethnic community.

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

778. Lack of Approved Budget

The Company Management did not have an approved budget for the year under review, contrary to the requirements of Section 149(2) of the Public Finance Management Act, 2012 that requires an accounting officer to prepare estimates of expenditure of the entity in conformity with the strategic plan.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

779. Lack of Internal Audit Function and an Audit Committee of the Board

The Company has not established an internal audit function and an Audit Committee of the Board. This is contrary to Section 155 of the Public Finance Management Act, 2012 which provides for the establishment of the internal audit function and an Audit Committee of the Board. As such the Company did not benefit from the assurance and advisory services from the internal audit function as well as oversight from the Audit Committee.

In the circumstances, the effectiveness of internal controls and governance could not be confirmed.

780. Failure by the Board of Directors to Conduct Self-Assessment

The Board of Directors did not conduct a self-evaluation of its performance and a report on the self-evaluation was not submitted to the Ministry of Water, Sanitation and Irrigation and the State Corporations Advisory Committee in accordance with Head of the Public Service Circular No.OP/CAB.9/1A dated 11 March, 2020.

In the circumstances, the existence of effective governance could not be confirmed.

NANDI COUNTY – NO.29

KAPSABET NANDI WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

781. Unconfirmed Water Deposits Balance

The statement of financial position and Note 25 to the financial statements reflects water deposits balance of Kshs.5,462,000 being refundable customer deposits. The balance varies with customer deposits cash book balance of Kshs.1,862,929 resulting to an unexplained variance of Kshs.3,599,071.

In the circumstances, the accuracy, completeness and existence of the water deposits balance of Kshs.5,462,000 could not be confirmed.

782. Inaccuracies in Property, Plant and Equipment Balance

The statement of financial position reflects property, plant and equipment balance of Kshs.21,974,841. However, as reported in the previous year, assets amounting to Kshs.706,977,432 which have been in the books of Lake Victoria North Water Services Board (LVNWSB) have not been transferred to the Company as required by Section 153 of the Water Act, 2016 which states that all property, assets, rights, liabilities, obligations, agreements and other arrangements linked to water service provision existing at the commencement of the Act are deemed to have been vested in the County Water Service Provider and do not form part of the balance reported in the financial statements. Further, the value of the land on which the Company's buildings stand in Kapsabet, Nandi Hills town, water tanks in Kapsabet Boys High School, Kabutie treatment works (old and new), Singorwa and Nandi Hills Bears Club were not included in the reported balance of property, plant and equipment as at 30 June, 2022.

In addition, ownership documents of these assets such as title deeds, leases or allotments were not provided for audit verification.

In the circumstances, the accuracy and completeness of property, plant and equipment balance of Kshs.21,974,841 could not be confirmed.

Other Matter

783. Unresolved Prior Year Audit Issues

The progress on follow-up on auditor's recommendations section of the financial statements reflects issues raised in the previous year's audit report that remain unresolved as at 30 June, 2022. No satisfactory explanations were provided for not resolving the issues.

In the circumstances, the audit issues remained unresolved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

784. Non-Revenue Water

The statement of profit or loss and other comprehensive income and Note 5 to the financial statements reflects operating revenue totalling to Kshs.45,234,485 out of which Kshs.37,894,390 relates to water sales revenue from Kapsabet Scheme while Kshs.7,340,095 relates to Nandi Hills Scheme. Review of records provided revealed that the Company produced a total of 1,030,817 cubic meters of water during the year under review, out of which, 730,785 cubic meters of water was billed to customers for Kshs.45,234,485 while the balance of 300,032 cubic meters or approximately 29% of the total volume of water produced represents non-revenue water. The non-revenue water of 29% was over and above the allowable loss of 25% set by the Water Services Regulatory Board (WASREB) guidelines by 4 percentage points.

The significant level of non-revenue water may negatively impact on the Company's profitability and its ability to sustain its services.

785. Non-Compliance with Staff Ethnic Diversity Law

During year under review, the Company had a total work force of fifty-six (56) employees out of which forty-eight (48) or approximately 89% of the Company's workforce were from the dominant community in the County.

In addition, review of records provided revealed that the Board of Directors who served during the year under review comprised of five (5) members, all of whom were from the same ethnic community. This is contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which requires that all public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff and that no public establishment shall have more than one third of its staff from the same ethnic community. Further, having all the board members from the same gender contravenes Article 27(8) of the Constitution of Kenya, 2010.

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

786. Unapproved Board Allowances and Chairman's Honoraria

The statement of profit or loss and other comprehensive income and Note 11 to the financial statements reflects Board of Directors' expenses totalling to Kshs.730,151 which comprises of Directors' allowances of Kshs.402,148, Directors' expenses of Kshs.168,003 and Chairman's honoraria of Kshs.160,000. Review of documents revealed that the Board Chairman was paid a sitting allowance of Kshs.25,000 while the other board members were paid a sitting allowance of Kshs.21,429 for every board meeting attended. Further, the Board Chairman was paid a monthly honorarium of Kshs.20,000. However, the Management did not provide approval from the Salaries and Remuneration Commission for the rates and benefits paid. This is contrary to Article 230(4) of the Constitution of Kenya 2010 which states that the powers and functions of

the Salaries and Remuneration Commission shall be to set and regularly review the remuneration and benefits of all state officers and advise the National and County Governments on the remuneration and benefits of all other public officers.

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

787. Long-Term Receivables from Exchange Transactions

The statement of financial position and Note 20 to the financial statements reflects trade and other receivables balance of Kshs.22,353,824. Review of the aging analysis revealed that water debts amounting to Kshs.19,771,613 had been outstanding for over sixty (60) days. This is contrary to Section 6.3 of the Company finance manual of March, 2018 which states that the Company may allow up to sixty (60) days moratorium before payment for monthly bill or any other amounts due on contractual obligation.

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

788. Internal Audit

During the year under review, there was no evidence that the Company conducted an internal audit evaluation to oversee the governance mechanism and promote transparency and accountability in the management of resources, contrary to the requirements of Section 155(1)(a) of the Public Finance Management Act, 2012 which states that a County Government entity shall ensure that it complies with this Act and it has appropriate arrangements in place for conducting internal audit according to the guidelines of the Accounting Standards Board, and Regulation 153(1)(a) of the Public Finance Management (County Governments) Regulations, 2015 which states that Internal auditors shall review and evaluate budgetary performance, financial management, transparency and accountability mechanisms and processes in County Government entities.

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

789. Long Outstanding Trade and Other Payables Balance

The statement of financial position and Note 28 to the financial statements reflects trade and other payables balance of Kshs.11,973,895 which include trade payables balance of Kshs.10,155,895 and audit fees arrears balance of Kshs.1,678,000. Review of the aging analysis provided for audit revealed that trade payables amounting to Kshs.8,476,130 had been outstanding for over ninety (90) days. The Management has not provided a settlement plan to be followed by the Company in settling these debts. Further, there was no evidence of the Company engaging the creditors on non-payment of amounts due. This is contrary to Paragraph 3.1(n) of Company Finance Manual, 2018 which requires payments to be made as per the aging analysis of the payables and if the Company has reasons for non-payment, the creditors be informed in advance by letters or phone calls.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

790. Failure by the Board of Directors to Conduct Self-Assessment

The statement of profit or loss and other comprehensive income and Note 11 to the financial statements reflects Board of Directors' expenses amount of Kshs.730,151 which comprises of director's allowances of Kshs.402,148, Directors' expenses of Kshs.168,003 and Chairman's honoraria of Kshs.160,000. However, there was no evidence to confirm that the Board of Directors conducted a self-evaluation of its performance and a report on the self-evaluation submitted to the Ministry of Water, Sanitation and Irrigation and the State Corporations Advisory Committee in accordance with Head of the Public Service Circular No.OP/CAB.9/1A dated 11 March, 2020.

In the circumstances, effectiveness of the Board's operations could not be confirmed.

BARINGO COUNTY – NO.30

KIRANDICH WATER COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

791. Errors in the Financial Statements

The following errors were noted from the review of the financial statements for which the Management has not taken action to amend.

- i. The statement of comparison of budget and actual amounts reflects total revenue performance difference of Kshs.15,119,454 which differs with the recomputed amount of Kshs.22,343,637 resulting to unreconciled variance Kshs.7,224,183.
- ii. The statement of cash flows reflects non-operating revenue of Kshs.607,785 that differs with Note 7 amount of Kshs.37,697,818 resulting to unreconciled variance of Kshs.37,090,033. The statement also reflects other income of Kshs.36,976,792 which differ with Note 8 amount of Kshs.838,185 resulting to unreconciled variance of Kshs.36,138,607.
- iii. Note 15 to the financial statements reflects Capital work in progress balances of Kshs.58,782,997 which differs with the recomputed balance of Kshs.59,740,244 resulting to unreconciled variance of Kshs.957,247.

Further, the statement also reflects purchase of property, plant and equipment amount of Kshs.24,632,673 which differ with Note 15 additions of Kshs.18,544,564 resulting to unreconciled variance of Kshs.6,088,109.

In the circumstances, the accuracy and completeness of the financial statements could not be confirmed.

792. Understatement of Water Sales and Billings

The statement of profit or loss and other comprehensive income and as disclosed in Note 6 to the financial statements reflects operating revenue of Kshs.23,754,005 which relates to revenue from water sales. However, the water billing records reflects amount of Kshs.24,221,100 resulting to unreconciled variance of Kshs.467,095.

Further, examination of billing records revealed that one thousand, two hundred and eighty (1,280) water customers were billed under average estimates on consumption. Although revenue amounting to Kshs.6,008,910 were realized from the accounts, the billings were not based on actual readings, hence, uncertainty in confirming the revenues.

In the circumstances, the accuracy and completeness of operating revenue of Kshs.23,754,005 could not be confirmed.

793. Staff Cost

The statement of profit or loss & other comprehensive income and as disclosed in Note 9 to the financial statements reflects staff cost of Kshs.18,660,254 which differed with supporting schedule costs of Kshs.19,184,022 resulting to unreconciled variance of Kshs.523,768. Further, included, in the amount is salary and allowances for permanent employees of Kshs.17,059,212 which differed with the payroll summary amount of Kshs.16,633,353 resulting to unreconciled variance of Kshs.525,859. The amount also includes payments to casual workers of Kshs.1,413,334 out of which Kshs.841,384 were paid to permanent staff without any reasonable justification. Further, the amount includes Pay As You Earn (PAYE) recoveries of Kshs.2,179,575 whose remittances to relevant government agencies were not provided for audit review.

In the circumstances, the accuracy and validity of the staff cost of Kshs.18,660,254 for the year ended 30 June, 2022 could not be confirmed.

794. Board Expenses

The statement of profit or loss and other comprehensive income reflects Board expenses of Kshs.633,476 out of which Kshs.129,040 were paid to ungazetted Board Members. The amount also includes Board allowances of Kshs.225,280 paid to two members whose terms of office had lapsed. Further, the board minutes in support of the allowances paid were not provided for audit.

In the circumstances, the propriety of Board expenses of Kshs.633,476 could not be confirmed.

795. Property, Plant and Equipment

The statement of financial position and as disclosed in Note 15 to the financial statements reflects property, plant and equipment balance of Kshs.7,467,660. Included in the balance are additions during the year of Kshs.5,569,972 which differs with the balance disclosed in Note 15 to the financial statements amount of Kshs.18,544,564 resulting to unreconciled variance of Kshs.12,974,592. Further, invoices, delivery notes, payment vouchers and inspection and acceptance reports for the acquired assets with the updated asset register were not provided for audit review.

In the circumstances, the accuracy and fair statement of property, plant and equipment balance of Kshs.7,467,660 as at 30 June, 2022 could not be confirmed.

796. Capital Investments Work in progress

The statement of financial position reflects capital investments work in progress balance of Kshs.58,782,997. However, the balance was unsupported by way of payment vouchers and schedule of projects being implemented including the costs, payments, and outstanding balances.

In the circumstances, the validity, accuracy and completeness of investments (work in progress) balance of Kshs.58,782,997 could not be confirmed.

797. Long Term Receivables

The statement of financial position and as disclosed in Note 26 to the financial statements reflects non-current liabilities - long term (Receivables inherited from Rift Valley Water Services Board (RVSWB) balance of Kshs.27,102,739. However, no schedules were provided for audit in support.

In the circumstances, the accuracy, and fair statement of long-term balance of Kshs.27,102,739 could not be confirmed.

798. Unsupported Inventories

The statement of financial position reflects inventories balance of Kshs.2,316,430. However, the stocks ledgers and stock taking sheets indicating physical quantities of inventories and their values was not provided for audit. Further, the water stock was excluded from the amount.

In the circumstances, the accuracy, completeness and valuation of inventories balance of Kshs.2,316,430 could be confirmed.

799. Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.29,087,346. Included in the amount is Kshs.21,693,008 payable to Water Resource Management Authority which has been long outstanding. However, invoices, aging analysis and supplier statements were not provided for audit review.

In the circumstances, accuracy and fair statement of trade and other payables balance of Kshs.29,087,346 as at 30 June, 2022 could not be confirmed.

Emphasis of Matter

800. Material Uncertainty Related to Going Concern

During the year under review, the Company incurred a loss of Kshs.6,327,962 (2021- Kshs.4,389,079) which brought the accumulated revenue reserves to a negative Kshs.11,882,769 as at 30 June, 2022. In addition, grants of Kshs.37,697,818 from Baringo County Government and other grants amounting to Kshs.2,456,755 all totalling to Kshs.40,154,573 accounted for 62% of total revenue of the year under review. This situation is an indicator of acute financial challenges facing the Company which raises significant doubts on its ability to operate as a going concern. Management has however not disclosed this fact.

Under the circumstances, the Company's going concern assumption is threatened as its continued existence depends on financial support by the County Government, its creditors and bankers.

Other Matter

801. Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2021. Management has not provided reasons for the delay in resolving the prior year audit issues.

In the circumstances, Management has not complied with the reporting template.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

802. Non-Revenue Water

The statement of financial performance reflects operating revenue of Kshs.23,754,005 in respect of water sales. A review of the water records revealed that the Company produced 1,150,240 cubic meters of water out of which only 460,211 cubic meters was billed to customers resulting to unbilled water of 690,029 cubic meters (or 60%) of the produced water or Non-Revenue Water (NRW). This exceeds the set threshold of 25% by 35% according to the Water Services Regulatory Board (WASREB) guidelines. The excess Non-Revenue Water (NRW) beyond the allowable threshold of 25% totalled to 402,469 cubic meters which would have earned the Company revenue of Kshs.20,773,625 equivalent at the average billing rate for the year.

In the circumstances, the Company did not get value for the water that was not billed.

803. County Government Grants

Included in the total revenue amount of Kshs.64,746,763 are grants from the County Government of Baringo of Kshs.37,697,818 utilized on payment of electricity bills on behalf of the company. This is contrary to the provisions of Sections 71(4) and 72(4) of the Public Finance Management (County Governments) Regulations, 2015 that prohibits such grants.

In the circumstances, the County Government and the Company are in breach of the law.

804. Share Capital

The statement of financial position reflects share capital of Kshs.100,000 which has not been supported by way of share certificate, C12, register of members or any relevant documentary evidence. Further, the Memorandum of Association indicates that Baringo County Government and its officials have subscribed for the shares. However, no documentary evidence was availed to confirm that the shares were fully issued and paid for.

In the circumstances, the shareholding of the Company could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

805. Lack of Internal Audit and Audit Committee

The Company does not have an internal audit department to guide and evaluate its internal controls contrary to the Regulation 153(1) of the Public Finance Management (County Governments) Regulations, 2015 which requires Internal auditors to review and evaluate budgetary performance, financial management, transparency and accountability mechanisms, and processes in the company and to give reasonable assurance through the Audit Committee on the state of risk management, control and governance within the organization, and review the effectiveness of the financial and non-financial performance management systems of the company. Further, the company has not established Audit Committee as stipulated in Regulation 167(1) of Public Finance Management (County Governments) Regulations, 2015 which require each county government entity to establish an Audit Committee.

In the circumstances, the Company's governance structure was not properly constituted and therefore it was not possible to confirm whether checks and balances were functioning as intended.

806. Lack of Risk Management Policy

The Company does not have a Risk Management Policy to guide management in risk evaluation and decision making as stipulated in Regulation 158(1) of the Public Financial Management (County Governments) Regulations, 2015 which stipulates that the Accounting Officer shall ensure that the County government entity develops risk management strategies, which include fraud prevention mechanism, and the county government entity develops a system of risk management and internal control that builds robust business operations.

There is a risk that the Company may be exposed to various business and financial risks in the absence of a risk policy to guide management in addressing both external and internal risks.

807. Information Technology System

The Company does not have a functional ICT department. Secondly, the entity uses e-pay and resource water billing pro for payroll and billing respectively. Analysis of the system reveals that the entity does not have the full rights of the systems and it's controlled by Central Rift Valley Water Works Development Agency, who donated it to the Company. This contravenes Government ICT Standards and exposes the entity to risk of losing confidential information to unauthorized persons. Further, the staff have not been given training on the use of the system hence still relying on the donor.

In the circumstances, the integrity of data in the Company's system may be compromised.

808. Lack of Approved Staff Establishment

As reported previously, the statement of profit or loss account and other comprehensive income reflects employee cost figure of Kshs.18,660,254. However, the Company does not have an approved staff establishment contrary to the requirements of Section B 5 (2) of the County Public Service Human Resource Manual hence positions held by staff are not based on clear or well-defined structure.

In the circumstances, it was not possible to confirm whether the company staffing levels were optimal.

ELDAMA RAVINE WATER AND SEWERAGE COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

809. Unsupported Insurance Expenses

The statement of profit or loss and other comprehensive income reflects an amount of Kshs.1,281,083 in respect of administrative expenses which, as disclosed in Note 10 to the financial statements, includes an amount of Kshs.130,433 in respect of insurance (motor vehicle and cycles). However, the insurance contract, valuation reports, insurance policy documents in support of the insurance expenditure were not provided for audit.

In the circumstances, the accuracy and regularity of the insurance (motor vehicle and cycles) expenditure of Kshs.130,433 could not be confirmed.

810. Unsupported Fuel, Oil and Lubricants Expenses

The statement of profit or loss and other comprehensive income reflects an amount of Kshs.6,205,811 in respect of general operating costs which, as disclosed in Note 13 to the financial statements, includes fuel, oils and lubricants expenditure of Kshs.1,347,269. However, procurement records such as tender advertisement, tender evaluation and award minutes, letter of offer, detail orders, fuel register, supplier statements and motor vehicle work tickets in support of the expenditure were not provided for audit.

In the circumstances, the accuracy and regularity of fuel, oil and lubricants expenditure of Kshs.1,347,269 could not be confirmed.

811. Material Uncertainty Related to Going Concern

The statements of financial position reflects balances of Kshs.46,592,151 and Kshs.94,284,098 in respect of total current assets and total current liabilities, respectively resulting to a negative working capital of Kshs.47,691,947 which casts doubt on the Company's ability to continue as a going concern and its ability to meet its obligations as and when they fall due. The material uncertainty in relation to the going concern and the mitigation measures put in place by the Company's Directors to reverse the situation have not been disclosed in the financial statements.

In the circumstances, there is a risk that the Company's cash flows will not sustain its operations in the foreseeable future.

812. Unsupported Accounts Receivables Balance

The statement of financial position reflects accounts receivables balance of Kshs.42,761,951. However, the debtors' aging analysis and the movement schedule for the period were not provided for audit. Further, provisions for bad and doubtful debts have not been made in the financial statements.

In the circumstances, the accuracy and fair statement of accounts receivables balance of Kshs.42,761,951 could not be confirmed.

813. Unsupported Trade and Other Payables Balance

The statement of financial position reflects accounts payables balance of Kshs.94,284,098. However, the creditors' aging analysis and movement schedule were not provided for audit. Further, the balance includes long outstanding levies to regulatory bodies of Kshs.35,170,173 which should have been reclassified as non-current liabilities. In addition, the amount includes customer deposits of Kshs.1,918,000 which are not held in a designated bank account.

In the circumstances, the accuracy, presentation, disclosure and fair statement of trade and other payables balance of Kshs.94,284,098 could not be confirmed.

814. Grant - Inherited Debts

As previously reported, the statement of financial position reflects grant - inherited debts balance of Kshs.13,209,459 which is part of equity. The debts have remained outstanding since inception of the Company in 2007 and comprise of unpaid water bills and salaries of Kshs.11,592,483 and Kshs.1,616,976, respectively. However, no explanation has been provided for the failure to settle the debts.

In the circumstances, the accuracy and fair statement of grant inherited debts of Kshs.13,209,459 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

815. Non-Revenue Water

During the year under review, the company produced 882,803 cubic meters of water out of which only 356,049 cubic meters were billed to customers for Kshs.18,611,850. The balance of 526,754 cubic meters (or 60%) of the total volume of water produced represented non-revenue water which is above the allowable loss of 25% as per the Water Services Regulatory Authority Board guidelines. The non-revenue water loss resulted in lost sales amounting to Kshs.27,535,161 computed at the rate Kshs.52.27 per

cubic meter. The Management has not explained the measures which have been put in place to control the losses.

In the circumstances, the huge volume of non-revenue water and other related losses negatively impacted on the Company's profitability.

816. Irregular Payment of Directors Allowances

The statement of profit or loss and other comprehensive income reflects directors expenses of Kshs.516,610 in respect of sitting allowances. However, the allowances were paid to individuals who were appointed as Board members of Chemususu Water Company Limited and not Eldama Ravine Water and Sewerage Company Limited. Further, the directors' terms of office for the latter company elapsed on 30 September, 2013 without new appointments being made.

In the circumstances, the regularity of Directors expenses of Kshs.516,610 could not be confirmed.

817. Unmetered Water Connections

Review of billing records for the month of June, 2022 revealed that out of the 5,160 water customers on the sales schedule, 1,839 customers were not metered while a total of 3,212 customers had been disconnected. This is contrary to Regulation 2, Part III of the Water Services Regulatory Authority Board (WASREB) Model Water Service Regulations which requires all water connections to be metered.

Management was therefore in breach of the law.

818. Overdue Staff Receivables

The statement of financial position reflects account receivables balance of Kshs.42,761,951 out of which Kshs.2,021,500 is in respect of salary advance to twenty-eight (28) officers which has remained outstanding for over 12 months. This is contrary to Section C.6 (5) of the Human Resource Policies and Procedures Manual for the Public Service of May 2016 which states that the recovery period for salary advance will be limited to a period of not more than twelve (12) months.

Management was therefore in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

819. Lack of Internal Audit Function and Audit Committee

Review of the Internal Control System confirmed that the Company did not have an internal audit function to guide and evaluate its internal controls. This was contrary to the Regulation 153(1) of the Public Finance Management (County Governments) Regulations, 2015 which requires the internal auditors to review and evaluate budgetary

performance, financial management, transparency and accountability mechanisms and processes of the Company.

Further, the Company has not established an audit committee as stipulated in Regulation 167(1) of Public Finance Management (County Governments) Regulations, 2015.

In the circumstances, it was not possible to confirm existence of effective internal controls, risk management and governance systems.

820. Lack of Control of Payroll Software

The hardware and software of the Company's payroll and billing systems were supplied and maintained by the same vendor. However, the supporting contract(s) were not provided for audit. Further, the vendors had full control of the systems thereby compromising data integrity. In addition, the staff had not been fully trained on how to use the system and generate management reports.

In the circumstances, it was not possible to confirm whether internal controls relating to data integrity and system access controls were working as intended during the period under review.

821. Lack of a Risk Management Policy

The Company did not have a Risk Management Policy to guide Management in risk assessment, evaluation control and assist in decision making. This was contrary to Regulation 158(1) of the Public Finance Management (County Governments) Regulations, 2015 which requires the Accounting Officer to develop risk management strategies, which include fraud prevention mechanism and internal control that builds robust business operations.

In the circumstances, risk management, development of strategies and controls may not have been implemented in an orderly manner.

822. Lack of an Approved Staff Establishment

The Company did not have an approved staff establishment contrary to the requirements of Section B.2 (1) of the Public Service Human Resource Manual, 2016 that requires all state departments to prepare Human Resource Plans to support achievement of goals and objectives in their strategic plans.

In the circumstances, it was not possible to confirm whether the company was operating with optimum staff levels.

LAIKIPIA COUNTY – NO.31

NYAHURURU WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

823. Understated Property, Plant and Equipment Balance

The statement of financial position reflects property, plant and equipment balance of Kshs.175,534,348. However, as previously reported, ownership documents for four (4) motor vehicles of unknown value granted by the Northern Water Services Board and the County Government of Laikipia had not been transferred and registered in the name of the Company.

In the circumstances, the accuracy and completeness of the property, plant, and equipment balance of Kshs.175,534,348 could not be confirmed.

824. Long Outstanding Payables

As reported in the previous years, the Company's trade and other payables balance of Kshs.63,967,076 included long outstanding payables in respect to regulatory fees payable to Water Service Regulatory Board (WASREB), Water Resource Authority (WRA), County Government of Laikipia (Conservancy), and lease fees payable to Northern Water Works Development Agency of Kshs.8,111,017, Kshs.247,695, Kshs.6,846,758, and Kshs.8,480,983, respectively, all totalling to Kshs.23,686,453 that had been outstanding for over six (6) years. This has exposed the Company to possible legal actions and increased costs due to interests and penalties that may accrue.

Further, the balance includes Kshs.20,462,395 in respect of trade payables out of which an amount of Kshs.3,343,255 was due to an insurance service provider. Information provided revealed that the service provider has since terminated the insurance cover for non-payment of premiums.

In the circumstances, accuracy and completeness of the trade and other payables could not be confirmed.

825. Material Uncertainty Related to Going Concern

The statement of financial position reflects a balance of Kshs.85,889,531 in respect to total current assets and Kshs.95,786,755 in respect to total current liabilities resulting to a negative working capital of Kshs.9,897,224. This is an indication that the Company may not be able to settle its obligation as and when they fall due. The conditions indicate the existence of a material uncertainty, which may cast doubt on the Company's ability to continue as a going concern, and further implies that the Company's existence is dependent on continued support from the County Government of Laikipia, shareholders

and creditors. Management did not disclose the material uncertainty related to going concern or measures taken to mitigate this assumption.

In the circumstances, the company's ability to continue as a going concern could not be confirmed.

Other Matter

826. Budgetary Controls and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on a comparable basis of Kshs.432,959,416 and Kshs.271,198,588, respectively, resulting to an under-funding of Kshs.161,760,828 or 37% of the budget. Similarly, the Company spent Kshs.282,775,805, against an approved budget of Kshs.433,003,450 resulting to an under-expenditure of Kshs.150,227,645 or 35% of the budget.

In the circumstances, the underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

827. Prior Year Matters

In the audit report of the previous year, a number of paragraphs were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, Management has not resolved the issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

828. Non-Compliance with the Law on Staff Ethnic Balance

Review of human resource records revealed that during the year the Company had a total of one hundred and fifty-six (156) employees out of which one hundred and forty-two (142) or ninety one percent (91%) were from the dominant ethnic community. This was contrary to the provisions of Section 7(2) of the National Cohesion and Integration Act, 2008 which stipulates that no public establishment shall have more than one third of its staff from the same ethnic community.

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

829. Non-Compliance with the Fiscal Responsibility Principles on Wage Bill

The statement of profit or loss and other comprehensive income reflects an expenditure of Kshs.136,367,137 incurred on staff costs against operation and maintenance costs of Kshs.109,455,104. Therefore, the personnel expenditure was equivalent to 124.5 % of the operation and maintenance cost. This was contrary to Paragraph 3.5.2 of the performance report of Kenya's Water Service Sector 2020/2021 from WASREB, issue Number 14/2022 on Performance Analysis and Ranking under economic efficiency which states that the personnel expenditure for any Company ranked as medium Company should not exceed 30% of operation and maintenance costs.

The excess staff costs may negatively impact on the Company's profitability and sustainability of services if measures are not put in place to contain the cost within the acceptable level.

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

830. Appointment of Board Members

Information provided for audit review indicated that the Company had ten (10) Board Members, contrary to Section 3.4.1 (2) of WASREB guidelines which limits the number of Board Members to seven (7).

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

831. Payables Not Taken as the First Charge

The statements of financial position reflects trade and other payables balance of Kshs.63,967,076 as disclosed in Note 42 to the financial statements. Included in the balance are payables amounting to Kshs.20,462,395 out of which an amount of Kshs.14,578,917 has been outstanding for more than three months contrary to Treasury Circular No.7/2021 which requires Accounting Officers to ensure that all payments emanating from the previous periods are treated as the first charge against the current financial year budgetary allocation before making new commitments.

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

832. Irregular Utilization of Customer Deposits

The statement of financial position reflects an amount of Kshs.31,819,679 in respect to customer deposits. However, the deposit bank statements provided for audit review reflected a balance of Kshs.4,762,903 as at 30 June, 2022 resulting to an unexplained variance of Kshs.27,056,776. The variance constitutes money spent by the Management without authority from the Company's Board of Directors and which had not been refunded to the customer deposits account. Further, as previously reported, the Water Company had no documented policy or guidelines on borrowings or spending from customers' deposits account.

In the circumstances, the regularity on utilization of Kshs.27,056,776 from the customers deposits could not be confirmed.

833. Unexplained Non-Revenue Water

The statement of profit or loss and other comprehensive income reflects Kshs.220,626,984 in respect to operating revenue as disclosed in Note 6 to the financial statements includes Kshs.158,180,666 in respect to revenue from the sale of water. Information provided indicated that the Company produced 3,310,246 cubic meters of water out of which 1,981,218 cubic meters were sold (billed) to the customers. The balance of 1,329,028 cubic meters or approximately 40% of the total volume of water produced, therefore, represents Non-Revenue Water (NRW) which is 15% over and above the allowable loss of 25% as per the Water Service Regulatory Board (WASREB) guidelines.

The significant level of Non-Revenue Water could be an indication of inefficiency and ineffectiveness in the use of public water resources, which may negatively impact on the Company's profitability and its ability to sustain services.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

834. There were no material issues relating to effectiveness of internal controls, risk management and governance.

NANYUKI WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

835. Unsupported Trade and Other Receivables

The statement of financial performance reflect Kshs.165,703,023 in respect to trade and other receivables as disclosed in Note 29 to the financial statements. Included in the receivables is a balance of Kshs.137,155,819 in respect to receivables that have been outstanding for more than 120 days. Further, receivables amounting to Kshs.13,804,488 were classified as dormant customers. However, no documentary evidence was provided for audit review to confirm whether management followed up and acted on the outstanding debt, including acting against the defaulters to recover the debts owed to the company. In addition, even though Note 29 to the financial statements reflects a reduction in Value Added Tax (VAT) recoverable of Kshs.9,767,116 as at 30 June, 2022, there was no evidence adduced to support that reduction in VAT recoverable.

In the circumstance, the accuracy and recoverability of the Kshs.165,703,023 in respect to trade and other receivables could not be ascertained.

836. Lack of Ownership Documents – Property, Plant and Equipment

As previously reported, property, plant and equipment and as disclosed in Note 20 to the financial statements includes Kshs.30,000,000 in respect to acquisition of land. However, ownership documents including the title deeds were not provided for audit verification. Further, logbooks for four (4) motor vehicles and one (1) motorcycle all valued at Kshs.4,165,708 were not provided for audit review.

In the circumstances, ownership of the land and motor vehicles of Kshs.34,165,708 included in property, plant and equipment could not be confirmed.

Other Matter

837. Budgetary Control and Performance

The statement of comparison of budget and actual amounts for the year ended 30 June, 2022 reflects final receipts budget and actual on a comparable basis of Kshs.450,545,284 and Kshs.385,419,270, respectively, resulting in a shortfall of Kshs.65,126,014 or 14% of the budget. Similarly, the Company expended Kshs.441,047,590 against an approved budget of Kshs.509,524,826 resulting to an under-expenditure of Kshs.68,477,236 or 13% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

838. Prior Year Matters

In the audit report of the previous year, several paragraphs were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved the issues nor given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

839. Non-Compliance with the Law on Fiscal Responsibility - Wage Bill

During the year under review, the Company had a total expenditure budget on wage bill of Kshs.158,921,810 against operating revenue budget of Kshs.344,795,284. However, the company's actual expenditure on wage bill was Kshs.157,320,734 or 45.6% of the operating revenue. This is contrary to Section 25(b) of Public Finance Management (County Governments) regulations, 2015 that set limit not exceeding thirty five percent of total revenue.

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

840. Excess Non-Revenue Water

The statement of profit or loss and other comprehensive income reflects Kshs.326,063,629 in respect to operating revenue as disclosed in Note 6 to the financial statements included Kshs.212,766,633 revenue from the sale of water. Records provided for audit review indicated that the Company produced a total of 4,120,025 cubic meters of water out of which only 2,821,512 cubic meters were billed to the customers. The balance of 1,298,513 cubic meters (approximately 32%) of the total volume of water produced with a sale price of Kshs.97,920,865 (at Kshs.75.41 per cubic meter which is the average sale price for the year under review) represents the Non-Revenue Water (NRW). This is over and above the allowable loss of 25% as provided by schedule E of Water Service Regulatory Board (WASREB) guidelines.

In the circumstances, the Company significantly exceeded the allowable NRW loss of 25% by 7% or approximately Kshs.21,420,189 worth of water which if not addressed will negatively impact the Company's profitability and its long-term sustainability.

841. Staff Ethnicity Diversity

As previously reported, a review of human resource records revealed that during the year under review, the Company had a total of one hundred and seventy-three (173) employees out of which one hundred and twenty-one (121) or seventy percent (70%) were from the dominant ethnic community, with only about thirty percent (30%) being from the other non-dominant communities.

This is contrary to Section 7(2) of the National Cohesion and Integrity Act, 2008 which provide, "No public establishment shall have more than one third of its staff from the same ethnic community."

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

842. Unbalanced Budget

The statement of comparison of budget and actual amounts reflects Kshs.450,545,284 in respect to the final budgeted revenue against an expenditure budget of Kshs.509,524,826 resulting in a budget deficit of Kshs.58,979,542. No documentary evidence was provided for audit review on how the Company intended to bridge the budget gap of Kshs.58,979,542. Further, it was not clear why an unbalanced budget was approved by the Board and the County Government without a clear plan on how to bridge or finance the budget deficit. This is contrary to Section 31(c) of the Public Finance Management (County Governments) regulations, 2015 which provides that budgeted revenue and expenditure appropriations shall be balanced.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

843. There were no material issues relating to effectiveness of internal controls, risk management and governance.

NAKURU COUNTY – NO.32

NAKURU WATER AND SANITATION SERVICES COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

844. Inaccuracies in Comparative Amounts

The statement of profit or loss and other comprehensive income reflects comparative amounts which vary with the audited amounts for the year ended 30 June, 2021 as indicated in appendix 1.

In the circumstances, the accuracy of the comparative amounts reflected in the statement of profit or loss and other comprehensive income could not be confirmed.

845. Unaccounted for Water Inventory

The statement of financial position reflects inventories balance of Kshs.47,177,617. However, the balance excludes the water inventory held in the storage facilities as at the close of the financial year.

In the circumstances, the accuracy and fair statement of inventories balance of Kshs.47,177,617 could not be confirmed.

846. Trade and Other Receivables Balance

The statement of financial position reflects trade and other receivables balance of Kshs.650,036,773. The following inconsistencies were however noted:-

- i. Included in the balance is Kshs.310,671,185 owed by nine thousand, three hundred and thirty-nine (9,339) customers whose water accounts have been terminated or remained dormant for a period exceeding six months. However, no provisions have been made for the likely impairment. Further, Management has not demonstrated the measures taken including legal action to enforce collection of the debts.
- ii. The balance also includes amount of Kshs.241,883,014 owed by County Government of Nakuru on account of sale of water and sewerage services. Out of this balance, Kshs.215,703,436 was accrued by the defunct Municipal Council of Nakuru which was transferred to County Government of Nakuru and remained outstanding since its takeover in 2013. Evidence of steps being taken by the Company to recover the outstanding balance were not provided for audit verification. Further, records maintained at the County Government do not reflect any pending bills payable to the Company.
- iii. The balance also includes staff debtors of Kshs.3,219,256 in respect of fuel lost through fraud during the period of September to November, 2020. Although

disciplinary action had been taken against the involved officers, Management had not commenced recovery of the amount.

- iv. The balances also includes an amount loaned to NAWASSCOAL Company Limited, a subsidiary Company of Kshs.17,477,375 which is unsupported by way of loan agreement or repayment plan.

In the circumstances, the accuracy and fair statement of trade and other receivables balance of Kshs.650,036,773 could not be confirmed.

847. Undisclosed Loan from African Development Bank (AfDB)

The statement of profit or loss and other comprehensive income reflects general and operations expenses totalling to Kshs.560,114,800 which includes an amount of Kshs.39,468,545 in respect of lease fees to Central Rift Valley Water Works Development Agency (CRVWWDA). As previously reported, the lease fees relate to repayment of loan of Kshs.994,706,658 procured from the African Development Bank (AfDB) through the defunct Rift Valley Water Works Development Agency (RWWDA) in 2014. Although the company continues to service it, the outstanding loan balance is not reported on the financial statements as required by the standards. This is also in breach of Section 628(3) of the Companies Act No.17 of 2015 which requires accounting records of the Company to contain day-to-day entries of all amounts of money received and spent.

In the circumstances, the accuracy and fair statement of the liabilities in respect of the undisclosed loan from African Development Bank (AfDB) and which the Company is servicing could not be confirmed.

Other Matter

848. Budgetary Performance and Control

The statement of comparison of budget and actual amounts reflects a final budget revenue and actual on comparable basis of Kshs.1,231,855,528 and Kshs.1,019,336,191 respectively resulting to revenue shortfall of Kshs.212,519,337 or 17% of the budget. In addition, out of the actual revenue of Kshs.1,019,336,191, actual expenditure was Kshs.1,132,638,266 resulting to unexplained over expenditure of Kshs.113,302,075 or 11%.

The revenue shortfall may have impacted negatively on service delivery to the residents of Nakuru Town and the lawfulness of over expenditure could not be confirmed.

849. Unresolved Prior Year Matters

During the period under review, various prior year audit issues remained unresolved. Management has not provided reasons for the delay in resolving the prior year audit issues. This is contrary to the requirements of the Public Sector Accounting Standards Board reporting guidelines.

In the circumstances, Management has not compiled with the reporting template.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

850. Non-Revenue Water

The statement of profit or loss and other comprehensive income reflects water sales of Kshs.610,398,389 as disclosed in Note 6 to the financial statements. Available records indicate that the Company produced 11,502,201 cubic meters of water out of which, 8,021,159 cubic meters or 70% were billed to consumers resulting to 3,481,042 cubic meters or approximately 30% of the production as Non-Revenue Water (NRW) at an estimated value of Kshs.162,564,638. The Non-Revenue Water exceeded the set threshold of 25% approved by the Water Services Regulatory Board (WASREB) guidelines. No explanations have been rendered for the high NRW and measures being put in place to resolve the loss in revenue.

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

851. Relocation of Water and Sewerage Infrastructure Project

The Company entered into a contract with a local contractor to relocate water and sewerage infrastructure at a contract price of Kshs.642,546,934 funded by Kenya National Highways Authority (KeNHA) with effect from 03 May 2022 and completion date of 03 August 2022 to pave way for construction of Nairobi- Nakuru- Mau Summit Highway. An extension of time was given and a new completion date was set for 31 December, 2022. As at the time of audit, the certified works were valued at Kshs.642,179,965 against actual payments of Kshs.444,521,342 resulting to outstanding balance of Kshs.198,359,641. However, available records indicated that KENHA, the project's financier and state agency in charge of roads construction suspended the construction of the road project in December, 2022 without any communication or directives on the relocation process.

In the circumstances, value for money on water infrastructure payments of Kshs.444,521,342 could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

852. Consumer Billings Without Serialized Water Meters

Review of records provided for the audit revealed that four thousand-three hundred and fifty-four (4,354) water customers had meters without serial numbers in the billing system. This inhibited the ease of identification and accountability. Although income of Kshs.159,956,0556 was realized from the affected accounts, the individual serialized meter numbers are not captured in the Company assets records or billing system.

In the circumstances, lack of documented water meters, distribution and sale system may result in loss of revenue.

853. Long Outstanding Trade and Other Payables Balance

The statement of financial position reflects trade and other payables balance of Kshs.565,077,386. Included in the balance is Kshs.275,796,820 owed to Central Rift Water Works Development Agency (CRWWDA) on account of administrative fees payable that has accrued since the year 2013 due to instructions not to pay issued by the County Government of Nakuru. No explanation has been provided or evidence of steps taken by the Company to resolve the matter.

In the circumstances, The Company is exposed to risks of loss of funds through interest and penalties arising from litigations instituted by the creditors for failure to settle amounts owed to suppliers.

Appendix 1: Nakuru Water and Sanitation Services Company Limited

Unexplained Variances in Comparative Balances Reflected in the Statement of Profit or Loss and Other Comprehensive Income

Particulars	Note	Financial Statement (Kshs.)	Audited Balances (Kshs.)	Variance (Kshs.)
Sewerage Charges	6	318,084,729	316,084,729	2,000,000
Gross Salary and Allowances	10	227,317,821	237,883,383	10,565,562
Provision for Leave Pay	10	2,834,172	-	2,834,172
Gratuity Provisions	10	7,731,390	-	7,731,390
Chemicals	11	6,290,334	6,028,908	261,426
Electricity	11	229,281,971	228,517,992	763,979
Office Supplies	11	4,591,684	-	4,591,684
Uniform and Protective Clothing	11	2,234,742	-	2,234,742
Telecommunication	11	5,191,448	-	5,191,448
Rent and Rates	11	627,180	600,000	27,180
Subscriptions	11	1,043,723	-	1,043,723
Onsite Sanitation	11	7,693,830	-	7,693,830
Occupational Health	11	5,106,000	-	5,106,000
Staff Training and Development	11	353,430	1,397,153	1,043,723
Bank Charges	11	4,799,769	-	4,799,769
Medical Cover	11	6,998,430	12,104,430	5,106,000
Publicity and Advertising	11	6,775,316	-	6,775,316
Audit Fees	11	1,519,480	-	1,519,480
Legal Fees	11	6,208,068	-	6,208,068
Consultancy Fees	11	3,970,092	-	3,970,092
Licensing and Levies	11	44,542,684	-	44,542,684
Sports and Recreation	11	1,150,000	-	1,150,000
Conference Expenses	11	1,932,620	-	1,932,620
Donations/CSR	11	93,714	-	93,714
Hospitality Expenses	11	1,781,663	-	1,781,663
Literature and Periodicals	11	113,540	-	113,540
Sewerage Disposal Fees	11	210,000	-	210,000

NAKURU RURAL WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

854. Material Uncertainty Relating to Going Concern

The statement of profit or loss and other comprehensive income reflects an operating loss of Kshs.7,686,340 (2020/2021: Kshs.19,870,898) which raised the Company's accumulated losses to Kshs.400,777,590 (2020/2021: Kshs.393,091,250) as at 30 June, 2022. If the trend continues into the foreseeable future, the Company may not be able to meet its obligations as and when they fall due.

In the circumstances, the Company sustainability of providing adequate quality water and sanitation services to the residents is heavily dependent on continued support by the National and County Governments, bankers, donors and creditors.

855. Variance in Revenue

The statement of profit or loss and other comprehensive income and as disclosed in Note 6 to the financial statements reflects revenue of Kshs.279,080,161 relating to water sales. However, the billings records reflected an amount of Kshs.307,321,997 resulting to an unexplained variance of Kshs.28,241,836.

In the circumstances, the accuracy and completeness of water sales revenue of Kshs.279,080,161 could not be confirmed.

856. Unsupported Board Allowances

The statement of profit or loss and other comprehensive income and as disclosed in Note 28 to the financial statements reflects board expenses of Kshs.4,863,300. However, no supporting documents including attendance and payment schedules were provided for audit.

In the circumstances, the accuracy and occurrence of the board expenses of Kshs.4,863,300 could not be confirmed.

857. Unconfirmed AfDB Loan

The statement of profit or loss and other comprehensive income and as disclosed in Note 34 to the financial statements reflects provision for African Development Bank (AfDB) of Kshs.7,085,934 relating to loan repayment. As previously reported, records provided for audit indicated that the principal loan balance of Kshs.178,529,739 was disbursed to Rift Valley Water Services Board by the bank to fund development of various infrastructure projects. However, none of the infrastructure assets were handed over to the company and the proportion of the loan it was to pay, therefore, not certain.

In the circumstances, the accuracy and validity of the provision of loan repayment of Kshs.7,085,934 could not be confirmed;

858. Inaccuracies of Property, Plant and Equipment

The statement of financial position and as disclosed in Note 10a to the financial statements reflects property, plant and equipment balance of Kshs.465,243,361. This balance excludes land of undetermined value on which the Company offices are built and other pieces of land where water assets are domiciled and the respective ownership documents were provided for audit. In addition, the balance includes work in progress of Kshs.290,465,040 relating to relocation of water and sewerage infrastructure awarded at a contract cost of Kshs.314,674,520. Although, the pipeline is in use, the cost has not been capitalized while the inspection and acceptance certificate were not provided for audit. Further, no record(s) of stock of the old line uninstalled were provided for audit.

In the circumstances, the accuracy, valuation and ownership of property, plant and equipment balance of Kshs.465,243,361 could not be confirmed.

859. Unconfirmed Inventories

The statement of financial position and as disclosed in Note 12 to the financial statements reflects inventories balance of Kshs.2,612,759. However, the stock take sheets were not provided for audit.

In the circumstances, the accuracy, and fair valuation of the inventories balance of Kshs.2,612,759 could not be confirmed.

860. Unsupported Grants

The statement of financial position and as disclosed in Note 18 to the financial statements reflects grants balance of Kshs.446,307,853 out of which Kshs.270,784,543 was received during the year under review. However, no supporting documents including acknowledgement receipts and bank statements extracts were provided for audit.

In the circumstances, the accuracy and completeness of the grant amount of Kshs.270,784,543 could not be confirmed.

861. Unsupported Consumer Deposits

The statement of financial position and as disclosed in Note 19(b) to the financial statements reflects consumer deposits of Kshs.38,558,643. However, the bank statements reflect a balance of Kshs.73,612 resulting to unexplained variance of Kshs.38,485,031.

In the circumstances, the accuracy and existence of consumer deposits balance of Kshs.38,558,643 could not be confirmed.

862. Variances in Statement of the Cash Flows

The statement of the cash flows reflects a total amount of Kshs.566,456,030 on six (6) items. However, the statement of profit or loss and other comprehensive income/statement of financial position reflects total amount of Kshs.537,493,568 for same items resulting to unreconciled variances as detailed below:

No.	Item	Note	Cash Flow Statement (Kshs.)	Profit or Loss/ Financial Position (Kshs.)	Variance (Kshs.)
1	Operating Revenue	6	291,095,883	279,080,161	12,015,722
2	Production Cost	7	49,278,514	48,169,955	1,108,559
3	Administrative Cost	9(a)	51,979,922	47,890,579	4,089,343
4	Staff Cost	9(b)	162,280,978	150,470,460	11,810,518
5	Contracted Professional Services	21	10,815,213	11,534,413	(719,200)
6	Audit Fees	31	1,005,520	348,000	657,520
	Total		566,456,030	537,493,568	

In the circumstances, the accuracy and completeness of the statement of cash flows could not be confirmed.

Other Matter

863. Budgetary Control and Performance

The statement of comparison budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.335,720,000 and Kshs.341,780,189 respectively resulting to a revenue shortfall of Kshs.6,060,189. Similarly, the Company expended Kshs.349,466,529 against an approved budget of Kshs.309,444,922 resulting to an over-expenditure of Kshs.40,021,607 or 13% of the budget.

The revenue shortfall affected the Company's planned activities and may have impacted negatively on service delivery to the public.

864. Unresolved Prior Year Matters

The report for the year ended 30 June, 2021 raised eighteen (18) issues relating to balances reflected in financial statements, lawfulness and effectiveness in use of resources and effectiveness of internal control and risk management. However, appendix 1 on progress on follow up of auditor recommendations reflects only two (2) issues. The progress made by Management in resolving the issues will be confirmed after the matters are deliberated upon by the County Assembly of Nakuru.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

865. Unapproved Over Expenditure

The statement of comparison budget and actual amounts reflects final expenditure budget of Kshs.309,444,922 and actual on comparable basis of Kshs.349,466,529 resulting to an over-expenditure of Kshs.40,021,607 or 13% of the budget. However, there was no evidence of approval of this over-expenditure. This is contrary to Regulation 43(2) of Public Finance Management (County Governments) Regulations, 2015 which states that

County Government entities shall execute their approved budgets based in the annual appropriations, and the approved annual cash flow plan with exception of unforeseen and unavoidable spending dealt with through the Contingencies Fund, or supplementary estimates.

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

866. Unbalanced Budget

The statement of comparison budget and actual amounts reflects an approved total revenue budget of Kshs.335,720,000 against an expenditure budget of Kshs.309,444,922 resulting to a budget surplus of Kshs.26,275,078. This is contrary to Regulation 31(c) of the Public Finance Management (County Governments) Regulations, 2015 which requires appropriations of revenue and expenditure to be balanced.

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

867. Unremitted Statutory Deductions

The statement of financial position and as disclosed under Note 19a to the financial statements reflects trade payables balance of Kshs.189,777,169. Included in this balance is Kshs.50,142,424 relating to unremitted statutory and other deductions which was not explained. This was contrary to Section 94(1)(a) of Public Finance Management Act, 2012 which states that a state organ or public entity is in serious material breach of the measure established under the Act if it has failed to make payments as and when due and has defaulted financial obligations for financial reasons.

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

868. Non-Revenue Water

During the year under review, the Company produced 7,729,694 cubic meters of water out of which 3,863,333 cubic meters were billed to customers. The balance of 3,866,361 cubic meters or approximately 50% of the production volume represents Non-Revenue Water (NRW) which is 25% over and above the allowable loss of 25% in accordance with the Water Services Regulatory Board guidelines. The Non-Revenue Water represents a loss of Kshs.267,165,545 in earnings for the Company at the average rate of Kshs.69.10 per cubic meter.

In the circumstances, the effectiveness of controls on water production and billing could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

869. Lack of Risk Management Policy

Review of the risk management processes indicated that the Company did not have documented risk management and fraud policies. This was contrary to Regulation 158 of

the Public Finance Management (County Governments) Regulations 2015 that requires the Accounting Officer shall ensure that the county government entity develops risk management strategies, which include fraud prevention mechanism; and a system of risk management and internal control that builds robust business operations.

In the circumstances, the effectiveness of internal controls and risk management of the Company could not be confirmed.

870. Staff Under-Establishment

The Company's approved staff establishment requires one hundred and eighty-six (186) employees in position. However, review of records revealed that one hundred thirty-eight (138) were in position during the year under review resulting to forty-eight (48) vacant positions. The under-staffing made the Company to continuously engage casual employees to supplement the permanent staff, a situation that negatively affects business operations.

In the circumstances, the effectiveness of human resource management practices could not be confirmed.

NAIVASHA WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

871. Unsupported Board Expenses

The statement of profit or loss and other comprehensive income reflects board expenses balance of Kshs.3,780,065 and as disclosed in Note 12 to the financial statements. However, the expenditure was not supported by way of detailed schedule showing board member name, description of allowance, committee meeting and the allowance paid.

In the circumstances, the propriety, accuracy and occurrence of board expenses of Kshs.3,780,065 could not be confirmed.

872. Unsupported Assets Additions

The statement of financial position reflects property, plant and equipment balance of Kshs.566,797,801 and as disclosed in Note 17 to the financial statements. Included in the balance are additions during the year valued at Kshs.373,203,863 of which assets valued at Kshs.339,542,367 were unsupported by way of detailed schedule indicating asset description, date of purchase and its value. Further, the balance excludes land and buildings of undetermined value on which the company resides.

In the circumstances, the accuracy, and fair statement of property, plant and equipment balance of Kshs.566,797,801 could not be confirmed.

873. Trade and Other Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.140,296,428 and as disclosed in Note 19 to the financial statements. Included in the balance are deposits and prepayments of Kshs.1,250,408 whose invoices and evidence of prepayments were not provided for audit.

In the circumstances, the accuracy, and fair statement of trade and other receivables balance of Kshs.140,296,428 could not be confirmed.

Other Matter

874. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects a total revenue budget of Kshs.598,305,073 against actual revenue of Kshs.230,486,490 resulting to revenue shortfall of Kshs.367,818,583. The statement also reflects total expenditure budget of Kshs.468,005,418 against actual expenditure of Kshs.215,665,989 resulting to under expenditure of Kshs.252,339,428. No explanations have been provided for the exceeding 10% variances.

The revenue short fall of Kshs.367,818,583 negatively affected the Company's operations and profitability during the year under review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

875. Lack of Service Provision Agreement

Review of records and documentation provided for audit revealed that the Company was operating without a Service Provision Agreement for the financial year under review. The service provision agreement in force expired on 20 May, 2021 and had not been renewed as at the time of audit.

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

876. Unaccounted for Customer Deposits

The statement of financial position reflects customer deposits balance of Kshs.17,242,661 as disclosed in Note 25 to the financial statements. However, the corresponding bank account holding the deposits reflected a balance of Kshs.7,907,573 resulting to unaccounted for customer deposits of Kshs.9,335,088. This is indicative of utilization of customer deposits for Company operations contrary to Water Service Regulatory Board Regulations, 2002.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT
AND GOVERNANCE

Conclusion

877. There were no material issues relating to effectiveness of internal controls, risk management and governance.

NAROK COUNTY – NO.33

NAROK WATER AND SEWERAGE SERVICES COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

878. Irregular Water Sales

The statement of profit or loss and other comprehensive income and Note 6 to the financial statements reflects operating revenue of Kshs.93,063,731. The amount includes water sales of Kshs.91,994,725. However, 414 connections were sharing meter numbers with only one account billed while the other accounts were unbilled. Further, the customers were billed using tariffs that had expired in the year 2014.

In the circumstances, the accuracy and completeness of water sales totalling to Kshs.91,994,725 could not be confirmed.

879. Unsupported Board Expenses

The statement of profit or loss and other comprehensive income and Note 13 to the financial statements reflects Board expenses amounting to Kshs.5,069,100. The amount relates to sitting allowance expenditure which was not supported with notice of meetings, Board meetings calendar, allowances paid to each member, attendance lists and approved sitting allowances rates. Further, sitting allowance amounting to Kshs.433,000 was paid to ex officio members.

In the circumstances, the accuracy and regularity of sitting allowances totalling to Kshs.5,069,100 could not be confirmed.

880. Unsupported General and Operating Expenses

The statement of profit or loss and other comprehensive income and Note 12 to the financial statements reflects general and operating expenses amounting to Kshs.68,071,060. Included in the balance, is an amount of Kshs.6,756,169 in respect of fuel, oil and lubricants expenditure out of which expenditure of Kshs.1,600,000 was not supported with user requisitions, local purchase orders, invoices, motor vehicle work tickets and quotations. Further, included in the expenses is hospitality and entertainment expenditure totalling to Kshs.1,427,782. However, the payment vouchers, user requisitions, quotations, local services orders, invitation letters and attendance registers in support of the expenditure were not provided for audit review. In addition, the hospitality and entertainment expenditure includes Kshs.941,860 which varied with the supporting invoice amounts of Ksh.469,140 resulting to an overpayment of Kshs.472,720. No explanation was provided for the overpayment.

In the circumstances, the accuracy and validity of general and operating expenses amounting to Kshs.68,071,060 could not be confirmed.

881. Long Outstanding Trade and Other Receivables

The statement of financial position and Note 29 to the of financial statements reflects trade and other receivables balance of Kshs.58,111,258. The balance includes long outstanding receivables of Kshs.6,253,362 which have remained uncollected for over 120 days. Further, the balance is net of provision for bad and doubtful debts of Kshs.6,253,362 or 11% of the trade and receivable balance of as at 30 June, 2022. However, the basis for the provisions for the bad and doubtful debts policy has not been documented or disclosed in the financial statements.

In the circumstances, the accuracy and fair statement of the trade and other receivables balance of Kshs.58,111,258 could not be confirmed.

882. Inaccuracy in Property, Plant and Equipment

The statement of financial position and Note 20 to the financial statements reflects property, plant and equipment balance of Kshs.54,625,186. The balance is net of depreciation charge for the year of Kshs.7,583,148. However, policy 4(d) to the financial statements does not clearly indicate the method used in computing the depreciation charge. Further, depreciation on plant and machinery balance of Kshs.443,195 differs with the recomputed balance of Kshs.692,492 resulting to an unexplained and unreconciled variance of Kshs.249,297.

Further, included in the balance is work-in-progress of Kshs.498,193 in respect of a water kiosk in Olpopongi whose construction was completed but has not been put into use or capitalized under building and civil works.

In the circumstances, the accuracy, valuation and fair statement of the property, plant and equipment balance of Kshs.54,625,186 could not be confirmed.

883. Unsupported Repairs and Maintenance Expenditure

The statement of profit or loss and other comprehensive income and Note 14 to the financial statements reflects maintenance expenses of Kshs.16,381,451. The amount includes plant and equipment expenditure totalling to Kshs.15,793,525. However, the expenditure included Kshs.2,904,828 that was not supported with user requisitions, local purchase/service orders, ETR receipts and inspection and acceptance reports.

In the circumstances, the accuracy and propriety of the repairs and maintenance expenditure of Kshs.2,904,828 could not be confirmed.

884. Inaccuracy in Cash and Bank Balances

The statement of financial position and Note 32 to the financial statements reflects bank and cash balances of Kshs.846,734. The amount includes bank balance of Kshs.770,000 which differed with the cashbook balance of negative Kshs.630,418 resulting into an unexplained variance of Kshs.1,400,418. Further, the statement of cash flows is not accurately presented. In addition, no journal entries were provided to correct an overdraft of Kshs.2,484,915 which had not been approved.

In the circumstances, the accuracy and fair statement of the cash and bank balance of Kshs.770,000 could not be confirmed.

885. Unsupported Capital Grants

The statement of financial position reflects capital grants balance of Kshs.71,853,453. The amount includes grants from Water Services Trust Fund and Rift Valley Water Services Board of Kshs.3,297,100 and Kshs.23,000,100 respectively totalling to Kshs.26,297,200. However, the grant agreement with the Trust Fund was not provided. Further, the Water Service Board grant relates to donation of two exhausters and two motorcycles. However, the possession and ownership of the two exhausters and two motorcycles have not been transferred to the Company.

In the circumstances, the accuracy and fair statement of capital grants balance of Kshs.71,853,453 could not be confirmed.

886. Inaccuracies in the Statement of Cash Flows

A review of the statement of cash flows revealed the following anomalies:

- i) The statement reflects cash generated from operations amounting to negative Kshs.465,900 which includes increase in trade and other receivables amount of Kshs.965,120 as reflected in Note 49 to the financial statements. However, the amount differs with the recomputed amount of Kshs.1,083,644 resulting to an unexplained and unreconciled variance of Kshs.118,524.
- ii) The statement reflects purchase of property, plant and equipment amount of Kshs.3,976,864 which varies with the additions to property, plant and equipment of Kshs.26,976,964 as per Note 20 to the financial statements resulting to an unexplained and unreconciled variance of Kshs.23,000,100.
- iii) The statement reflects increase in deposit amount of Kshs.685,050 which vary with the computed amount of Kshs.1,583,243 resulting to an unexplained and unreconciled variance of Kshs.898,193.
- iv) The statement reflects suspense amount of negative Kshs.1,854,062 which was not supported or explained.

In the circumstances, the accuracy and completeness of the statement of cash flows balances could not be confirmed.

Other Matter

887. Budgetary Control and Performance

During the financial year ended 30 June, 2022, a comparison of the Company's approved budget and actual results shows that it realized a total revenue amounting to Kshs.157,276,472 against a budget amount of Kshs.180,168,980 resulting to under performance of Kshs.22,892,508 mainly contributed by the under collection of Kshs.28,417,050 from sale of water and transfers from National Government of approximately 13%.

In the circumstances, under performance may hinder the Company from providing services to the public as intended.

888. Prior Year Matters

In the audit report of the previous year, a number of paragraphs were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management has not resolved the issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

889. Customer Deposits

The statement of financial position and Note 43 to the financial statements reflects customer deposits balance of Kshs10,860,364. However, the amount varies with the deposits bank balance of Kshs.34,888 reflected in the analysis of the cash and bank balances in Note 32 to the financial statements resulting to a shortfall of Kshs.10,825,476. Review of supporting ledger revealed that the customer deposits were utilized on operational costs. However, the approval by the Board of Directors to borrow from the customer deposits account as required by Clause 73 of the Articles of Association was not made available for review. This was contrary to Clause 73 of the Articles of the Association which states that, the Directors may borrow or raise money, and to mortgage or charge its undertaking, property and uncalled capital and to issue debentures and other securities whether outright or as security (principal or collateral) for any debt, liability or obligation of the company or any third party.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

890. Failure to Develop a Risk Management Strategy

The Company did not have a risk management policy to guide Management in risk evaluation and decision making. This was contrary to Regulation 158(1) of the Public Finance Management (County Government) Regulations, 2015 which requires the accounting officer to develop risk management strategies, which include fraud prevention mechanism and internal control that builds robust business operations.

In the circumstance, the effectiveness of the risk management, strategies and controls in place could not be confirmed.

KAJIADO COUNTY – NO.34

NOLTURESH LOITOKITOK WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

891. Presentation and Disclosure in Financial Statements

Review of the financial statements revealed following anomalies;

- (i). Fuel reported in operation costs as opposed to being reported under general and operation costs,
- (ii). Total current assets reflected as total non-current assets in the statement of financial position.
- (iii). Opening balances for cash and cash equivalents are wrongly stated from the prior year,
- (iv). Domestic borrowings should be moved to current liabilities as they are prepayment for water to Konza Metropolis and not a borrowing,
- (v). There is no note explaining customer deposits as required by the template, and
- (vi). Provision for doubtful debts has been indicated as an addition instead of a deduction.

In the circumstances, the financial statements do not comply with the recommended International Financial Reporting Standards (IFRS).

892. Inaccuracies in the Statement of Cash Flows

The statement of cash flows reflects a closing balance of cash and cash equivalents of Kshs.75,300,054. However, the same statement reflects an opening balance of Kshs.3,056,500 resulting to an unreconciled variance of Kshs.72,243,554. Further, the statement reflects an increase in trade and other payables of Kshs.4,423,087. However, the statement of financial position and as disclosed in Note 21 to the financial statements reflects a decrease in trade and other payables of Kshs.28,590,472 resulting to an unreconciled variance of Kshs.24,167,385.

In the circumstances, the accuracy and completeness of the statement of cash flows could not be confirmed.

893. Long Outstanding Trade and Other Receivables

The statement of financial position and as disclosed in Note 17 to the financial statements reflect trade and other receivables balance of Kshs.80,560,192 net of provision for bad debts of Kshs.11,968,865 or 13% of gross receivables balance. However, trade

receivables totalling to Kshs.82,010,287 or 89% out of a total of Kshs.92,529,057 of the gross trade receivables had been outstanding for more than 120 days, implying that their collectability was doubtful. The adequacy of the 13% provision for bad debts may not be representative of the impairment levels of debtors. Further, although the Company made provisions for doubtful debts of Kshs.11,968,865. there was no policy in place for the same. It was not possible to determine whether the provisions made were reasonable and accurate.

In addition, the Board of Directors on 16 June, 2022 vide minute No. MIN2/16/06/2022, approved a debt write off of Kshs.30,000,000 while Note 17(b) reflects debts written off totalled Kshs.30,819,332. The basis for the additional write-off of Kshs.819,332 over and above the approved amount was not explained.

In the circumstances, the accuracy and fair statement of the trade and other receivables balance of Kshs.80,560,192 could not be confirmed.

894. Unconfirmed Value of Assets

The statement of financial position reflects property, plant and equipment balance of Kshs.162,352,410 as disclosed in Note 15 to the financial statements. However, review of the Property, Plant and Equipment (PPE) schedule, revealed that depreciation charge on the assets for the year under review was for plant and machinery and motor vehicles only. Other assets including buildings, computers and office equipment listed in the schedule had no depreciation charge for the year. Further, records provided for audit revealed that the Company had other assets in form of water reservoirs, water pipeline projects, Company houses, pumping station and boreholes and raising mains as well as kiosks that are revenue generating but have not included in the list of assets. No explanation was provided for the failure to disclose the assets or include them in the list of assets.

In the circumstances, the accuracy and completeness of the property, plant and equipment balance of Kshs.162,352,410 could not be confirmed.

895. Unsupported Maintenance Costs

The statement of profit or loss and comprehensive income and as disclosed in Note 11 to the financial statements reflects maintenance costs amount of Kshs.4,699,272. However, the following anomalies were noted;

- i. The supporting documents lacked user requisition, quotations, quotations evaluations analysis, notification of award, receiving and issuance register, pre-inspection and post inspection reports for motor vehicle maintenance, pre-maintenance and post maintenance for plants and equipment,
- ii. The Company did not have an approved procurement plan in place,
- iii. The Company used framework contract procurement for maintenance of motor vehicles. However, the contract was not provided for audit, and
- iv. The firm that provided services for maintenance of plant equipment was not included in the approved list of suppliers.

In the circumstances, the accuracy and regularity of maintenance costs expenditure of Kshs.4,699,272 could not be confirmed.

896. Material Uncertainty Related to Going Concern

The statement of financial position reflects current liabilities of Kshs.291,759,513 against current assets of Kshs.84,514,547 resulting to a negative working capital of Kshs.207,244,966. Further, the Company recorded a profit of Kshs.16,744,349 which reduced the accumulated loss from Kshs.134,196,444 in 2020/2021 to Kshs.117,452,095 in 2021/2022 as reflected in the statement of changes in equity

This material uncertainty casts doubt on the Company's ability to continue as a going concern. The Company is therefore, not in a position to meet its current financial obligations as they fall due.

In the circumstances, the Company's sustainability is heavily dependent on continued support by the County Governments of Kajiado, Makueni and Machakos, creditors and other stakeholders.

Other Matter

897. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on a comparable basis of Kshs.126,042,159 and Kshs.112,481,897 respectively resulting to an under-performance of Kshs.13,560,262 or 11% of the budget. The reasons for the under-performance have not been disclosed in the financial statements.

In the circumstances, the revenue shortfall affected the planned activities and may have impacted negatively on service delivery.

898. Unresolved Prior Year Matters

In the audit report for the previous year several issues were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in the Use of Public Resources. However, Management has not resolved the issues or provided an explanation for the delay in resolving the prior year audit issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

899. Non-Inclusion of Water in Inventory

Note 16 to the financial statements reflects inventory balance of Kshs.1,800,500. However, review of records relating to water production and processing revealed that at close of the year, water collected, treated and ready for distribution in the infrastructure remained unaccounted for and unrecorded in the financial statement as inventory of water. This was contrary to Section 161(1) of the Public Procurement and Disposal Act, 2015 which states that an accounting officer of a procuring entity shall set up an inventory

management system which shall be managed by the head of the procurement function, for the purpose of control and managing its inventory, stores and assets.

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

900. Non-Revenue Water (NRW)

Review of water production records revealed that the Company produced 2,190,000 cubic meters of water. Out of this volume only 1,116,900 cubic meters was billed to customers. The balance of 1,073,100 cubic meters or approximately 49% of total production represents Non-Revenue Water (NRW) which is above the allowable loss of 25% set by Water Services Regulatory Board guidelines. No satisfactory explanation was provided for the high level of NRW, and the measures put in place by Management to reverse the trend.

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

901. Non-Compliance with a Third Deductions Rule

Review of payroll records revealed that six (6) employees earned a net pay below one third of their basic pay. This was contrary to Section 19(3) of the Employment Act, 2007 which states that, without prejudice to any right of recovery of any debt due, and notwithstanding the provision of any other written law, the total amount of deductions which under the provisions of sub-section (1), may be made by an employer from the wages of his employee at any one time shall not exceed two thirds of such wages or such additional or other amount as may be described by the Minister either generally or in relation to a specified employer or employee or class of employers or employees or any trade or industry.

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

902. Non-Adherence to National Cohesion and Integration Act

Review of the Company's staff establishment revealed a total of forty (40) employees out of which thirty-eight (38) or 95% were from the dominant ethnic community in the County. This was contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 and Section 65(1)(e) of the County Governments Act, 2012 states that in selecting candidates for appointment, the County Public Service Board shall consider the need to ensure that at least thirty percent of the vacant posts at entry level are filled by candidates who are not from the dominant ethnic community in the county.

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

903. Non-Compliance with the Two-Thirds Gender Rule

Review of personnel records revealed that the Company had a total of forty (40) employees out of which only ten (10) were female representing 25% of the total workforce. This was contrary to Paragraph B.22 (2) of the Human Resource Policies and Procedures Manual for Public Service, 2016, which states that the County Government will endeavor

to have a gender balanced civil service by ensuring that not more than two thirds of positions in its establishment are filled by either gender.

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

904. Lack of an Approved Water Tariff

The statement of profit or loss and other comprehensive income reflects an amount of Kshs.74,459,738 in respect to revenue from water sales. However, this amount was unsupported by a gazetted water tariff by Water Services Regulatory Board (WASREB) as required. The Company currently uses the Extraordinary Tariff Adjustment which is undated and ungazetted. Further, review of records revealed that the Company had supplied unmetered water of 1,151,283 cubic meters. The unmetered water sales were billed at a flat rate of Kshs.5,010 per customer per month. The basis of the flat rate could not be ascertained since the fixed charge was not an approved tariff by Water Services Regulatory Board (WASREB).

In the absence of an updated and approved tariff structure, the accuracy of the water tariff being applied by the Company and the actual revenues collected are under stated.

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

905. Non-Gazettement of the Board Members

Review of the appointment process showed that although due process was followed in the appointment of the Board of Directors, they were yet to be gazetted. Further, review of the Memorandum and Articles of Association of the Company revealed that the Memorandum is still in draft form and has not been registered with the Registrar of Companies. The draft memorandum has been used in the appointment of the current Board of Directors.

In the circumstances, the Management was in contravention of Chapter 1.1.11 of the Mwingozo State Corporations Advisory Committee of 2015 which states that each Board Member shall be formally appointed to the Board through a Gazette Notice and thereafter an appointment letter.

906. Lack of a Risk Management Policy

As previously reported, the Company did not have a documented Risk Management Policy in place. This is contrary to Regulation 158(1) of the Public Finance Management (County Governments) Regulations, 2015 which requires that the Accounting Officer to ensure that the County Government entity develops a system of risk management and internal control. As a result, the Management lacked means to identify and mitigate operations and other risks faced by the Company.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

907. Weak Internal Controls of IT Systems

Review of IT controls in place revealed that the Company did not have an escrow account maintenance agreement between the entity and owner of source code. This poses a critical concern on business continuity in case the firm with the source code goes under. Further, there is no clear procedure during maintenance and approval of the same. There was also no documentation in respect to patch work carried out by system developer.

In addition, there is no documented restriction to the software developer on access to live environment during system maintenance.

In the circumstances, the integrity of the data and transactions in the system could not be confirmed.

908. Lack of a Disaster Recovery Plan

Review of records revealed that the Company did not have in place a disaster recovery and business continuity plan. In the absence of a disaster recovery/business continuity plan, the Company lacks a blue print for mitigating against disasters and ensuring that its operations are not interrupted.

In the circumstances, the Company may be exposed to business disruptions in case of a disaster.

OLKEJUADO WATER AND SEWERAGE COMPANY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

909. Presentation and Disclosure in the Financial Statements

Review of the financial statement revealed the following omissions and errors: -

- i. Statement of Performance against Predetermined Objectives is numbered as VII instead of VI, Corporate Governance statement numbered as VIII instead of VII and Management Discussion and Analysis numbered as IX instead of VIII.
- ii. Management discussion and analysis does not contain financial performance and operational performance and diagrammatical presentation of performance during the year.
- iii. The statement of comparison of budget and actual amounts indicate the year as 20xx instead of 2022.

- iv. Appendix I, on Progress on Follow-Up of Auditor's Recommendation has not been signed by the Managing Director.

In the circumstances, the financial statements as presented do not conform to the template prescribed by the Public Sector Accounting Standards Board.

910. Inaccuracies in the Financial Statements

The statement of cash flows reflect cash outflow for work in progress of Kshs.50,293,810 while Note 17 to the financial statements on property, plant and equipment reflect additions of capital work-in-progress of Kshs.50,687,946 resulting in unreconciled variance of Kshs.394,136.

Further, Note 6 to the financial statements on going concern reflects working capital balance of Kshs.54,018,045 while addition of components constituting working capital result in a balance Kshs.39,914,099. The variance of Kshs.14,103,946 has not been reconciled.

In the circumstances, the completeness and accuracy of balances reflected in the financial statements could not be confirmed.

911. Unsupported Miscellaneous Income

The statement of profit or loss and other comprehensive income and as disclosed in Note 9 to the financial statements reflects other income balance Kshs.6,801,155. The balance includes miscellaneous incomes of Kshs.5,762,815 for tankering, connection and reconnection fees whose receipt vouchers were not provided for audit.

In the circumstances, the completeness and accuracy of other income balance of Kshs.6,801,155 could not be confirmed.

912. Unsupported Cash and Cash Equivalent Balance

The statement of financial position and as disclosed in Note 19 to the financial statements reflect cash and cash equivalents balance of Kshs.14,603,103. The balance is drawn from fifteen (15) bank accounts maintained by the Company. However, two (2) current accounts with balances of Kshs.695,496 and Kshs.3,618,380 respectively were not supported with cashbooks and bank reconciliations.

In the circumstances, the completeness and accuracy of cash and cash equivalents balance of Kshs.14,603,103 could not be confirmed.

913. Trade and Receivables Balance

The statement of financial position and as disclosed in Note 18 to the financial statements reflects trade and other receivables balance of Kshs.35,885,066. The balance includes unsurrendered imprests of Kshs.1,036,044 which was not supported with imprest warrants. No explanation has been provided for failure to recover the imprests from the defaulters.

The trade and receivables balance also include an amount of Kshs.34,848,622 that is net of provision for doubtful receivables of Kshs.9,622,987. Review of aging analysis revealed that debts amounting to Kshs.38,491,946 have been outstanding for period exceeding one hundred and eighty (180) days casting doubt on their recoverability. Further, the provision for doubtful debts was not supported by the Company's doubtful debts provision Policy.

In the circumstances, the recoverability and fair statement of trade and other receivables balance of Kshs.35,885,066 could not be confirmed.

Other Matter

914. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on a comparable basis of Kshs.38,900,000 and Kshs.27,105,962 respectively resulting to an under funding of Kshs.11,794,038 or 30% of the budget. Similarly, the statement reflects final expenditure budget and actual on a comparable basis of Kshs.37,741,400 and Kshs.37,356,440 respectively resulting to an under expenditure of Kshs.384,960 or 1% of the budget.

The underfunding and under expenditure affected the planned activities and programs and negatively impacted on service delivery to the residents of Kajiado.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

915. Non-Revenue Water

The Company records indicate water production of 401,645 cubic meters during the year under review. Out of the production, only 213,422 cubic meters were billed to customers. The balance of 188,223 cubic meters or approximately 46.9 % of total production represents non-revenue water (NRW) valued at Kshs.37,644,600. The NRW for the Company is above the allowable loss limit of 25% by 21.9%.

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

916. Lack of Water Service Regulatory Board License

Review of records provided revealed that the Company has been operating without a license from the Water Service Regulatory Board contrary to the requirements of Section 72(c) of the Water Act, 2016 which mandates the Board to set license conditions and accredit water service providers.

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

917. Irregular Procurement of Goods

The statement of profit or loss and other comprehensive income and Note 13 to the financial statements reflects maintenance expenses of Kshs.3,778,773, which includes infrastructural network costs of Kshs.2,224,831. Review of the supporting documents revealed that payments totalling to Kshs.1,657,087 for maintenance of water supply lines items were not supported with requisitions, quotations, Local Service Order/Local Purchase Order, goods inspection and acceptance reports and stores records.

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

918. Non-Remittance of Statutory Deductions

The statement of financial position and Note 24 to the financial statements reflects trade and other payables balance of Kshs.89,903,111. The balance includes statutory deductions totalling to Kshs.5,817,750 relating to unremitted deductions of National Health Insurance Fund (NHIF), National Social Security Fund (NSSF) and Kenya Revenue Authority (KRA). The Company risks incurring avoidable costs of interest and penalties due to non-remittance of statutory deductions.

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

919. Non-Compliance with the National Cohesion and Integration Act

A review of the staff records revealed that the Company had forty-one (41) employees, out of which twenty-two (22) or 54% were from the dominant community. The Management did not comply with Section 7(1) of the National Cohesion and Integration Act, 2008 which requires that all public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff.

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

920. Construction of Mashuuru Water Supply Project

The Company contracted a firm for the construction of Mashuuru Water Supply Project at a contract sum of Kshs.75,036,740. The scope of works included construction of water supply pipelines, pump house, cattle troughs, and tanks, for a period of eleven (11) months commencing 11 December, 2019 and the revised completion date was 29 July, 2022. Physical inspection conducted on 15 December, 2022 revealed that the contractor was not on site while the tank was leaking at the base and the troughs could not drain water out since the outlets were poorly positioned. Further, one solar panel was unfitted at the pump station while two solar panels in Endebess area which were to be fitted with 104 panels had 103 panels supplied and fitted.

In addition, the solar system was to be fitted with batteries for storing solar energy but at the time of physical inspection, the batteries had not been supplied. The community was already drawing water from the tanks despite the project not commissioned and handed over to them.

In the circumstances, value for money on expenditure of Kshs.75,036,740 could not be confirmed.

921. Long Outstanding Trade Payables

The statement of financial position and Note 24 to the financial statements reflects trade and other payables balance of Kshs.89,903,111 (Kshs.87,883,750 for 2020 - 2021). A review of the records revealed that the debts have accrued since the year 2006 and the Management has not indicated the strategies for settling the debts.

In the circumstances, the Company is exposed to risk of litigation for failure to honor the long outstanding debts

922. Contract Overpayment

Review of the Company procurement records revealed that Management awarded extra works on Mashuuru Water Supply Project for Kshs.14,051,031 vide letter Ref: WSTF/5/EU-CPI/VOL.V/41A (140) dated 05 October, 2021. However, review of the addendum and Interim Payment Certificates 1 to 4 revealed that total amount paid to the contractor is Kshs.18,436,700 resulting to over payment of Kshs.4,385,669 which has not been explained.

In the circumstances, value for money on payment for extra works of Kshs.14,051,031 could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

923. Lack of a Functional Board of Directors

Review of the Company records revealed that Board of Directors term expired on 31 October, 2015 with no replacements contrary to Section 79(1) of Water Act, 2016 which requires a water services provider to have a Board of Directors and in the case of a Company, the members of its Board of Directors be constituted in accordance with the Companies Act, 2015 or any other written law and the Directors be nominated to serve on the Board in accordance with the Company's Memorandum and Articles of Association.

In the circumstances, the Company has not benefitted from the oversight role and strategic direction from the Board.

924. Lack of Staff Establishment

Review of the personnel records revealed that the Company does not have an approved staff establishment in place indicating optimum staff at various levels and cadres to support achievement of goals and objectives in the Company's strategic plan.

In the circumstances, the adequacy and competency of the Company staff could not be confirmed.

925. Lack of Risk Management Framework

During the year review, the Company did not have a risk management framework contrary to Regulation 158(1) of the Public Finance Management (County Governments) Regulations, 2015 which requires that every County government entity develops risk management strategies, which include fraud prevention mechanism and a system of risk management and internal control that builds robust business operations.

In the circumstances, the existence of effective internal controls at the Company could not be confirmed.

926. Incomplete Assets Register

The statement of financial position and as disclosed in Note 18 to the financial statements reflect property, plant, and equipment balance of Kshs.102,598,405. Review of the assets register revealed omission of details including the serial numbers, location, cost of assets, accumulated depreciation, and estimated values of fully depreciated assets. Further, the assets were not tagged for ease of identification and tracking.

In the circumstances, the Company is exposed to abuse and loss of assets.

927. Lack of an Automated Accounting System

Review of the accounting process revealed that the company's financial records are prepared and maintained manually. The ledgers are prepared using excel work sheets despite the voluminous transactions involved. The monitoring of operations on real-time basis is not possible with the manual system and transactions are prone to errors and manipulation. Further, back-ups are not secured at an offsite facility to ensure continuity in case of disaster. In addition, excel ledgers maintained only reflects monthly totals without individual transaction details required to validate the amounts.

In the circumstances, the existence of effective internal controls over accounting information could not be confirmed.

928. Failure to Develop Critical Policies

During the year under review, the Company did not have the following key policies in place; the charter, strategic plan, finance policy and procedures manual, approved human resource policy, Information, Communication and Technology policy and disaster recovery plan, risk management policy, approved staff code of conduct and ethics, approved organizational structure.

In the circumstances, the Company did not benefit from best practises to enable it develop robust strategies for enhanced revenue generation.

OLOOLAISER WATER AND SEWERAGE COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

929. Unsupported Bank Balance

The statement of financial position reflects cash and cash equivalents balance of Kshs.2,037,486 as disclosed in Note 10 to the financial statements. Included in the balance is Postal Corporation of Kenya collection account balance of Kshs.88,580 for which the certificate of deposit was not provided for audit review.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.88,580 could not be confirmed.

930. Inadequate Provision for Doubtful Debts

The statement of financial position reflects trade and other debtors balance of Kshs.103,559,256 as disclosed in Note 7 to the financial statements. The balance is net of provision for doubtful debts of Kshs.18,865,419. Review of the gross debtors balance of Kshs.121,302,937 revealed that receivables totalling to Kshs.106,249,703 were more than 120 days old casting doubts on the adequacy of the provisions. The Company has also not designed an effective and reliable debt collection system. Further, the Company has provided for doubtful debts of Kshs.18,865,419 constantly over a number of years despite the fluctuations in the receivables' balances. The Company finance manual does not include thresholds for calculation of provision for doubtful debts.

In the circumstances, the accuracy and recoverability of trade and other debtors balance of Kshs.103,559,256 could not be confirmed.

931. Inaccuracies in the Statement of Cash flows

The statement of cash flows reflects cash flows from operating activities of Kshs.4,495,299 whereas Note 11(a) to the financial statements reflects a negative balance of Kshs.11,493,511 resulting to an unexplained and unreconciled difference of Kshs.15,988,810.

Additionally, the statement of cash flows presented was not in the format prescribed by the Public Sector Accounting Standards Board (PSASB). The total revenue and total expenditure were not disclosed in the statement of cash flows.

In the circumstances, the accuracy and fair statement of the statement of cash flows for the year ended 30 June, 2022 could not be confirmed.

932. Misstatement of Budget Amounts

The statement of comparison of budget and actual amount reflects final approved budget for staff costs and administration expenses of Kshs.119,527,885 and Kshs.51,099,873 while the actual approved budget reflects of Kshs.114,729,561 and Kshs.55,898,107 resulting to variances of Kshs.4,798,324 and negative Kshs.4,798,324 respectively. Further, training and personal protective equipment expenditure budget amounts of

Kshs.2,526,500 and Kshs.2,271,824 respectively were erroneously classified as staff costs instead of administration expenses.

In the circumstances, the accuracy and completeness of the respective financial statements' balances could not be confirmed.

933. Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.230,432,707 while Note 8(a) to the financial statements reflects a balance of Kshs.282,123,655, resulting to unreconciled and unexplained variance of Kshs.51,690,948. Further, included in the balance are long outstanding balances totalling to Kshs.160,598,349.

The long outstanding debts may expose the Company to the risk of litigations and interests claims.

In the circumstances, the accuracy and completeness of trade and other payables balance of Kshs.230,432,707 could not be confirmed.

934. Unsupported Share Capital/Company Ownership

The statement of financial position and Note 6(a) to the financial statements reflects share capital of Kshs.100,000. The Company has five thousand authorized ordinary shares of Kshs.20 par value. The share certificates and details of payments for the shares in support of ownership were however not provided for audit review.

In the circumstances, the ownership of the share capital could not be confirmed.

Other Matter

935. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.272,539,304 and Kshs.192,126,179 respectively resulting to under-collection of Kshs.80,413,125 or 30% of the budget. Similarly, the Company expended an amount of Kshs.201,710,245 against a budget of Kshs.271,683,941 resulting to an under-expenditure of Kshs.69,973,696 or 26% of the budget.

In the circumstances, the under-collection and under-expenditure may have impacted negatively on the planned programs and activities and affected service delivery to the public.

936. Excessive Electricity Costs

The statement of profit or loss and other comprehensive income reflects operational expenses of Kshs.74,310,331 as disclosed in Note 5 to the financial statements. The expenditure includes power costs of Kshs.40,139,245 representing 54% of the total operating expenses leaving only 46% of the total operational costs to other operating

activities. Further, it was noted that some water kiosks were not operational as at the time of the audit due to power disconnection, notwithstanding the huge power bill.

The excessive power costs impacted negatively on the profitability and sustainability of services by the Company.

937. Unresolved Prior Year Matters

In the report for the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management has not resolved the issues or given any explanation for the failure to adhere to the provisions of the Public Sector Accounting Standards Board Template.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

938. Excessive Non-Revenue Water

The Company records indicate water production of 2,342,232 cubic meters during the year under review. Out of the production, only 1,410,179 cubic meters was billed to customers. The balance of 932,053 cubic meters or approximately 40% of total production represents Non-Revenue Water (NRW). The NRW for the Company exceeds the allowable loss of 25% by 15%, contrary to the Water Services Regulatory Board guidelines.

The loss affected the Company's profitability and sustainability of service to its customers.

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

939. Excessive Wage Bill

The statement of profit or loss and other comprehensive income reflects staff expenses totalling to Kshs.104,870,802 and total operating revenue of Kshs.192,128,179. The staff costs represent 55% of the total revenue, which exceeds 35% threshold set by Regulation 25(1)(b) of Public Financial Management (County Governments) Regulations, 2015.

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

940. Irregular Recruitment of Staff

Review of the personnel records revealed that the Company recruited thirty-two (32) officers during the year under review. However, the recruitment process had the following irregularities;

- i) The vacant posts were not advertised limiting competition.
- ii) All thirty-two appointments were made from the same ethnic group.
- iii) The needs analysis process was not conducted to inform the recruitment.

iv) The board minutes for approval of the recruitment were not provided for audit review.

In the circumstances, Management was in breach of the law and the recruitment process may not have resulted in appointment of the most suitable staff.

941. Non-Compliance with the National Cohesion and Integration Act, 2008

Review of human resource records revealed that the Company had one hundred and forty-four (144) employees out of which seventy-four (74) or 51% were from the local dominant community. The Management did not comply Section 7(1) and (2) of the National Cohesion and Integration Act, 2008, which requires that all public establishments shall seek to represent the diversity of the people in the employment and not have more than one third of its staff from the same ethnic community.

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

942. Non-Compliance with One Third Basic Pay Rule

Examination of the payroll revealed that two (2) employees had payroll deductions exceeding two thirds of their basic salary, contrary to the provisions of Section 19(1) of the Employment Act, 2007 which set the total deduction threshold of two-thirds of the basic salary.

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

943. Irregular Casuals Employment

Note 2 to the financial statements discloses casual wages of Kshs.1,778,230. Review of the human resource data revealed that the casual employees were engaged for periods exceeding the stipulated three (3) months period.

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

944. Irregular Payment of Board Sitting Allowance

The statement of profit or loss and other comprehensive income reflects Directors' expenses of Kshs.4,270,775, as disclosed in Note 3 to the financial statements, which relates to the allowances paid during the financial year. The allowances were however not paid for meetings within the approved board calendar for financial year 2021/2022 but were based on ad hoc meetings. Further, the Directors' expenses of Kshs.4,270,775, includes honoraria amount of Kshs.342,852 payable to the Board Chairman. It is not clear why the amount was accrued and not paid during the period under review since the chairman is substantively appointed.

In the circumstances, the regularity of directors' expenses of Kshs.4,270,775 could not be confirmed.

945. Appointment of Board Members

A review of the Board records revealed that, the appointment letters and gazette notices for appointments of the directors were not filed. Further, review of records shows that the board meetings were conducted without the required quorum.

In the circumstances, the regularity of Board's operations could not be confirmed.

946. Irregular Procurement Process

The Company advertised Tender No: OWSC/T/004/2021-2022 on 04 August, 2021 for the supply and delivery of water chemicals, filter media and polymer. The tender was advertised in the daily newspapers and six (6) bidders submitted their bid documents and were taken through the evaluation process.

The contracts were awarded to two (2) bidders at a contract price of Kshs.15,987,043 and Kshs.215,081. However, the following irregularities were noted:

- (i) There was no appointment of tender opening committee, but tender opening committee minutes dated 18 August, 2021 were availed. Further, tenders were not signed by the tender opening committee members as required by Section 78(9) of Public Procurement and Asset Disposal Act, 2015.
- (ii) The evaluation committee did not conduct financial evaluation for the bidders.
- (iii) The Committee did not allocate total marks to the bidders during evaluation.
- (iv) Technical evaluation was done to a bidder who failed the mandatory requirements.
- (v) The bid documents for one bidder were different in narrations from the others under Mandatory requirements.
- (vi) The inspection and acceptance committee report and goods delivery documents were not provided for audit verification.

In the circumstances, the competitiveness and regularity of the procurement process could not be confirmed.

947. Failure to File Annual Returns with the Register of Companies

Review of the Company's records revealed that it was incorporated in 2006. The Management did not however, provide evidence of filed annual returns with the registrar of companies as is provided for by the law. No explanation was given for failure to file returns.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

948. Staff Medical Expenses

Note 2 to the financial statements discloses staff medical expenses of Kshs.2,726,000. The Company did not however, have a policy on medical cover for the employees

and there was no guidance on how the medical vote was run, which hospitals were appointed and terms on which treatments were to be received. In addition, it was observed that staff could spend up to Kshs.200,000 on medical and make a claim. Further, these payments were only supported by the claims submitted by the employees.

In the circumstances, internal controls for the management of staff medical expenses was weak.

949. Lack of a Risk Management Policy and Disaster Recovery Plan

A review of the Company records, processes, systems and operations revealed that the Company has been operating without a risk management policy, which should form the basis of assessing and evaluating the risks affecting the financial and non-financial operations of the entity. Further, the entity does not have a disaster recovery plan that would enable business continuity in the event of a disaster.

KERICHO COUNTY – NO.35

KERICHO WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

950. Undisclosed Material Uncertainty Relating to Going Concern

The statement of profit or loss and other comprehensive income reflects a profit before tax of Kshs.6,802,006 which reduced the retained earnings balance from negative Kshs.117,242,257 to negative Kshs.Kshs.110,440,251. Further, the current liabilities balance of Kshs.268,161,623 exceeded the current assets balance of Kshs.236,602,020 resulting to a negative working capital of Kshs.31,559,603.

In the circumstances, the Company is facing financial challenge which raises significant doubt on its ability to continue to operate as a going concern without support from the creditors and the County Government.

951. Long Outstanding Debtors

The statement of financial position reflects Kshs.217,008,449 relating to trade and other receivables as disclosed in Note 19(a) to the financial statements. An ageing analysis reflected in Note 19(b) indicates that out of Kshs.217,008,449, a balance of Kshs.203,255,899 had remained uncollected for a long period and no provision for bad debts has been reported in the financial statements. The Management did not provide evidence of attempts made towards recovery of the debts.

In the circumstances, the accuracy and recoverability of the long outstanding debts amounting to Kshs.203,255,899 could not be confirmed.

952. Unsupported and Doubtful Other Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.217,008,449 which, as disclosed in Note 19 (a) to the financial statements includes VAT recoverable and other receivables balances of Kshs.8,782,552 and Kshs.11,940,652 respectively. However, as reported in the prior year audit report, the Kshs.8,782,552 was not supported with any documentation from Kenya Revenue Authority (KRA) and Kshs.8,100,000 out of the reported Kshs.11,940,652 relates to purchase of share capital by the County Government of Kericho which had not been paid for and has not been supported by share certificate and an undertaking from the County Government to pay the amount.

In the circumstances, the accuracy, completeness and recoverability of the reported VAT recoverable and other receivables balance of Kshs.16,882,552 could not be confirmed.

953. Bank and Cash Balance

953.1 Overstatement of Customer Deposits Bank Accounts

The statement of financial position reflects customer deposits balance of Kshs.28,560,589 as disclosed in Note 28 to the financial statements. Analysis of the three bank statements where customers make meter deposits revealed withdrawals amounting to Kshs.20,808,877 whose purpose was not explained as withdrawals should only be done at the request of the customer who wishes to withdraw his or her deposit. As at year end, the three bank accounts reflected a total balance of Kshs.7,751,712 instead of Kshs.28,560,589 as reflected in Note 28 to the financial statements.

In the circumstances, regularity and completeness of the customer deposits amounting to Kshs.20,808,877 could not be confirmed.

953.2 Frozen Bank Accounts

The statement of financial position reflects a balance of Kshs.13,501,900 in respect to bank and cash balances as disclosed in Note 20 to the financial statements. However, bank balances amounting to Kshs.5,669,743 in three (3) local bank accounts were frozen due to litigation. The operations of the Company were hindered during the year under review as the amount was not available to the Company.

In the circumstances, the ownership and recoverability of the indicated bank balances amounting to Kshs.5,669,743 could not be confirmed.

Other Matter

954. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects a final receipts budget and actual receipts on a comparable basis of Kshs.402,779,269 and Kshs.257,687,818 respectively resulting to an under-funding of Kshs.145,091,451 or 36% of the budget. Similarly, the Company expended Kshs.313,066,996 against an approved budget of Kshs.381,898,002 resulting to an under-expenditure of Kshs.68,306,709 or 18% of the budget.

In the circumstances, the underfunding and expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

955. Unresolved Prior Year Audit Matters

As disclosed under the progress on follow up of the auditor recommendations section of the financial statements, the prior year audit issues remained unresolved. Management has not provided satisfactory reasons for the delay in resolving the issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

956. Non-Revenue Water Management

Review of water production records revealed that the Company produced a total of 3,645,781 cubic meters of water, out of which 1,729,915 cubic meters was billed to customers for a total of Kshs.122,901,729. The balance of 1,915,866 cubic meters or approximately 53% of the total volume produced represented non-revenue water which was 28% over the allowable loss of 25% in the guidelines issued by the Water Services Regulatory Board (WASREB).

The significant level of non-revenue water of 1,004,421 cubic meters at an average billing rate of Kshs.72 per cubic meters may have resulted in loss of sales estimated at Kshs.72,318,312 which had a negative impact on the Company's profitability.

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

957. Non-Compliance with the Law on Fiscal Responsibility - Wage Bill

The statement of profit or loss and other comprehensive income reflects expenditure of Kshs.163,953,017 on staff costs as disclosed in Note 10 to the financial statements which represents 63.6% of the total revenue of Kshs.257,687,818. This is contrary to Regulation 25(1)(b) of the Public Finance Management (County Governments) Regulations, 2015, which requires the County Governments expenditure on wages and benefits for its public officers to be limited to 35% of the total revenue.

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

958. Non-Compliance with the One-Third of Basic Salary Rule

During the year, it was noted that eleven (11) employees earned a net salary of less than a third (1/3) of their respective basic salaries contrary to Section C.1(3) of the Public Service Commission (PSC) Human Resource Policies and Procedures Manual for the Public Service, 2016, which requires that deductions should not exceed a third of the basic pay.

In the circumstances, Management was in breach of Regulations.

959. Non-Compliance with Law on Ethnic Composition

During the year under review, the total number of employees of the Company was one hundred and seventy-nine (179) out of which one hundred and seventy-three (173) or 96% of the total number were members of the dominant ethnic community in the County. This is contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that, all public offices shall seek to represent the diversity of the people of Kenya in the employment of staff and that no public institution shall have more than one-third of its staff establishment from the same ethnic community.

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

960. Unremitted Retirement Benefits Obligations

The statement of financial position reflects a balance of Kshs.13,143,036 on current retirement benefit obligations and a balance of Kshs.71,244,161 on non-current retirement benefit obligations as disclosed in Note 26 to the financial statements. During the audit it was noted that the Company had not remitted employee retirement deductions amounting to Kshs.84,387,167.

No provision for the fines and penalties has been factored in these financial statements.

Failure to remit statutory deductions may attract penalties and fines to the Company, which will continue to increase liabilities. Non-remittance of retirement benefit obligation also denies the retirees the due benefit exposing them to unwarranted suffering.

961. Unremitted Statutory Deductions

The statement of financial position reflects trade and other payables balance of Kshs.224,814,598 which, as disclosed in Note 27 to the financial statements includes employee payables of Kshs.55,980,739 which comprises of unremitted Pay As You Earn tax of Kshs.16,997,425, NSSF Kshs.99,854, NHIF Kshs.439,470, salary arrears Kshs.23,122,985 and other deductions amounting to Kshs.15,321,005 relating to Sacco deductions and loan repayments. Management indicated that failure to submit the statutory deductions was occasioned by lack of funds.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

962. Expensing of Imprest

The statement of profit or loss and other comprehensive income as disclosed in Note 11 to the financial statements reflects general and operation expenses amounting to Kshs.63,322,838 which includes domestic travel expenses amounting to Kshs.4,722,188. The amount represents payments for night out allowances to various Company officers and expensed instead of issuing such officers with imprests which are accounted for after return to duty station.

As a result, internal controls in Management of imprest were weak.

BOMET COUNTY– NO.36

BOMET WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

963. Unsupported Grant Incomes

The statement of profit or loss and other comprehensive income reflects grant incomes of Kshs.126,530,552 and as disclosed in Note 7 to the financial statements. However, the supporting documents including grant agreements were not provided for audit. Further, the amount includes Kshs.11,216,327 in respect of infrastructural development with no matching accruing assets against it.

In the circumstances, the accuracy and completeness of the grant income amounting to Kshs.126,530,552 could not be confirmed.

964. Unsupported General and Operations Expenses

The statement of profit or loss and other comprehensive income reflects general and operations expenses of Kshs.92,906,798 as disclosed in Note 9 to the financial statements which include amounts of Kshs.4,275,161 and Kshs.4,328,767 in respect to chemicals and domestic travelling and subsistence respectively totalling to Kshs.8,603,928. However, the balances were not supported with documents such as procurement records, expenditure returns and inspection and acceptance reports.

In the circumstances, the accuracy, and completeness of general and operations expenses of Kshs.8,603,928 could not be confirmed.

965. Maintenance Costs

The statement of profit or loss and other comprehensive income reflects maintenance cost of Kshs.13,304,324 as disclosed in Note 11 to the financial statements which includes an amount of Kshs.5,329,213 in respect of infrastructural network which were not supported with documents including procurement records, expenditure returns and pre and post maintenance inspection reports.

In the circumstances, the accuracy, and completeness of maintenance cost of Kshs.5,329,213 could not be confirmed.

966. Inventories

The statement of financial position reflects inventories balance of Kshs.6,251,155 while Note 15 to the financial statements discloses a balance of Kshs.6,237,043 leading to unreconciled variance of Kshs.14,112. However, the stock take sheets for the end year balances were not provided for audit. Further, there were no records provided for audit review indicating the produced and unsold water volumes, the value as at the end of the financial year and policy guidelines for the accounting of water inventory by the Company.

In addition, the Company did not determine the volume of water in their treatment plants or the volume of the system input (water extracted, natural sources and boreholes).

In the circumstances, the accuracy and completeness of the inventories balance of Kshs.6,251,155 could not be confirmed.

967. Unsupported Trade and Other Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.229,822,194 as disclosed in Note 16 to the financial statements which includes other payables balance of Kshs.15,973,822 in respect to withholding Value Added Tax (VAT) claims. However, the VAT claims were not supported with claim forms and correspondences from Kenya Revenue Authority (KRA).

In the circumstances, the accuracy and completeness of trade and other receivables balance of Kshs.15,973,822 could not be confirmed.

968. Unsupported Customer Deposits

The statement of financial position reflects customer deposits balance of Kshs.2,692,989. However, the balance of customer deposits was not supported with notes to the financial statements, ledger account statements of customer deposits and bank account balance. Further, review of Note 18 to the financial statements revealed that customer deposits was included with nil balance.

In addition, review of Note 17 to the financial statements in respect of cash and cash equivalents revealed comparative balance of Kshs.67,273 and nil balance for the year under review in respect of deposit bank account balances. However, the decrease of the deposit balance to nil balance was not explained or supported with customer refund and payment schedules.

In the circumstances, the accuracy and completeness of the customer deposits balance of Kshs.2,692,989 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

969. Use of Outdated Tariff Structure

Review of the Company tariff revealed that the water tariff structure in use relates to the period between 1 July, 2016 to 30 June, 2020 that was published in Kenya Gazette Notice No.958 of 3 February, 2017. However, the water company has continued using the tariffs despite having lapsed four (4) years ago contrary to Section 72 of the Water Act, 2016 which requires Water Services Regulatory Board (WASREB) to evaluate and recommend water and sewerage tariffs to the County Water Services Providers and approve the imposition of such tariffs in line with consumer protection standards.

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

970. Non-Revenue Water

Review of water sales documents provided for audit revealed that the Company produced 3,352,582 cubic meters of water, out of which 2,163,372 cubic meters or 65% of total production was Non-Revenue Water (NRW) valued at Kshs.165,252,900 at the current rate of Kshs.75 per cubic meter. This level of NRW was above the allowable limit of 25% provided under the Water Services Regulatory Board (WASREB) Guidelines leading to possible loss of revenue of Kshs.165,252,900.

In the circumstances, Management was in breach of regulations and the NRW negatively impacts on the company's profitability and long-term sustainability.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

971. There were no material issues relating to effectiveness of internal controls, risk management and governance.

KAKAMEGA COUNTY – NO.37

KAKAMEGA COUNTY WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

972. Inaccuracy of Trade and Other Receivables

The statement of financial position and as disclosed in Note 16 to the financial statements reflects trade and other receivables balance of Kshs.239,204,865. This balance includes an amount of Kshs.9,558,883 relating to the Navakholo Scheme retained in its Dynamics 365 Enterprise Resource Planning (ERP) system despite the scheme having been transferred to the Kakamega County Rural Water and Sanitation Company, a newly established independent company. Further, Management has not made a disclosure in the financial statements of the splitting of the business segment, despite the Company having reported the scheme operations in its 2020/2021 annual report and financial statements. In addition, a recast of the balance in Note 16 reflects a balance of Kshs.215,284,379 instead of the Kshs.239,204,865 reflected in the financial statements resulting to an unexplained variance of Kshs.23,920,486.

In the circumstances, the accuracy of the trade and other receivables amounting to Kshs.239,204,865 could not be confirmed.

973. Lack of Age Analysis for Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.200,178,663 as disclosed in Note 19 to the financial statements. However, an ageing analysis in respect to the balance was not provided for review.

In the circumstances, the accuracy and completeness of trade and other payables balance of Kshs.200,178,663 could not be confirmed.

974. Unsupported Capital Employed

The statement of financial position reflects a negative capital employed balance of Kshs.98,828,003 comprising of share capital of Kshs.100,000, a negative revenue reserve balance of Kshs.461,970,646, County Government of Kakamega balance of Kshs.215,000,000 and capitalized inventory balance of Kshs.148,042,643. However, the Notes to the financial statements to support these balances and the ledgers were not provided for audit.

In the circumstances, the negative balance of capital employed of Kshs.98,828,003 could not be confirmed.

Other Matter

975. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.930,143,681 and Kshs.324,564,740 respectively, resulting to under-funding of Kshs.605,578,941 or 65% of the budget. Similarly, the Company incurred total actual expenditure of Kshs.324,459,719 against approved budget of Kshs.930,143,681 resulting to under-performance of Kshs.605,683,962 or 65% of the budget.

The under-funding and under-performance affected the planned activities and may have adversely impacted on service delivery to the public.

976. Unresolved Prior Year Matters

In the audit report for the previous year, several issues were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, Management has not satisfactorily resolved the issues or given any explanation for the failure to adhere to the provisions of the Public Sector Accounting Standards Board.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

977. Failure to Provide an Approved Budget

The Company did not provide an approved budget for the year under review, contrary to Regulation 205(1) of the Public Finance Management (County Governments) Regulations, 2015.

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

978. Overall Ethnic Representation of Staff

Review of Human Resource records of the Company revealed that during the year under review, the Company had one hundred and seventy-two (172) employees. However, out of this number, one hundred and thirty-five (135) or 78% of the employees were from the same ethnic community. This is contrary to Section 7(2) of the National Cohesion and Integration Act, 2008 which provides that no public establishment shall have more than one third of its staff from the same ethnic community.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT
AND GOVERNANCE

Conclusion

979. There were no material issues relating to effectiveness of internal controls, risk management and governance.

VIHIGA COUNTY – NO.38

AMATSI WATER SERVICES COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

980. Inaccuracies in the Financial Statements

The statement of financial position reflects inventories balance of Kshs.18,844,026 whereas the general ledger presented for audit reflected inventories balance of Kshs.19,407,655, resulting in an unexplained difference of Kshs.563,629.

Further, the statement of profit or loss and other comprehensive income and Note 12 to the financial statements reflects an amount of Kshs.48,472,819 relating to general and operations expenses. However, the general ledger presented for audit reflects an amount of Kshs.52,327,120 resulting to an unexplained variance of Kshs.3,854,301.

In addition, review of the financial statements and the general ledger revealed the following unexplained variances;

	Details	Amount as Per the Financial Statements (Kshs.)	Amount as Per the Ledger (Kshs.)	Variance (Kshs.)
1.	Gross Salary and Allowance	24,061,288	24,311,288	(250,000)
2.	Employer's Contribution to Social Security Scheme	1,647,792	823,896	823,896
3.	Employer's Contribution to Pension Scheme	760,064	730,764	29,300
4.	Gratuity Provisions	1,061,287	1,404,989	(343,702)
5.	Staff Welfare	484,780	-	484,780
	Total			744,274

In the circumstances, the accuracy and completeness of the financial statements could not be confirmed.

981. Long Outstanding Trade and Other Receivables

The statement of financial position and Note 20 to the financial statements reflects an amount of Kshs.107,188,783 in respect of trade receivables. This was an increase of

Kshs.29,229,129 or 37% over the previous year's balance of Kshs.77,959,654. However, the Company did not have an ageing analysis of the debtors with a third of the debtors owed by Government institutions and other public entities with no evidence of recoveries or any provision for doubtful debtors provided in the financial statements.

In the circumstances, the valuation and recoverability of the disclosed debtors amounting to Kshs.107,188,783 could not be confirmed.

982. Non-Disclosure and Unsupported Overdraft

The statement of financial position and Note 21 to the financial statements reflects an amount of Kshs.2,512,762 in respect of bank and cash balances. Included in the balance is an overdraft amount of Kshs.660,212 which was netted off against other bank balances and hence understating the cash and bank balances and current liabilities with Kshs.660,612. Further, authority to overdraw the account was not provided for audit purposes.

In the circumstances, the accuracy of the bank and cash balances of Kshs.2,512,762 could not be confirmed.

983. Unsupported Trade and Other Payables

The statement of financial position and Note 24 to the financial statements reflects Kshs.66,971,886 in respect of trade and other payables. Review of records provided for audit revealed the following anomalies:

- i. The Company had not updated the creditor's ledgers to support the movement of trade payables balance from the previous year balance of Kshs.55,165,285 to Kshs.66,971,886.
- ii. Included in the trade and other payables balance of Kshs.66,971,886 is an amount of Kshs.3,000,000 in respect of a loan from Lake Victoria North Water Works Development Agency that has not been supported by a signed loan agreement. It is not clear, and Management has not explained why a loan balance was disclosed alongside trade creditors.
- iii. No invoice or demand notes were presented to support an amount of Kshs.22,964,829 owed to Lake Victoria North Water Works Agency.
- iv. In addition, the ledger presented for audit reflected an amount of Kshs.60,991,795 for trade and other payables resulting to unreconciled and unexplained variance of Kshs.5,980,091.

In the circumstances, the accuracy and completeness of trade and other payables balance of Kshs.66,971,886 could not be confirmed.

984. Unremitted and unsupported Statutory Deductions

As disclosed in Note 24 to the financial statements, the statement of financial position reflects Kshs.66,971,886 in respect of trade and other payables which includes Kshs.2,148,319 and Kshs.1,964,333 in respect of unremitted NSSF and PAYE respectively. Further, Note 12 to the financial statements reflects an amount of

Kshs.1,306,374 relating to penalties and interests levied by the statutory bodies for failure to remit the statutory deductions. However, no supporting documentations were provided for the unremitted amounts of Kshs.4,112,652 and Kshs.1,306,374 for the statutory deductions and penalties respectively.

In the circumstances, the accuracy and completeness of the trade payables of Kshs.5,429,026 could not be confirmed.

985. Unsupported Provisions

The statement of financial position reflects an amount of Kshs.1,465,871 in respect of provisions, which comprise of provision for leave and gratuity of Kshs.404,584 and Kshs.1,061,286 respectively. However, no ledger or support documentation was provided to support the provision on gratuity of Kshs.1,061,286.

In the circumstances, the existence, completeness and accuracy of the gratuity provision of Kshs.1,061,286 could not be confirmed.

986. Unsupported Customer Deposit

The statement of financial position and Note 25 to the financial statements reflects customer deposit balance of Kshs.13,234,888. However, only an amount of Kshs.673,820 was supported by a customer deposit register leaving a balance of Kshs.12,561,068 not supported. Further, the customer deposit bank account as disclosed in Note 21 to the financial statements reflects a balance of Kshs.2,249,372 which is less than the customer deposit balance of Kshs.13,234,888 by Kshs.10,985,516. No reconciliation or approval to borrow from the customer deposit account was provided to support the difference of Kshs.10,985,516.

In the circumstances, the accuracy and completeness of the customer deposits balance of Kshs.13,234,888 could not be confirmed.

Other Matter

987. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved the issues nor given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

988. Unremitted Income Tax Arrears

Note 24 to the financial statements reflects an amount of Kshs.1,964,333 owing to Kenya Revenue Authority. However, records available indicate that the company owed Kenya

Revenue Authority an amount of Kshs.1,539,780 which included principal amount of Kshs.1,205,433 and penalties and interest of Kshs.334,347. Review of records revealed that the company made a part payment of Kshs.187,014 on 26 October, 2022 and committed to pay Kshs.45,000 per month and which was not adhered to. In addition, an analysis of the payroll for the year revealed that the Company had not remitted to Kenya Revenue Authority principal income tax amounting to Kshs.424,553 as at year end.

In the circumstances, Management was in breach of Section 19(4) of the Employment Act, 2007 which provides that an employer who deducts an amount from an employee's remuneration should pay the amount deducted in accordance with the time period and other requirements specified in the law.

989. Non-Remittance of NSSF Arrears

Note 24 to the financial statements reflects an amount of Kshs.2,148,319 owed to the National Social Security Fund which included principal amount of Kshs.1,176,292 and penalties and interest of Kshs.972,027. However, out of the total outstanding balance of Kshs.2,148,319, the Company had only paid Kshs.351,532 and hence risking attracting further penalties that may impact negatively on its cash flow position in future.

In the circumstances, Management was in breach of Section 194(4) of the Employment Act, 2007.

990. Non-Compliance with the Law on Ethnic Composition

Analysis of the payroll indicated that the Company had fifty-five (55) employees out of which fifty-three (53) were from the dominant ethnic community translating to 96% of the staff. This was contrary to Section 7(2) of the National Cohesion and Integration Act, 2008, which stipulates that no public establishment shall have more than one third of its staff from the same ethnic community. Additionally, out of fifty-five (55) employees, forty-two (42) are males representing 76% of the staff in contravention of the one third gender rule.

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

991. Appointment of Board Members

The County Executive Committee Member (CECM) in charge of water appointed five (5) Board Members on 24 May, 2021. However, it was noted that the Board Members had not yet been gazetted as required by the Governance Parameter 1.1 (11) of the Mwongozo Code of Governance for State Corporations. In addition, four (4) members, who included the Chief Officer Water, the Managing Director of Lake Victoria North Water Works Agency, the CEC in charge of Water and the CECM in charge of Finance, were paid a combined amount of Kshs.687,300 but the basis for the payments was not provided for audit verification.

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

992. Non-Compliance with the Law on Acting Appointment

Included in the Company payroll is an amount of Kshs.196,986 paid to four (4) staff as acting allowances for over nine (9) months. This is contrary to Section 34(3) of the Public Service Commission Act, 2017 which states that “an officer may be appointed in an acting capacity for a period of at least thirty days but not exceeding a period of six months. Also, it is not clear why the company has not filled these posts.

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

993. Uncompleted Pipeline Extension Project

The Company contracted and paid three contractors a total of Kshs.8,967,782 to supply, install, lay and rehabilitate the pipeline network connections at Luanda and Emuhaya area at a cost of Kshs.2,990,362. Supply, installation, laying and rehabilitation of pipeline network connections in Hamisi Sub-county and pump installation and water distribution line in Vihiga sub county at a cost of Kshs.2,983,700 and supply, installation, laying and rehabilitation of pipeline extension at Lutego area and pipe network connection at Mudete area at a cost of Kshs.2,993,720. The project was financed by a conditional liquidity support grant from the Water Sector Trust Fund.

However, review of supporting documentation revealed that the contractors were paid full contract amounts without project completion certificates, site minutes, inspection and acceptance reports.

Further, pipe line extension works on the connections at Luanda and Emuhaya area at the Esirabe line in Emuhaya was carried out using one (1) inch PVC pipes instead of the 1.6-inch, 2 inch and 4-inch PVC pipes provided in the bill of quantities while pipeline extension works on the network connection at Mudete area at the Lutego area was carried out using one (1) inch PPR pipes instead of 3 inch PVC pipes while 2 inch HDPE pipes were used instead of 4 inch PVC pipes as stipulated in the bill of quantities. Also, a control chamber was not constructed as provided for in the bill of quantities.

Further, physical verification of the projects carried out on 14 February, 2023 revealed that none of the pipeline extensions was operational and the contractors were paid the full contract amounts without deducting retention monies to cover for the defect liability period as required. It was also noted that 3% withholding tax amounting to Kshs.268,534 was not deducted on the payments made to the contractor’s contrary to the provisions of the Income Tax Act, Cap 470.

In the circumstances, the Company did not obtain full value for money on the amount spent on the pipeline extension project.

994. Unaccounted for Pipeline Extension Materials

During the year under review, the Company procured one thousand (1000) 2-inch class D PVC pipes and other assorted fittings at a cost of Kshs.1,400,000. According to the user requisition, the pipes and other assorted fittings were meant for a 2.4 km pipeline extension from Olang to Ekwanda. However, physical verification of the project carried

out on 14 February, 2023 revealed that only one (1) km stretch of the pipeline extension had been laid and yet there were no stock of pipes and assorted fittings in store. No explanation was provided as to how the balance of pipes and assorted fittings were utilised.

In the circumstances, the Company did not obtain full value for money for the amount of Kshs.1,400,000 spent on purchase of pipes and assorted fittings.

995. Non-Revenue Water

Records provided for audit indicated that the company produced 1,775,507 cubic meters of water during the year under review, out of which 1,579,387 cubic meters was available to customers for sale but only 1,107,691 cubic metres was billed to customers. The balance of 471,696 cubic metres or 30% of water produced represents unaccounted for water or non-revenue water. The non-revenue water was 5% above the 25% limit according to Water Services Regulatory Board guidelines resulting to a loss of 76,849 cubic meters. Had the non-revenue water been billed at the rate of Kshs.25 per cubic meter applied in the year under review, the company would have recorded additional revenue amounting to Kshs.1,921,231.

In the circumstances, Management was in breach of Water Services Regulatory Board guidelines.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

996. Lack of Risk Management Policy

The company has not developed Risk Management Policy that is required to ensure that business risks are either avoided, reduced to an acceptable level, or managed to enable the company achieve its objectives.

In the circumstances, the existence of risk management policies could not be confirmed.

BUSIA COUNTY – NO.40

BUSIA WATER AND SEWERAGE SERVICES COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

997. Unsupported Share Capital

The statement of financial position and Note 19 to the financial statements reflects ordinary share capital balance of Kshs.100,000 which consists of 5,000 ordinary shares of Kshs.20 par value each. However, a register of shareholders was not provided for audit verification.

In the circumstances, the accuracy and completeness of the ordinary share capital balance of Kshs.100,000 could not be confirmed.

998. Unsupported Trade and Other Receivables

The statement of financial position and Note 17 to the financial statements reflects trade and other receivables balance of Kshs.104,509,981. The balance is net of a provision for doubtful debts of Kshs.5,494,642. However, a debtors ageing analysis was not provided to confirm how long the debts have remained outstanding. Further, an approved debt management policy was not provided to confirm the terms under which debts are granted.

In the circumstances, the accuracy, completeness and recoverability of the trade and other receivables balance of Kshs.104,509,981 could not be confirmed.

999. Unsupported Trade and Other Payables

The statement of financial position and Note 23 to the financial statements reflects trade and other payables balance of Kshs.114,019,531. Included in the balance is an amount of Kshs.23,059,812 relating to creditors inherited from the defunct Kakamega-Busia Water Company. However, supporting documents such as ledgers, local purchase/service orders, invoices, goods received notes, and contract agreements were not provided for audit review.

Further, and as indicated in the previous year's report, the Company's trade and other payables balance have been on an increasing trend. During the year under review, the balance increased by Kshs.16,680,696 from Kshs.97,338,835 reported in the previous year to Kshs.114,019,531.

In the circumstances, the accuracy and completeness of the trade and other payables balance of Kshs.114,019,531 could not be confirmed.

Other Matter

1000. Budget Performance

The statement of comparison of budget and actual amounts reflects a revenue budget and actual on comparable basis amounts of Kshs.180,918,586 and Kshs.84,178,595 respectively, resulting to under-funding of Kshs.96,739,991 or 53% of the budget. Similarly, the statement reflects actual expenditure of Kshs.85,347,859 against approved budget of Kshs.180,918,586 resulting to under-performance of Kshs.95,570,727 or 53% of the budget.

In the circumstances, the under-funding and under-performance affected planned activities and may have negatively affected service delivery to the public.

1001. Prior Year Matters

In the audit report of the previous year, a number of paragraphs were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the issues remained unresolved as at the time of the audit.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1002. Operation of Bank Accounts without County Treasury Approval

Note 18 to the financial statements indicates that during the year under review, the Company operated six (6) bank accounts. However, no evidence was provided to confirm that approval of the County Treasury to open and operate the accounts was obtained. This was contrary to Section 119(1) of the Public Finance Management Act, 2012 which provides that the County Treasury is responsible for authorizing the opening, operating and closing of bank accounts for its entities.

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

1003. Late Submission of Financial Statements

The financial statements of the Company for the year ended 30 June, 2022 were submitted to the Auditor-General on 21 October, 2022. This was contrary to Section 164(4)(a) of the Public Finance Management Act, 2012 and Section 47(1) of the Public Audit Act, 2015, which provide that financial statements of public entities shall be submitted to the Auditor-General for audit within three (3) months after the end of the financial year to which the accounts relate, in this case 30 September, 2022.

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

1004. Failure to Maintain an Updated Fixed Assets Register

The statement of financial position and Note 15 to the financial statements, reflects property, plant and equipment balance of Kshs.3,305,954. However, the Company did not maintain an updated assets register showing details relating to: nature or type of asset, date of acquisition, cost, supplier, unique identification number, current value, current location, user, accumulated depreciation and net book values. This was contrary to Section 149(2)(o) of the Public Finance Management Act, 2012 which states that the Accounting Officer shall in respect of the entity concerned, ensure that the respective County Government entity has adequate systems and processes in place to plan for, procure, account for, maintain, store and dispose of assets, including an asset register that is current, accurate and available to the relevant County Treasury or the Auditor-General.

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

1005. Non-Revenue Water (NRW)

The statement of profit or loss and other comprehensive income, as disclosed in Note 6 to the financial statements, indicates that during the year under review, the Company produced 870,412 cubic meters of water out of which only 451,203 cubic meters valued at Kshs.34,345,003 were billed while 419,209 cubic meters or 48% of water valued at Kshs.31,909,660 were not billed and therefore constituted non-revenue water. The loss of 48% of the water is above the 25% loss allowed by the Water Services Regulatory Board (WASREB) resulting to 23% excess loss through unaccounted for water.

In the circumstances, the Company may not be able to achieve its objective of providing sufficient water to the residents of the County.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1006. Lack of a Risk Management Policy

Examination of records revealed that the Company operated without a risk management policy contrary to the provisions of Regulation 158(1)(a) and (b) of the Public Finance Management (County Governments) Regulations, 2015, which states that the Accounting Officer should ensure that there is a risk management policy that includes prevention mechanisms and systems.

In the circumstances, detection and prevention of possible risks that might have adverse impact on the Company's operations may not be detected.

SIAYA COUNTY – NO.41

SIBO WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1007. Unexplained Variance in Customer Deposits

The statement of financial position and Note 33 to the financial statements reflects customer deposits balance of Kshs.19,638,143 an increase of Kshs.4,573,116 from Kshs.15,065,027 held by the Company as at 30 June, 2021. However, review of customers deposits bank account reflected closing balance of Kshs.7,455,540 resulting in unexplained variance of Kshs.12,182,603.

In the circumstances, the accuracy and completeness of customers deposits balance of Kshs.19,638,143 could not be confirmed.

1008. Unsupported Financial Statements Balances

1008.1 Property, Plant and Equipment

The statement of financial position and Note 13a to the financial statements reflects property, plant and equipment balance of Kshs.101,070,129. Included in this balance are additions to buildings and civil works of Kshs.20,302,867 incurred in the previous year, that were not supported with completion certificates. In addition, an expenditure of Kshs.1,917,712, incurred in the previous year, for procurement of a pump with complete three phase panel system, was also not supported with invoice, delivery note and goods received note.

1008.2 Prior Year Adjustment

The statement of changes in equity reflects retained earnings of Kshs.11,490,060 after a prior year adjustment on the earnings of Kshs.28,760,865. However, no explanation or disclosure was provided to support the adjustment.

In the circumstances, accuracy and completeness of the prior year adjustment of Kshs.28,760,865 and the resultant retained earnings of Kshs.11,490,060 could not be confirmed.

1008.3 Income Tax Credit

The statement of comprehensive income reflects an income tax credit amount of Kshs.437,503, which is an addition of the previous year's credit of Kshs.991,353. However, it was not explained how the income tax credit was arrived at, considering that the Company made a loss before taxation of Kshs.1,458,353.

In the circumstances, the accuracy and completeness of the income tax credit of Kshs.437,503 could not be confirmed.

1008.4 Decrease in Inventories

The statement of profit or loss and other comprehensive income reflects an amount of Kshs.159,326 described as decrease in inventories. This amount relates to the movement between the previous year's inventories balance and the current years year's amount. However, no evidence was provided to show that the amount had not been expended under use of goods and services and therefore double accounting of inventory expenditure.

In the circumstances, the accuracy of the decrease in inventories of Kshs.159,326 could not be confirmed.

1009. Inaccuracies and Presentation of Financial Statements

The financial statements submitted for audit were not compliant with the applicable financial reporting framework for water companies published by the Public Sector Accounting Standards Board (PSASB) as highlighted below:

- i. The statement of cash flows reflects acquisition of property, plant and equipment amount of Kshs.35,394,259 and the same is disclosed in Note 13c to the financial statements. However, Note 13c is not included in the notes to the financial statements.
- ii. The comparative figures in the statement of cash flows differed with those reflected in the previous year audited financial statements as indicated below:

Details	Prior Year Audited Balance (Kshs.)	Reported Opening Balance (Kshs.)	Variance (Kshs.)
Cash generated from operations activities	11,463,840	8,848,656	2,615,184
Increase/ decrease in cash and cash equivalents	11,407,463	(235,303)	11,642,766
Cash and cash equivalents at the beginning of the year	6,117,169	6,352,472	(235,303)
Cash and cash equivalent at the end of the year	17,524,632	6,117,169	11,407,463

The resultant variances were however not explained or reconciled.

In the circumstances, the accuracy and completeness of the financial statements could not be confirmed.

Other Matter

1010. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual amounts on comparable basis of Kshs.280,752,393 and Kshs.194,634,864

respectively, resulting to an under-funding of Kshs.86,117,529 or 31% of the budget. Similarly, the Company expended Kshs.204,253,840 against an approved budget of Kshs.280,462,269, resulting to an under-expenditure of Kshs.76,208,429 or 27% of the budget.

In the circumstances, the under-funding and under-expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1011. Late Submission of Financial Statements

The financial statements for the year ended 30 June, 2022 were submitted for audit on 24 October, 2022, which was twenty-four (24) days after the due date of 30 September, 2022 contrary to Regulation 208 of the Public Finance Management (County Governments) Regulations, 2015 which states that, pursuant to Section 165(5) of the Act, the accounting officer for county corporation shall prepare and submit annual financial and non-financial statements in the format gazetted by the Cabinet Secretary within three months after the end of the financial year to the Auditor-General with copies to the responsible County Executive Committee member and the County Treasury.

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

1012. Doubtful Recoverability of Receivables

The statement of financial position as reflects an amount of Kshs.114,724,832 for trade and other receivables disclosed in Note 15(b) to the financial statements. Included in the amount is Kshs.83,082,767, or 54% of the trade receivables that is owed by customers whose accounts were either cut-off, dormant or sealed off. Further, analysis of customer statements revealed that the Company had taken no steps to recover these outstanding balances. Management has also not notified the County Executive Committee Member on the difficulties faced in collecting the debts as required by Regulation 63(2) of the Public Finance Management (County Governments) Regulations, 2015. In addition, a trade receivable age analysis report was not provided to confirm how long the trade receivables had remained outstanding.

In the circumstances, the recoverability of trade receivables balance of Kshs.83,082,767 is doubtful.

1013. Non-compliance with Affirmative Action

Review of the company's payroll revealed that out of 115 employees, 103 or 90% were from the dominant ethnic community. This is contrary to Section 7(2) of the National Cohesion and Integration Act, 2008, which stipulates that no public establishment shall have more than one third of its staff from the same ethnic community. In addition, out of

115 employees, the company has eighty-eight (88) or 76% male employees contrary to affirmative action on one third gender rule.

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

1014. Irregular Board Meetings

The Board held six (6) full board meetings and eight (8) special board meetings during the year. However, there was no justification why the board failed to consider agendas of the special meetings in its regular board meetings. Additionally, no request was submitted for approval by the responsible County Executive Committee Member for holding the additional special board meetings as required by the Office of the President Circular OP/CAB.9/1A Part A(3) dated 11 March, 2020, which stipulates that approval for any extra meetings (including special board meetings) above the maximum number specified shall require justification by the Board as to the source of funds and implications thereof, and reasons why the same cannot be adjudicated in regular meetings which request shall be submitted for approval by the County Executive Committee Member for Water, Environment and Natural Resources.

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

1015. Unremitted Statutory Deductions

1015.1 Income Tax

The statement of financial position and Note 23 to the financial statements reflect trade and other payables amount of Kshs.115,355,843 which includes unremitted income tax of Kshs.560,883 and Kshs.2,224,847 in respect of PAYE deductions and board tax payable (including penalties) respectively owed to Kenya Revenue Authority. However, the Company has not honoured the repayment plan dated 15 September, 2020 which required that an amount of Kshs.639,220 be remitted on a monthly basis until the full tax liability is settled.

1015.2 National Hospital Insurance Fund Deduction

Note 23 to the financial statements reflects other payables balance of Kshs.115,355,843 which includes an amount of Kshs.890,525 owed to National Hospital Insurance Fund in respect of unremitted deduction to the Fund. However, the Company did not provide the repayment plan entered into with the NHIF on settling the outstanding statutory obligation.

In the circumstances, Management was in breach of the law and the Company is at risk of incurring additional penalties.

1016. Non-Revenue Water

Review of records provided for audit revealed that the Company produced a total of 2,731,975 cubic meters of water during the year but only 1,119,606 cubic metres was billed to customers, resulting to Non-Revenue Water (NRW) of 1,612,369 cubic metres or 59%. The allowable NRW rate according to Water Service Regulatory Board (WASREB) guidelines is 25%, and hence excess NRW of 34%, representing 929,162

cubic metres of water which is an estimated loss of revenue of Kshs.27,874,853 at the rate of Kshs.30 per cubic metre.

The significant level of NRW negatively impacted on the Company's profitability and is a risk to the sustainability of its operations.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1017. Lack of Ownership of Motor Vehicles

Included in the property, plant and equipment balance are motor vehicles valued at Kshs.17,829,338 whose ownership is not in the name of the Company but are registered in the names of their original owners of private companies and other Government agencies.

In the circumstances, the ownership of the motor vehicles valued at Kshs.17,829,338 could not be confirmed.

KISUMU COUNTY – NO.42

KISUMU WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1018. Inaccurate Expenditure on Maintenance Expenses

The statement of profit or loss and other comprehensive income and Note 13 to the financial statements reflects maintenance expenses totalling to Kshs.191,902,457 which varies with the ledger total of Kshs.191,785,467 resulting to an unexplained variance of Kshs.116,990.

In the circumstances, the accuracy and completeness of the maintenance expenses amount of Kshs.191,902,457 could not be confirmed.

1019. Non-Recognition of Tax Liability from Operations

The statement of profit or loss and other comprehensive income reflects a profit before taxation totalling to Kshs.90,456,704. The Company is a trading entity and therefore subject to taxation. The last time the Company declared income tax was the financial year ended 30 June, 2020.

In the circumstances, the accuracy and completeness of the profit totalling to Kshs.90,456,704 could not be confirmed.

1020. Unsupported Write-Offs of Bad Debts

The statement of financial position and Note 28(a) to the financial statement reflects a balance of Kshs.270,661,636 in respect of trade and receivables which includes a provision of doubtful receivables of Kshs.24,378,040. However, the movement in the provision reflects a write-off totalling to Kshs.48,986,667 relating to the prior year provision which was not supported by approval by the County Executive Committee Member - Finance of the County Government of Kisumu.

In the circumstances, the accuracy and regularity of the write-off of the doubtful receivables balance of Kshs.49,986,667 could not be confirmed.

1021. Doubtful Tax Recoverable (VAT) Balance

The statement of financial position and Note 29 to the financial statements reflects a balance of Kshs.28,761,122 relating to tax recoverable (VAT) which has remained outstanding for more than four (4) years. Management has not explained the efforts made to recover the amount.

In the circumstances, the recoverability of the tax recoverable (VAT) balance of Kshs.28,761,122 could not be confirmed.

1022. Unsupported Customer Deposits Balance

The statement of financial position and Note 39 to the financial statements reflects trade and other payables balance of Kshs.168,083,250 out of which a balance of Kshs.141,422,854 was in respect of customer deposits. However, no detailed analysis of who is owed what amounts has been provided for audit.

In the circumstances, the accuracy and completeness of the customer deposits balance of Kshs.141,422,854 could not be confirmed.

1023. Unsupported County Government Contribution

The statement of financial position reflects trade and other payables balance of Kshs.168,083,250 as disclosed in Note 39 to the financial statements out of which a balance of Kshs.26,660,396 is in respect of the County Government contributions. However, the details of what the amount relates to were not provided for audit.

In the circumstances, the accuracy and completeness of the County Government contribution balance of Kshs.26,660,396 could not be confirmed.

1024. Inaccurate Trade and Other Payables Balance

The statement of financial position reflects trade and other payables balance of Kshs.275,032,075 as disclosed in Note 43 to the financial statements which includes a balance of Kshs.17,100,538 payable to Lake Victoria South Works Development Agency. However, the financial statement for the Agency reflect a balance of Kshs.11,059,625 owing from the Company resulting in an unreconciled variance of Kshs.6,040,913.

In the circumstances, the accuracy and completeness of the outstanding levies balance of Kshs.17,100,538 could not be confirmed.

1025. Unaccounted for Other Payables Balance

The statement of financial position and Note 43 to the financial statements reflects trade and other payables balance of Kshs.275,032,075 which includes a balance of Kshs.21,793,650 in respect of other payables which is a running balance from the amount reported in the previous year less settlement of Kshs.3,000,000 during the year under review. However, the expenditure for the current year has not been accounted for in the financial statements.

In the circumstances, the accuracy and completeness of the other payables balance of Kshs.21,793,650 could not be confirmed.

1026. Inaccuracies in Property, Plant and Equipment

The statement of financial position reflects a balance of Kshs.304,445,566 as disclosed in Note 20 to the financial statements in respect of property, plant and equipment. However, although an assets register was maintained, it had not been updated to include the accounting code of the asset, identification number of the asset, location of the asset, insurance certificate number of the insurable assets, cost of each item of asset, depreciation rate, accumulated depreciation, depreciation charge for the year and net

book value of the asset. The net book values reported could not therefore be reconciled with the asset register.

In addition, leasehold improvements were reported at a net book value of Kshs.707,113. However, no register or listing was provided to help ascertain the make-up of assets under this category.

In the circumstances, the accuracy and completeness of the property, plant and equipment balance of Kshs.304,445,566 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1027. Accounting for Non-Revenue Water

Review of water production and consumption revealed that the Company produced 10,497,618 cubic metres of water valued at Kshs.230,941,596 but only billed 7,196,567 cubic metres of water resulting to a loss of 3,301,051 cubic metres of water at a cost of Kshs.72, 623,122 which represents 31% of the total production. The non-revenue water quantity is above the of 25% loss allowable by the Water Services Regulatory Board.

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

1028. Lack of Quarterly Reports on Items Procured through Framework Agreement

Review of documents revealed that the Company procured various items through framework agreement. However, the head of procurement function did not provide quarterly reports with details such as analysis of pattern of usage, procurement costs in relation to the prevailing market rates and any other recommendations for audit verification. Further, there was no acknowledgement from the head of internal audit confirming receipt of the quarterly reports on items procured through framework contract.

In the circumstances, Management was in breach of frame work contract guidelines.

1029. Failure to Observe One-Third Rule on Staff Composition

Review of the Company's payroll for the month of June, 2022 revealed that out of three hundred and twenty-one (321) employees, two hundred and seventy-four (274) staff members or approximately 85% were from the dominant community in the region. This is contrary to Section 7 (1) and (2) of the National Cohesion and Integration Act, 2008 which states that, all public offices shall seek to represent the diversity of the people of Kenya in the employment of staff and that no public institution shall have more than one-third of its staff establishment from the same ethnic community.

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

1030. Failure to Prepare and Submit for Audit Gulf Water Company Limited and Nyanas Water Company Limited Financial Statements

As reported in the previous years, the Company was mandated to manage Gulf Water Company Limited and Nyanas Water Company Limited. However, Management has not provided signed financial statements of the two companies for audit. This is in contravention of Section 164(4) of the Public Finance Management Act, 2012. It has not therefore been possible to confirm whether the operations of the two companies are within the law.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1031. There were no material issues relating to effectiveness of internal controls, risk management and governance.

HOMA BAY COUNTY – NO.43

HOMA BAY COUNTY WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1032. Unsupported Inventories Balance

The statement of financial position and Note 15 to the financial statements reflects a balance of Kshs.2,857,638 in respect to inventories. However, the Management did not provide actual physical stock take reports for audit review.

In the circumstances, the accuracy and completeness of inventories balance of Kshs.2,857,638 could not be confirmed.

1033. Failure to Transfer Shareholding

As previously reported, the statement of financial position and Note 19 to the financial statements reflects ordinary share capital and initial capital of Kshs.2,831,702. The balance comprises 5,000 ordinary shares of Kshs.20 par value amounting to Kshs.100,000 and the initial capital of Kshs.2,731,702. Background information on page ii indicates that the Company is fully owned by the County Government of Homa Bay. However, a search conducted at the Registrar of Business Service, the Office of the Attorney General, and the Department of Justice revealed that the shares are still held by the defunct local authorities.

In the circumstances, the ownership of the Company could not be confirmed.

1034. Unsupported Trade Payables Balance

The statement of financial position and Note 24 to the financial statements reflects a balance of Kshs.17,179,575 in respect to trade and other payables. However, the balances were not supported with approved requisitions, quotations, LPOs/LSOs, goods received notes and store ledgers. In addition, trade payable invoices totalling to Kshs.3,273,101 were not approved/authorised by the supplier/creditor for proper authentication.

In the circumstances, the accuracy, validity and completeness of trade payables balance of Kshs.17,179,575 could not be confirmed.

1035. Inaccuracies in Customers Deposits Balance

The statement of financial position and Note 25 to the financial statements reflects customer deposits balance of Kshs.7,445,480. However, review of customer deposits' bank account statements revealed a credit balance of Kshs.4,999 resulting in an unexplained variance of Kshs.7,440,481. In addition, the deposits received of Kshs.1,139,125 during the year under review were not supported with a list of new customers and their corresponding deposits.

In the circumstances, the accuracy and completeness of the customer deposits balance of Kshs.7,445,480 could not be confirmed.

1036. Unsupported Additions to Water Kiosks/Buildings

The statement of financial position and Note 26 to the financial statements- reflects a balance of Kshs.195,576,736 in respect of property, plant and equipment which includes additions to water kiosks/buildings transferred from capital work in progress during the year under review totalling to Kshs.78,188,912. However, the balance was not supported with completion certificates and Inspection and Acceptance Committee reports.

In the circumstances, the accuracy and completeness of the additions to water kiosks/buildings balance of Kshs.78,188,912 could not be confirmed.

Emphasis of Matter

1037. Material Uncertainty Related to Going Concern

Note 3 to the financial statements states that the Company made a loss of Kshs.5,309,816 which resulted in depletion of retained earnings which stood at negative Kshs.30,482,934. In addition, the Company's total current liabilities balance of Kshs.91,029,871 exceeded the total current assets balance of Kshs.66,572,602 resulting in negative working capital of Kshs.24,457,269. Although the issue has been disclosed in the financial statements, Management did not provide measures taken to change the situation.

In the circumstances, the Company's sustainability is dependent upon continued support from Government, shareholders, bankers, and creditors.

Other Matter

1038. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis totalling to Kshs.358,497,855 and Kshs.150,021,839 respectively, resulting to an underfunding amounting to Kshs.208,476,016 or 58% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling to Kshs.354,249,291 and Kshs.155,331,655 respectively, resulting to an under absorption amounting to Kshs.198,917,636 or 56% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

1039. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref AG.3/88/2 Vol. VII (20) dated 11 May, 2022.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1040. Non-Compliance with Law on Ethnic Composition

During the year under review, the total number of employees of the Company was one hundred and seven (107) out of which one hundred and two (102) or 95% of the total number were members of the dominant ethnic community in the county. This was contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that all public offices shall seek to represent the diversity of the people of Kenya in the employment of staff and that no public institution shall have more than one-third of its staff establishment from the same ethnic community.

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

1041. Overdrawn Bank Accounts

The statement of financial position statements reflects a balance of Kshs.284,573 as disclosed in in Note 17 to the financial in respect to cash and cash equivalents balance which includes two (2) bank accounts with negative bank balances of Kshs.64,182 and Kshs.766 respectively. This is contrary to Regulation 82(7) of the Public Finance Management (County Governments) Regulations, 2015 which states that no official County Government bank account shall be overdrawn.

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

1042. Accrued Liabilities

1042.1 Unremitted Statutory Deductions

The statement of financial position reflects accrued liabilities balance of Kshs.66,404,816 as disclosed in Note 23 to the financial statements which include accrued expenses amounting to Kshs.27,714,760. However, review of records revealed that out this amount, a total of Kshs.15,594,824 had not been remitted to Kenya Revenue Authority, National Social Security Fund and National Hospital Insurance Fund as at the time of audit in January, 2023. The Management did not demonstrate its preparedness to clear the liabilities contrary to Regulation 22(2)(a) of the Public Finance Management (County Governments) Regulations, 2015 which states that "In addition to the responsibilities of Accounting Officers provided for in the Act, an Accounting Officer designated under the Constitution, the Act or any other Act, shall comply with any tax, levy, duty, pension, commitments and audit commitments as may be provided for by legislation"

In the circumstances, Management was in breach of the law and the Company is exposed to the risk of incurring interest and penalties.

1042.2 Delayed Payment of Employee Salaries and Wages

The statement of financial position reflects a balance of Kshs.66,404,816 as disclosed in Note 23 to the financial statements in respect to accrued liabilities which includes accrued expenses totalling to Kshs.27,714,760. Included in this amount is Kshs.7,284,044 in

respect to salary and wage arrears to permanent and casual employees with some dating back to the year 2016.

This is contrary to Section 18(2) (c) of the Employment Act, 2007 which stipulates that, wages and salaries shall be deemed to be due in the case of an employee in position for a period exceeding one month, at the end of each month or part thereof.

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

1042.3 Failure to Remit Regulatory Levies

The statement of financial position reflects a balance of Kshs.66,404,816 as disclosed in Note 23 to the financial statements in respect to accrued liabilities which includes Kshs.5,173,713 and Kshs.1,813,521 in respect to water levies which the Company owed the Water Services Regulatory Board (WASREB) and the Water Resource Management Authority (WARMA) respectively as at 30 June, 2022. The Management did not provide a satisfactory explanation for failure to pay the levies in due time to avoid interest and penalties for non-compliance.

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

1043. Supply, Installation, Configuration, Customization, Testing, Commissioning and Maintenance of an Enterprise Resource Planning (ERP)

The statement of financial position reflects a balance of Kshs.13,057,314 as disclosed in Note 27 to the financial statements in respect of intangible assets which includes additions during the year of Kshs.19,584,991. Review of records revealed that the Company Management entered into a contract with a firm for the supply, installation, configuration, customization, testing, commissioning and maintenance of an Enterprise Resource Planning System at a contract sum of Kshs.21,974,989. The contract commenced from 18 February, 2022 and effective for eighteen (18) months. The contractor requested for initial payment of Kshs.9,888,745.05 or 45% of the contract sum and the payment was made on 9 March, 2022.

However, Management made additional payments totalling to Kshs.9,696,246 in contravention of clause 3 of the contract agreement which provides that 55% of the total contract value will be paid after system customization, successful user training, signed off user acceptance training, data migration and system go-live.

In the circumstances, the propriety and value for money on expenditure of Kshs.9,696,246 could not be confirmed.

1044. Delayed Rehabilitation and Agglomeration of Ndhiwa-Mirogi Project

The statement of financial position reflects a balance of Kshs.195,576,736 as disclosed in Note 26 to the financial statements in respect to property, plant and equipment which includes additions to work in progress of Kshs.28,797,307. This amount in turn include expenditure during the year of Kshs.9,800,942 for the rehabilitation and agglomeration of Ndhiwa-Mirogi project. The works were awarded to a local contractor at a contract sum of 170,945 Euros (approximately Kshs.18,803,993 at current exchange rate) with a

commencement date of 5 February, 2021 for a period of four (4) months and scheduled completion date of 5 June, 2021.

Review of records revealed that the contractor requested for variation of contract by 52,347 Euros (or approximately Kshs.5,758,167) on 12 July, 2021. However, tender evaluation report, the project completion certificate or implementation status together with Management action on the request for variation were not provided for audit review.

In the circumstances, the propriety and value for money on expenditure of Kshs.9,800,942 could not be confirmed and the delay in completion of the project affected service delivery to the residents of Homabay County.

1045. Non-Revenue Water

The Company produced 891,459 cubic meters during the period under review while 133,719 cubic meters was categorized as waste/backwash water leaving a balance of 763,627 cubic meters available for sale. However, only 421,438 cubic meters of water were billed to customers. The balance of 342,189 cubic meters or approximately 45% of the production volume represents Non-Revenue Water (NRW) which is 20% over and above the allowable loss of 25% in accordance with the Water Services Regulatory Board (WASREB) guidelines. The Non-Revenue Water represents a loss of Kshs.14,714,127 in earnings for the Company at the average rate of Kshs.43 per cubic meter.

In the circumstances, the significant level of Non-Revenue Water is an indication of inefficiency in the use of public and water resources, which may negatively impact on the Company's profitability and its ability to sustain services.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1046. Failure to Update Fixed Assets Register

The statement financial position reflects property, plant and equipment balance of Kshs.195,576,736 as disclosed in Note 26 to the financial statements. However, the asset register maintained lacked details of capital expenditure and for water kiosks/buildings; the terms on which they were held, physical address, dates of acquisition, disposal or major change in use, and for furniture and equipment; dates of acquisition or disposals, unique identification numbers and offices issued to.

1047. Lack of a Risk Management Policy and Framework

The Management had not put in place a risk management policy, strategies, and risk register to mitigate against risk. It was, therefore, not clear how the Management manages risk exposures. This is in contravention of Regulation 158 (1)(a) and (b) of the Public Finance Management (County Governments) Regulations, 2015 which requires the Accounting Officer to ensure that the county government entity develops risk management strategies, which include fraud prevention mechanism; and the county

government entity develops a system of risk management and internal control that builds robust business operations.

In the circumstances, the effectiveness of controls of risk management could not be confirmed.

MIGORI COUNTY – NO.44

MIGORI COUNTY WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1048. Inaccuracies in the Financial Statements

Review of the financial statements of the Company revealed several presentation and disclosure omissions and errors as enumerated below:

- i. The statement of financial position reflects property, plant and equipment of Kshs.47,354,812 while Note 17 to the financial statements discloses property, plant and equipment balance of Kshs.48,000,874 resulting to an unexplained variance of Kshs.646,062.
- ii. Recasting of the statement of cash flows indicates cash and cash equivalent at the end of the year of Kshs.12,980,240 against the reported balance of Kshs.58,274 resulting to an unreconciled variance of Kshs.12,921,966.
- iii. The statement of cash flows reflects operating revenue of Kshs.15,525,935 whereas Note 6 to the financial statements reflects a balance of Kshs.18,774,080 resulting to unexplained and unreconciled variance of Kshs.3,248,145.

In the circumstances, the accuracy and completeness of the financial statements could not be confirmed.

1049. Undisclosed Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.47,354,812 as disclosed in Note 17 to the financial statements. However, the value for all assets including land, motor vehicles, motor cycles, boreholes and water pipelines that were used in revenue generation were not disclosed or included the financial statements.

In the circumstances, the accuracy and completeness of the property, plant and equipment balance of Kshs.47,354,812 could not be confirmed.

1050. Failure to Transfer Shareholding

The statement of financial position reflects issued capital totalling to Kshs.100,000 as disclosed in Note 22 to the financial statements. The issued capital of the Company is divided into 5,000 shares of Kshs.20 each. Records at the Business Registration Service in the Office of the Attorney-General and Department of Justice indicates that as at 30 June, 2021, the Company had three Directors two of whom held 350 shares each and one 300 shares all totalling to 1000 against 5000 shares reflected in the financial statements. The difference of 4000 shares between the two sets of records was not explained.

Further, the 5000 shares owned by defunct local authorities were not transferred to the County Government of Migori at the onset of devolved system of Government.

In the circumstances, ownership, accuracy and completeness of the issued capital of Kshs.100,000 could not be confirmed.

1051. Unsupported Customer Deposits Account

The statement of financial position and Note 28 to the financial statements reflects customer deposits totalling to Kshs.8,488,401. However, audit review of the deposits bank account revealed a balance of Kshs.31,754 resulting to an unexplained variance of Kshs.8,456,647. In addition, review of deposits bank account records revealed that Management withdrew a total of Kshs.8,456,647 without the authority of the Board of Directors. It was therefore not possible to confirm the purposes for which the funds were withdrawn and how they were utilized.

In the circumstances, the accuracy and completeness of the customers deposits balance of Kshs.8,488,401 could not be confirmed.

1052. Material Uncertainty Related to Going Concern

The statement of comprehensive income reflects operating profit of Kshs.10,090,105. The profit reduced the retained earnings of the Company to negative Kshs.38,299,781 from negative Kshs.48,389,886 as at 30 June, 2022. The current liabilities totalling to Kshs.63,108,642 exceeded current assets of Kshs.54,747,455 resulting to a negative working capital of Kshs.8,361,187. The unfavorable financial status implies that the Company may not be able to meet its financial obligations as and when they fall due. However, the Directors have not made specific disclosure on the risk to the going concern status of the Company or indicated the measures planned or taken to stop the loss - making trend and return the Company to profitability.

In the circumstances, the Company is technically insolvent and its continued existence as a going concern is dependent upon financial support from its creditors and the County Government of Migori.

Other Matter

1053. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.105,283,730 and Kshs.58,691,235 respectively resulting to underfunding of Kshs.46,592,495 or 42.25% of the budget. Further, the Company incurred expenditure totalling to Kshs.45,818,671 against an approved budget of Kshs.101,209,883 resulting to an under-expenditure of Kshs.55,391,212 or 54.7% of the budget.

In the circumstances, the underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Migori County.

1054. Unresolved Prior Year Audit Matters

In the report of the previous year, several issues were raised under report on the financial statements, report on lawfulness and effectiveness in use of public resources and report on internal controls, risk management and governance. However, review of the progress on follow-up of auditor's recommendations indicated that the Management had not resolved the issues as at 30 June, 2021. Management did not explain why the matters were not resolved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1055. Failure to Comply with Provisions of the Employment Act

The statement of financial position and Note 27 to the financial statements reflects trade and other payables balance of Kshs.54,620,241. Included in the balance, is an amount of Kshs.21,756,837 in respect of employee payables out of which Kshs.16,082,291 were salary arrears not paid during the financial year. This was contrary to Section 18(2)(c) of the Employment Act, 2007 which stipulates that, wages and salaries shall be deemed to be due in the case of an employee in position for a period exceeding one month, at the end of each month or part thereof.

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

1056. Failure to Remit Statutory Deductions and Regulatory Levies

Note 27 to the financial statements includes unremitted Pay-As-You-Earn (P.A.Y.E) tax-Kshs.3,044,692, National Social Security Fund (NSSF) - Kshs.494,600 and Withholding Tax - Kshs.41,100, all totalling to Kshs.3,580,392 which had been outstanding for more than twelve (12) months as at 30 June, 2022. Failure to remit the deductions contravened Section 19(4) of the Employment Act, 2007 which requires statutory deductions to be paid to the relevant authorities in due time.

Further, review of the financial records revealed that an amount of Kshs.4,054,566 and Kshs.2,740,631 in respect of Water Services Regulatory Board (WASREB) and Water Resource Management Authority (WARMA) respectively had not been remitted as at 30 June, 2022. Management did not provide a satisfactory explanation for the failure to pay the levies in due time to avoid interest and penalties for non-compliance with the relevant laws.

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

1057. Non-Revenue Water

During the year under review, the Company produced 655,754 cubic meters of water but only 384,000 cubic meters were billed to customers. The balance totalling to 271,754 cubic meters (or 48%) of the total volume represented Non-Revenue Water (NRW) which

was twenty-three (23) percentage points above the allowable loss of 25% prescribed in Schedule E of the Water Services Regulatory Board guidelines.

The NRW resulted in revenue loss totalling to Kshs.16,267,195 at the average sales rate of Kshs.59.86 per cubic meter of water billed by the Company in the year under review. The significant ratio of NRW further implied that the Company's water distribution system was inefficient and may, to a significant extent, explain the recurring annual operating losses reported by the Company over the years.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1058. Lack of Risk Management Policy and Strategy

As previously reported, review of internal controls and risk management indicated that the Company did not have a documented risk management policy and procedures for identifying and mitigating operational and other common risks. It was, therefore, not clear how Management manages risk exposures. The omission contravened Regulation 158(1)(a) and (b) of the Public Finance Management (County Governments) Regulations, 2015 which requires the Accounting Officer to develop risk management strategies that support robust business operations.

In the circumstances, it was not possible to confirm existence of effective internal controls to manage risks.

KISII COUNTY – NO.45

GUSII WATER AND SANITATION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1059. Variance in Operating Revenue

The statement of profit or loss and other comprehensive income reflects operating revenue amount of Kshs.190,644,280 and as disclosed in Note 6 to the financial statements. However, the amount differs with Kshs.198,402,244 recorded in the monthly billing summary from the Majisoft Portal resulting to a variance of Kshs.7,757,975. Management explained that revenue amounts extracted from the Majisoft Portal keeps on fluctuating but on 30 June, 2022 the amount was Kshs.190,644,280 while the system reflected revenue billing for the year under review at Kshs.198,402,244 in December, 2022 and Kshs.198,471,544 in March, 2023. This casts doubt in the effectiveness of the Majisoft Portal in revenue billing.

In the circumstances, the accuracy and completeness of operating revenue amount of Kshs.190,644,280 could not be confirmed.

1060. Unsupported Board Expenses

The statement of profit or loss and other comprehensive income reflects Board expenses amount of Kshs.2,827,580 as disclosed in Note 11 to the financial statements. The expenditure includes travel and accommodation expenses of Kshs.784,620 whose supporting schedule of individual Directors' payments was not provided for audit. The expenditure also includes sitting allowances of Kshs.1,453,860 but the Board meetings minutes provided for audit were not signed to authenticate them.

In the circumstances, the accuracy, completeness and regularity of the Board expenses of Kshs.2,827,580 could not be confirmed.

Other Matter

1061. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.329,276,640 and Kshs.296,237,150 respectively, resulting to an underfunding of Kshs.33,039,490 or 10% of the budget. Similarly, the Company spent Kshs.270,082,000 against an approved budget of Kshs.329,276,640, resulting in an under-expenditure of Kshs.59,194,640 or 18% of the budget.

The underfunding and under-expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

1062. Unresolved Prior Year Matters

In the audit report of the previous year, issues were raised under Report on the Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management had not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1063. Irregular Utilization of Customer Deposits

The statement of financial position reflects customer deposits balance of Kshs.22,661,460 while the deposits account bank statements reflects Ksh.6,015,000 resulting to an unexplained variance of Kshs.16,646,460. This represents customer deposits withdrawals used for other purposes. However, there was no evidence of Board's approval for these withdrawals or refund.

In the circumstances, the regularity of the withdrawal of Kshs.16,646,460 and its existence could not be confirmed.

1064. Irregular Procurement of Chemicals

The financial statements reflects chemical expenditure of Kshs.10,971,620 as disclosed in Note 10 to the financial statements paid to two (2) suppliers who had framework agreement with the Company. The first supplier quoted Kshs.17,940,000 while the second quoted Kshs.13,529,920 for the same four (4) chemicals. However, the supplier with higher prices was awarded majority of tenders and paid Kshs.10,910,925 while that with lower prices being paid only Kshs1,334,495. In addition, having framework agreements with only two (2) suppliers contravenes Regulation 102 of the Public Procurement and Asset Disposal Regulations, 2020. Further, Management failed to prepare quarterly reports detailing analysis of items procured through framework contracts, including analysis of pattern of usage, procurement costs in relation to the prevailing market rates and recommendations, contrary to Regulation 134 of the Public Procurement and Asset Disposal Regulations, 2020.

In the circumstances, value for money on chemical expenditure of Kshs.10,910,925 could not be confirmed and the Management was in breach of the law.

1065. Non-Compliance with the Law on Engagement of Temporary Employees

The financial statements reflects wages of temporary employees amount of Kshs.4,373,750 as disclosed in Note 9 to the financial statements paid to thirty-four (34) temporary employees. However, review of documents revealed that these employees had worked continuously for periods of between three (3) to twelve (12) months without

being given contracts to be paid monthly salaries or wages, contrary to Section 37(1) and Section 35(1)(c) of the Employment Act, 2007. Further, wages of temporary employees includes Kshs.2,168,316 paid to fourteen (14) casuals whose personal files and appointment letters were not provided for audit and Kshs.807,924 paid to seven (7) casual employees whose contracts had expired.

In the circumstances, the Management was in breach of the law and value for Kshs.4,373,750 spent on temporary employees could not be confirmed.

1066. Irregular Secondment of a County Employee to the Company

Examination of personnel records and payroll revealed that one (1) officer of Kisii County Government was seconded to the Company. According to the letter dated 15 December, 2021, the officer was deployed to the Company as a Lab Analyst by a senior officer in the Department of Water and Sanitation of the County Government of Kisii and reported to work with effect from 10 January, 2022. However, the approved requisition from the Company's Board, the release letter from the County Public Service Board and the specific duties and functions to be undertaken by the staff in support of the secondment were not provided for audit.

In the circumstances, value for money of the expenses incurred on the seconded officer could not be confirmed.

1067. Non-Revenue Water (NRW) Losses

The Company produced 4,556,986 cubic meters of water out of which, only 1,061,417 cubic meters were billed to customers. The balance of 3,495,569 cubic meters or approximately 77% represents Non-Revenue Water (NRW) which is 52% over and above the allowable loss of 25% in accordance with the Water Services Regulatory Board guidelines. The Non-Revenue Water represents a loss of Kshs.262,167,675 in earnings for the Company at the average rate of Kshs.75 per cubic meter.

In the circumstances, the significant level of Non-Revenue Water is an indication of inefficiency and in effectiveness in use of public and water resources, which may negatively impact on the Company's profitability and its ability to sustain services.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1068. Lack of an Integrated Revenue System

Audit review of the internal controls in respect to revenue revealed that there was lack of integration between the billing system and the payment system. Instead, manual reconciliations between the billing report and payments report were done for individual customers to determine their outstanding balances which may be prone to errors. In addition, the Management failed to maintain individual customer ledgers to show the opening balances, amount invoiced, amount paid and the outstanding balances.

In the circumstances, the Company had weak internal controls over revenue collection which might have led to loss of revenue.

1069. Lack of Approved Risk Management Policy and Strategy

Information provided for audit indicated that the Company operated without an approved risk management policy and strategies during the financial the year under review. It was therefore not possible to confirm how risks were identified, their estimated significance and how likelihood of their occurrence was determined.

In the circumstances, without an approved risk management policy in the Company, it was not possible to confirm how risks were identified and mitigated during the year under review.

1070. Inventory Management Weakness

The statement of financial position reflects inventories balance of Kshs.1,065,920 as disclosed in Note 16 to the financial statements. However, audit inspection of inventories at the Kigati stores and facilities revealed that the pumping machines and equipment at the Kigati facility were not manned by security personnel to restrict unauthorized access. Further, the facility had high value machines and equipment but no surveillance cameras like CCTVs were put in place to monitor and detect intrusions in case of break ins. In addition, most of the Company's asset were not tagged for ease of tracking and prevention of theft.

In the circumstances, some Company's assets might have been lost through theft or misused.

NAIROBI CITY COUNTY – NO.47

NAIROBI CITY WATER AND SEWERAGE COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

1071. Inaccuracies in Revenue Collection

The statement of profit or loss and other comprehensive income reflects operating income balance of Kshs.9,137,627,264 as disclosed in Note 6 to the financial statements. However, the following observations were made: -

1071.1 Unreconciled Water Sales

Included in the operating income balance is an amount of Kshs.4,791,324,484 being water sales from piped and prepaid public dispenser systems for consumption of 96,404,533 cubic meters. Recalculation of the sales using the average tariff of Kshs.58.5 per cubic meter, excluding sewer and other charges payable in the year under review revealed that the volume resulted in revenue of Kshs.5,639,665,164 resulting in an estimated understatement of revenue by Kshs.848,340,680. Further, review of the billings by the Water Services Regulatory Board (WASREB) revealed that a total of Kshs.365,605,090 was charged to the Company being levy charges at a rate of 4% in respect to water, sewer and meter rent to customers resulting to approximately expected revenue of Kshs.9,140,127,259 and not Kshs.8,940,033,877 reflected in the financial statements. The resultant uncollected or undeclared revenue of approximately Kshs.200,093,382, has not been explained.

1071.2 Decrease in Billing for Other Services

The statement of profit or loss and other comprehensive income as disclosed in Note 6 to the financial statements reflects billing for other services from exhausters services, survey fees, sale of sludge, sale of water by tankers, fraud charges and recoveries, claims compensations, reconnection fees, effluent discharges Jisomee customers, loan repayment and grant amortization all totalling to Kshs.197,593,387. This was a reduction by Kshs.150,358,474, or 43% from the amounts realized in the financial year 2020-2021 of Kshs.347,951,861. Management did not provide an explanation on the drastic fall in revenue realized. Although the Company disclosed revenue of Kshs.34,270,674 from Jisomee Mita customers, it was noted that sixty (60) active accounts were sharing meter numbers.

Further, it was noted that the service provider provides the Company with a collection schedule in MS Excel for payments made by customers into their Safaricom Paybill which is then upload into Jisomee Mita system and forms the amount reported in the financial statements. It was, therefore, not possible to confirm the accuracy and completeness of the reported revenue of Kshs.34,270,674.00 collected from Jisomee Mita customers.

1071.3 Incorrect Data on Customers Connectivity

Review of the key performance areas disclosed by the Management under water and sewerage connections revealed that the Company's size of utility, active number of water connections was 241,367. However, review of the customers' billing data provided revealed that the Company had 230,152 and 9,787 customers connected to water meters in the formal and informal settlements, respectively. This would have realized an income of Kshs.164,040,150 and Kshs.5,872,200 respectively totalling to Kshs.169,912,350 which was at variance with the amount of Kshs.162,886,017 disclosed in Note 6 to the financial statements resulting in an unreconciled variance of Kshs.7,026,334. Further, the Company had 10,937 customers from informal settlements made up of 9,787 active members,125 inactive members and 1,025 pending customers who had not been connected to meters. However, review of the data provided on formal settlements billings revealed that the Company did not disclose information on customers who were inactive and pending. In addition, the Company incurred a loss of Kshs.247,049 as a result of charging 252 customers meter rent rates that were lower than the approved tariff rates.

1071.4 Undisclosed Revenue from Effluent Discharge Revenue

The statement of profit or loss and other comprehensive income reflects other incomes amounting to Kshs.382,608,201 as disclosed in Note 8 to the financial statements and Note 8 to the financial statements. The Company records revealed that six hundred and forty-five (645) effluent discharge licenses were issued to private exhausters with an expected revenue collection of Kshs.116,100,000. However, the Company reported income of Kshs.13,290,000 from licensing of thirty (30) private exhausters. This resulted in under collection of revenue amounting to Kshs.102,810,000. Further, review of the billing system revealed that the system inconsistently billed the private exhausters twice or thrice at the rates of Kshs.30,000 and Ksh.45,000 respectively in particular months while the monthly charge of Kshs.15,000 was billed up to seven (7) times in other months. For instance, account 5224124 was billed Kshs.15,000 seven (7) times in the month of July, 2021 and Ksh.30,000 and Kshs.45,000 were billed six (6) times each in February 2022 resulting to unconfirmed outstanding balances.

1071.5 Unsupported Exhauster Services Revenue

Review of the tariff rates revealed that the Company charges Kshs.4,000 and Kshs.5,000 per trip for exhauster services in informal and formal sectors, respectively. It was established that the Company has one exhauster, whose revenue records revealed that the exhauster earned revenue totalling to Kshs.244,000. This was despite consumption of 1,787 litres of fuel at a cost of Kshs.220,996 during the year. The exhauster revenue file was not provided for audit. This may have resulted in under-declaration of revenue from the use of the Company's exhauster.

1071.6 Unsupported Revenue from Water Tankers

The Company owns thirty-two (32) water tankers which generated revenue amounting to Kshs.13,330,000 in respect of 42,656 cubic meters of water. However, information on the amount of water distributed and fuel consumption by each tanker was not provided for audit. Further, the Company has 12 hydrants to discharge water through water tankers

and fire engines. Physical verification revealed that only one hydrant was manned while work orders and work tickets for trucks drawing water from eleven (11) hydrants were not provided for audit verification.

In addition, the Company did not invoice the Nairobi County Council Fire Department for water drawn from the hydrants. Therefore, it was not possible to confirm the amount of water drawn by the fire department during the year under review.

In the circumstances, the accuracy and completeness of the operating income amount of Kshs.9,137,627,264 could not be confirmed.

1072. Unsupported Standing Order on Outstanding Pension Debt

Review of the receiving account held by the Company at Co-operative Bank of Kenya, reveals that during the year under review, the Company transferred an amount of Kshs.643,000,000 to the Local Authority Pension Trust (LAPTRUST). The Company authorised payment of a standing order of Kshs.3,000,000 per working day to be transferred from the receiving account to the LAPTRUST on 13 July, 2016 in respect of outstanding pension debts. However, Management did not provide evidence of how much has been paid to date and Board minutes approving this transaction.

Further, review of a trust deed provided for audit revealed that the outstanding pension debt inclusive of accrued interest as at 29 June, 2015 was Kshs.591,179,365 which was to be settled in 15 months from 6 July, 2015 to 6 August, 2016 through standing orders of Kshs.2,000,000 per day or Kshs.44,000,000 per month. However, no explanation was provided on how the amount of Kshs.2,000,000 was increased to Kshs.3,000,000 as a daily remittance to the LAPTRUST.

In the circumstances, the accuracy and regularity of the transfer of the Kshs.643,000,000 as standing orders to Local Authority Pension Trust could not be confirmed.

1073. Unsupported Adjustments

As previously reported, the statement of changes in equity reflects prior year adjustments balance of Kshs.179,830,735 relating to revenue reserves whose listings and aging analysis were not provided for audit. This includes an amount of Kshs.357,125,070 in respect of VAT claims not admissible due to change in VAT Act from zero rate to exempt status. However, due to lack of ageing analysis it was not possible to confirm whether the said balance was affected by the change in the tax regulations. Further, there was no supporting information from the Kenya Revenue Authority (KRA) acknowledging the issue indicated in the financial statements. It was not possible to confirm the amount paid from 6 July, 2015 to date from the call account since the bank statements were not provided.

In the circumstances, the accuracy of the adjustments amounting to Kshs.357,125,070 could not be confirmed.

1074. Inaccuracies and Irregularities in Management of Staff Costs

The statement of profit or loss and other comprehensive income and Note 9 to the financial statements reflects staff costs balance of Kshs.6,087,532,959. The following anomalies were noted;

1074.1 Unsustainable Wage Bill

The staff cost balance of Kshs.6,087,532,959 is 57% of the operating income of Kshs.10,647,083,912. This is way above the allowed percentage of 35%. Further, it was observed that basic salaries increased by Kshs.51,506,818 from Kshs.2,967,150,657 to Kshs.3,018,657,475 despite a decrease of ninety-six (96) members of staff. No explanation has been provided on the same.

1074.2 Irregular Payment of Bonuses

The Company made a bonus payment of Kshs.22,796,169 as disclosed in Note 9 to the financial statements. This was despite the Company reporting a loss of Kshs.84,714,791. Management did not provide justification for the bonus payment when the Company had made a loss.

1074.3 Inaccuracies and Inconsistency in Payment of Leave Allowance

The financial statements reflect leave allowance amount of Kshs.206,350,404 paid during the year. The amount was at variance with the amount of Kshs.204,755,858 reflected in the payroll and the recalculated amount from payroll of Kshs.252,035,973. However, Management did not provide explanation on the inconsistency between the three (3) sets of records. Further, analysis of payroll data revealed that some officers were paid leave allowance more than once amounting to Kshs.31,478,248 resulting to an overpayment of Kshs.23,289,957 above the allowed 72% of their monthly basic pay once per year under the Collective Bargaining Agreement.

1074.4 Non-Remittance of Retirement Benefits

The staff costs includes an expenditure of Kshs.672,507,106 which comprises of National Social Security Fund (NSSF) amount of Kshs.4,522,700, Provident Fund/Pension Fund amount of Kshs.492,425,635 and Gratuity amount of Kshs.175,558,771. However, these amounts were not remitted to the respective pension funds or disclosed in the financial statements risking penalties and fines.

In the circumstances, the accuracy, completeness and regularity of the staff costs amounting to Kshs.6,087,532,959 could not be confirmed.

1075. Unsupported Licensing, Lease and Levy Expenditure

The statement of profit or loss and comprehensive income reflects general and operational expenses balance of Kshs.3,177,281,798 as disclosed in Note 11 to the financial statements. The balance includes an amount of Kshs.1,424,040,212 in respect to licensing, lease and levy expenditure. However, records and documentation in support of expenditure totalling to Kshs.1,421,443,144 were not provided for audit. Further, analysis revealed that an amount of Kshs.4,825,702 was paid to Water Resources Management Authority being water use charges at Chania river for the period between July and September, 2018. However, Management did not provide invoices in support of the payment.

In addition, the expenditure on licensing, leasing and levy is understated by an amount of Kshs.100,525,777 that was not included in the ledger.

In the circumstances, the accuracy, completeness and regularity of the expenditure amounting to Kshs.1,424,040,212 on licensing, leasing and levy could not be confirmed.

1076. Unsupported Inventories

The statement of financial position reflects a balance of Kshs.417,742,552 as disclosed in Note 19 to the financial statements in respect of inventories. Review of the stock take report revealed variances between the stores management system, the physical count and the bin cards. Further, the stock sheets did not have the cost price for the stock items.

Further, the Company expensed inventories valued at Kshs.240,179,879 that were issued during the year under review. These included uniforms and sports equipment of Kshs.7,881,685 and Kshs.4,378,496 respectively which were distributed to various staff members. However, the stock issued did not have supporting schedules such as user requisitions and distributions lists.

In the circumstances, the accuracy, completeness and existence of the balance of Kshs.417,742,552 in respect of inventories could not be confirmed.

1077. Unsupported Maintenance of Motor Vehicles

The statement of profit or loss and comprehensive income reflects maintenance expenditure of Kshs.316,682,914 as disclosed in Note 12 to the financial statements. Included in the balance is an amount of Kshs.49,541,429 in respect of maintenance of motor vehicles. However, the amount differed with the ledger amount of Kshs.29,167,758 resulting to an unexplained variance of Kshs.20,373,671.

Further, payment vouchers in support of expenditure of Kshs.41,663,767 were not provided for audit while review of the payment vouchers provided amounting to Kshs.5,466,391 were not supported with documents such as requisitions, inspection reports and entries in the work tickets for the repairs. Various officers were also paid imprests for repairs of motor vehicles amounting to Kshs.4,092,827. However, supporting documents in form of receipts and documented work tickets were not provided for audit.

In addition, three motor vehicles were repaired between 9 and 13 times at a cumulative cost of Kshs.3,588,443 during the year under review which is uneconomical to continue servicing them.

In the circumstances, the accuracy and completeness of motor vehicle maintenance expenses amount of Kshs.49,541,429 could not be confirmed.

1078. Inaccuracies in Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents balance of Kshs.753,171,211 as disclosed in Note 21 to the financial statements. The following anomalies were noted: -

1078.1 Lack of Analysis in Notes to the Financial Statements

Management did not disclose the bank balance for thirteen (13) bank accounts while the Company reported a cash in hand of Kshs.3,328,332 which has not been supported by cash count records, cash books and board of survey reports.

Further, the Company disclosed balances in National Bank Account and HFC account of Kshs.680,640 and Kshs.485,548 respectively. However, no bank reconciliations were provided for audit.

1078.2 Unbanked and Uncredited Cheques

The cash book balance reflected an amount of Kshs.11,491,731 in respect of Co-operative Bank account while the bank statement reflected a balance of Kshs.6,633,889 resulting to an unreconciled variance of Kshs.4,857,842. In addition, unbanked and uncredited cheques of Kshs.3,325,332 and Kshs.1,529,510 respectively, had not been cleared.

1078.3 Unsupported Procurement of Collection Services

The Company received Jambo Pay Services from two (2) Jambo pay accounts with balances of Kshs.7,813,776 and a negative balance of Kshs.523,205 in respect of the Jambo Formal account which was not explained. However, the Company did not provide contract documents in respect of Jambo Pay services. It was, therefore, not possible to confirm how Jambo pay was engaged and the terms of services.

1078.4 Undisclosed Cash and Cash Equivalents Balance

Review of records revealed that the Company had a Cellulant account with a cash book balance of Kshs.250,530,323 which was not supported by bank reconciliation statements and bank confirmation certificates. Further, the balance had not been reported in the financial statements. This understates the cash and cash equivalents balance by Kshs.250,530,323. The Company awarded Cellulant Kenya Limited a contract for provision of service on short code (USSD CODE) and Mpesa on 8 April, 2013 for a period of twelve (12) months which was extended. On 23 August, 2016 the Company and Cellulant Kenya Limited signed another contract for a one-year term with obligations to transfer all collections to the Company's bank account within 24 hours.

On 16 May, 2017 the Finance and Strategy Director requested the Company Secretary to invoke contract clauses to commence the termination of contract with Cellulant Kenya Limited for non-remittance of collections. Cellulant, however, pointed out to the Company about pending matters that had not been responded to. It was also noted the Company was operating without a contract. The matter went for arbitration among the parties on 15 July, 2021 and a draft consent was drawn. However, Cellulant rejected the terms of the draft consent indicating that the Company owed it Kshs.142,441,327 by July, 2020, being transactional charges and other services rendered to the Company. The matter remains unresolved and Management has not demonstrated efforts made to resolve the issue.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.753,171,211 could not be confirmed.

1079. Unsupported Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.3,438,435,365 as disclosed in Note 17 to the financial statements. However, the following anomalies were noted: -

1079.1 Undisclosed and Unsupported Land

The balance excludes land on which the Company's buildings and installation stand such as Nairobi office, Ndakaini Dam, Ruiru Dam, Ngethu Dam, Kabete treatment plant and laboratory and Sasumua which did not have ownership documents. The dams were not completely fenced while the Ndakaini dam land has been encroached by informal settlers who have constructed a recreational centre. Further, ownership documents for a parcel of land at Kariobangi sewerage and two (2) parcels of land at Ruai sewerage measuring 90 hectares and 1,272.90 hectares were not provided for audit. The Company has five hundred and fifty-four (554) parcels of land meant for expansion, storage, water and sewerage treatment works but ownership records have not been provided for audit.

1079.2 Failure to Revalue Assets

The balance includes a net book value of Kshs.69,711,940 in respect to motor vehicles and motor cycles. However, review of records revealed that the Company has two hundred and thirty-nine (239) motor vehicles and two hundred and seventy-five (275) motor cycles. However, depreciation was charged on twenty-three (23) vehicles only which were procured in the year 2020-2021 and 2021-2022 resulting to a net book value of Kshs.69,711,940. The balance of sixty-one (61) vehicles and one hundred and sixty-four (164) motor cycles procured at a cost of Kshs.145,720,691 and Kshs.36,520,657 respectively have not been revalued.

Further, included in the balance is net book value of Kshs.2,023,337,905 in respect to plant and machinery. Analysis revealed that the Company had four hundred and forty-seven (447) plant and machinery. However, depreciation was charged on three hundred and thirty (330) plant and machinery resulting to the net book value of Kshs.2,023,337,905. The balance of one hundred and forty-seven (147) plant and machinery procured at a cost of Kshs.607,290,259 with a zero net book value were still in use and in good condition had not been revalued.

In addition, records provided revealed that the Company had eleven thousand, three hundred and forty (11,340) equipment with a net book value of Kshs.184,601,267. However, only six thousand, five hundred and eighty-two (6,582) equipment were charged depreciation. The balance of four thousand, seven hundred and fifty-eight (4,758) equipment procured in 2014, 2016, 2017 and 2020 at a cost of Kshs.613,280,922 had zero netbook value. The equipment still in use and in good condition have not been revalued.

Similarly, included in the property, plant and equipment balance of Kshs.3,438,435,365 is furniture with a net book value of Kshs.39,771,637. However, only four thousand, two hundred and twenty-three (4,223) pieces of furniture were charged depreciation resulting to the net book value of Kshs.39,771,637. The balance of two thousand, one hundred and sixteen (2,116) furniture procured in 2014 at a cost of Kshs.77,903,806 with zero netbook value, in good condition and in use have not been revalued.

1079.3 Failure to Depreciate Computer and Related Equipment

Included in the property, plant and equipment balance of Kshs.3,438,435,365 is net book value of Kshs.20,344,767 for computer and related equipment. Review of records revealed that although the Company has three thousand, four hundred and sixty- nine (3,469) computer and related equipment only two hundred and sixty-four (264) were charged to depreciation resulting to the net book value of Kshs.20,344,767. The balance of three thousand, two hundred and five (3,205) computer and related equipment procured during the 2016, 2017, 2018 and 2019 annual years at accumulative cost of Kshs.532,934,883 which, though in good condition and in use had zero net book value.

1079.4 Capitalization of Work-In-Progress

The property, plant and equipment schedule reflects capitalization of a balance of Kshs.193,616,436 in respect of work in progress whose details and support documents have not been provided for audit.

In the circumstances, the accuracy, completeness, ownership and valuation of the property, plant and equipment balance of Kshs.3,438,435,365 could not be confirmed.

1080. Unconfirmed Trade Payables

The statement of financial position reflects trade and other payables balance of Kshs.4,362,894,251 as disclosed Note 27 to the financial statements. Included in the balance is an amount of Kshs.1,702,880,772 and Kshs.2,660,013,479 in respect of trade payables and other payables. However, the following anomalies were noted: -

- i. The payables on comparable basis with the previous year's balance of Kshs.2,391,273,874 reflects an increase of Kshs.1,971,620,377 (or 82%) whose explanation was not provided. Review of the previous year's audited financial statement revealed that the Management had indicated the LAPTRUST balance of Kshs.208,710,125 which has significantly increased to Kshs.2,236,625,495 resulting to an unexplained amount of Kshs.2,027,915,370 (or 972%);
- ii. Note 32 to the financial statements reflects prior year adjustments of Kshs.2,432,396,194 which comprise of trade receivables and other payables amounting to Kshs.195,770,698 and Kshs.2,236,625,495 respectively. Management adopted the balance based on a letter from CPF Financial Services dated 19 October, 2020 which comprise of penalties whose details were not provided for audit;
- iii. The statements reflect LAPFUND balance of Kshs.146,623,630 which is a decrease from previous year's balance of Kshs.372,474,790 by

Kshs.225,851,160. However, comparison with The National Treasury records revealed that the Company owed LAFUND a balance of Kshs.272,237,697 after paying an amount of Kshs.225,000,000 which was at variance with the balance of Kshs.146,623,630 and payment of Kshs.225,851,160 resulting in unexplained or unreconciled variance of Kshs.90,614,067 and Kshs.851,160 respectively;

- iv. The trade and other payables balance of Kshs.4,362,894,251 includes long outstanding payables to Water Services Regulatory Board and Water Resource Management Authority amounting to Kshs.877,886,195 and Kshs.368,748,349 respectively.

In the circumstances, the accuracy and completeness of the trade and other payables balance of Kshs.4,362,894,251 could not be confirmed.

1081. Unsupported Customers with Credit Balances

The statement of financial position reflects customers with credit balances of Kshs.308,447,036 as disclosed in Note 28 to the financial statements which relates to customers whose accounts were overpaid and issued with credit notes due to overbilling. However, no explanation was given on how the overbilling arose and measures Management has put in place to avert the recurrence of the overbilling. Further, Management did not support the credit balances with evidence in respect of complaints from the customers.

In the circumstances, the accuracy and completeness of credit balances of Kshs.308,447,036 could not be confirmed.

1082. Unsupported Provisions for Doubtful Debts

The statement of financial position reflects trade and other receivable balance of Ksh.3,317,669,639 as disclosed in Note 20 to the financial statements. Management did not provide explanation on the increase of the allowance for credit loss by Kshs.170,943,658 from Kshs.6,792,610,184 reported in the financial year 2020/2021 to Kshs.6,963,553,842 during the financial year 2021/2022. According to the Finance Policy, general provisions for bad debts shall be made based on Director's valuation of trade receivables which although not specifically identified are known from experience to be present in the trade receivables. However, the Director's valuation on the general provisions made was not provided. Further, scrutiny of the billing system revealed that the system cannot recall the correct balances of total billing of the accounts at any date in prior period since the system has a design flaw that does not capture and recall transactions of previous dates.

In the circumstances, the accuracy and completeness of trade and other receivables balance of Ksh.3,317,669,639 could not be confirmed.

1083. Undisclosed Material Uncertainty Related to Going Concern

The statement of profit or loss and other comprehensive incomes reflects a loss of Kshs.84,714,791 up from the loss of Kshs.84,574,258 reported in the previous financial

year. The Company had current assets balance of Kshs.4,488,582,401 and Kshs.5,976,930,689 resulting in a negative working capital balance of Kshs.1,488,347,287 or working capital ratio of 0.8. The Company's debt ratio (total liabilities/ total assets) stood at 111.7% an indication that the Company's assets are funded by debts and not equity. Further, the Company had accumulated loss of Kshs.8,545,681,252 of the total reserves made up of a deficit balance of Kshs.84,714,791 in respect of the current financial year and Kshs.8,460,966,460 in respect of deficit brought forward from the previous periods. This was at variance with the prior year audited financial statements negative balance of Kshs.6,015,045,881 resulting to an unexplained variance of negative reserves balance of Kshs.2,445,920,580.

This situation indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not adequately disclose this fact.

Emphasis of Matter

1084. Contingent Liability

The financial statements reflect contingent liabilities totalling to Kshs.6,594,745,836 (2022-2021 Kshs.5,640,150,798) as disclosed in Note 37 to the financial statements which comprised of pending suits and disputed claims arising from debts inherited from Nairobi City County in which the Company has been enjoined as a defendant among others. The likely outcome of these matters cannot be determined. Review of legal documents revealed that as a result of trade unions cases, the Company has been taken to court regarding nine (9) legal cases. This therefore led to hiring of advocates whose fee notes and charges were not provided for audit. Further, and as previously reported in the financial statements for Nairobi Sanitation Output Based Aid Project had reported a pending arbitration dispute between a contractor and the Company in respect to the Project but Management had failed to pay the contractor an advance payment balance of Kshs166,224,772 as agreed in the contract terms. The contractor had completed the project as at the time of audit carried out in the month of September, 2022. The probability of the contingent liability materializing is high and the Company is exposed to loss of funds due to payment of litigation costs.

Other Matter

1085. Budgetary Control and Performance

The statement of comparison of budget and actual amounts for the period reflects original budget and actual on comparable basis of Kshs.13,217,229,050 and Kshs.10,647,083,912, respectively resulting in an underfunding of Kshs.2,570,145,138 (or 19%) of the budget. Similarly, the Company spent an amount of Kshs.10,731,798,703 against budgeted expenditure of Kshs.11,348,757,218 resulting in an under expenditure of Kshs.616,958,515 or 5%. The explanation from the Management for the underperformance was a result of under collection of own generated revenue. However, the measures on how the own generated revenue could be increased have not been articulated.

The underfunding and under expenditure affected the planned activities and impacted negatively on service delivery to the public as a result the public did not receive the services they deserved through un-implemented projects.

1086. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. The report on progress on follow-up of the auditor recommendations in the financial statements for the year under review indicates that some of the issues had been resolved and work to resolve the remainder was ongoing as at 30 June, 2022 and the actual status of all the issues will be confirmed after they are discussed by the County Assembly.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1087. Non-Revenue Water

Review of the water production records revealed that the Company produced 192,787,851 cubic meters volume of treated water. However, records provided by Management indicated that the water produced was 178,526,912 cubic meters resulting in an unexplained loss of 14,260,939 cubic meters or approximately Kshs.834,264,906 at the average tariff of Kshs.58.5 per cubic meter, excluding sewerage and other charges payable. This was based on the approved water tariffs by Waster Service Regulatory Authority which indicate that the Water Resources Management (WARMA) charges 50 cents per cubic meter for all billed water from the four water sources namely: Ruiru Dam, Chania River, Kikuyu Springs and Sasumua Dam.

Further, the Company billed 96,404,532.71 cubic meters of water translating to Non-Revenue Water (NRW) of 96,383,318 cubic meters or 50% of the total water produced resulting in an unexplained loss of projected revenue of Kshs.9,867,242,180 inclusive of sewer and other charges at the rate of Kshs.102.375 cubic meters. This was above the allowable non-revenue water threshold of 25% as provided in the Water Services Regulatory Board (WASREB).

1088. Non-Payment of Debts Due to Related Parties

The statement of financial position reflects amounts due to related parties of Kshs.7,605,747,370 and Kshs.924,974,692 as disclosed in Note 30 to the financial statements. The Company had entered into a tripartite agreement with the defunct City Council of Nairobi and Athi Water Services Board in April, 2004 for assignment of all water and sewerage fixed assets and infrastructure to the Company for a consideration of 20% of the total revenue collected during the period up to 2014/2015 and at a flat tariff rate of Kshs.794,950,584, Kshs.912,974,692 and Kshs.924,974,692 for the years 2015/16, 2016/17 and 2017/18 respectively. The Board has continued to issue current invoices

using the rate gazetted in respect of year 2017/2018 pegged on loans purported to have been taken by the Athi Water Service Board on installation of equipment. However, the Company has not provided any documentation to support the amount of loan taken on their behalf and what the funds were used for. The Company only paid an amount of Kshs.2,809,221 during the current year. Further, the assigned assets and infrastructure have not been valued and, therefore, the basis of settling the lease payments remains undetermined.

In addition, an amount of Kshs.1,824,500 was reclassified from fees payable to Athi Water Works Development Agency in respect of inherited debts from Nairobi City County. However, no supporting documentation was provided to confirm the reclassification.

In the circumstances, Management was in breach of the tripartite agreement.

1089. Incomplete Projects

Review of records provided by the Company revealed that thirty-seven (37) projects with a total contract cost of Kshs.2,540,884,097 had not been completed within the stipulated period. Physical verification on some of the project revealed that the contractors were not on site exposing the projects to vandalism.

In the circumstances, value for money may not have been realized from implementation of the projects.

1090. Wasteful Expenditure on Electricity

The statement of profit or loss and comprehensive reflects general and operational expenses balance of Kshs.3,177,281,798 income as disclosed in Note 11 to the financial statements. Included in the expenditure is electricity expenses balance of Kshs.311,875,967. Review of records and physical verification revealed that the Company had its main sewer treatment plant in Ruai which uses physical and biological treatment and runs the Kariobangi sewer which uses mechanical system of treatment through filters with a capacity of sixteen (16) of filters. However, only two (2) were functioning at the time of audit. The Kariobangi sewer has intercepted part of the sewer from the Ruai main line. This system has a capacity of 32,000cubic meters of waste water per day. However, it was observed that it only produces 19,000 cubic meters of waste water per day therefore underperforming by 13,000 cubic meters per day. No explanation was provided for under utilization of the sewer plant. Further, Kariobangi Plant incurred electricity expense totalling to Kshs.1,565,149 compared to the Ruai Treatment Plant expenses of Kshs.84,577. Had the sewer not been intercepted irrespective of the underutilization and underperformance, then the Company could have saved an amount of Kshs.1,565,149 spent on Kariobangi sewer.

No explanation was obtained from the Management on excessive expenditure in respect of electricity in Kariobangi sewer whose services would be offered cheaply at Ruai sewer.

In the circumstances, there was no value for money in the expenditure on electricity.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1091. Inadequate Customer Management and Billing Controls

Review of records revealed that payments totalling to Kshs.71,359,723 had been made on a contract for the supply, delivery, installation, testing and commissioning of a customer management and billing system priced at USD.1,192,596 (equivalent to Kshs.122,774,419). Although, the system was in use during the year under review, the non-disclosure and service-level agreements signed with the vendor were not provided for audit. As a result, the existence of the contracts and related confidentiality safeguards and maintenance service requirements could not be confirmed. Further, scrutiny of the billing system revealed that the system cannot recall the correct balances of total billing of the accounts at any date in prior periods.

In the circumstances, the effectiveness and the integrity of information processed through the systems cannot be assured.

1092. Failure to Maintain a Proper Asset Register

The Company reported property, plant and equipment balance of Kshs.3,438,435,365 relating to buildings, machinery, vehicles, equipment, computer and related equipment, furniture and fittings. However, a fixed asset register that records all capitalized assets and details of each asset as date of purchase, description including model and serial number, asset cost, depreciation and net book value was not provided for audit. Verification of the assets in sampled stations revealed that the assets were not tagged for easy of tracing.

In the circumstances, the correctness, existence and completeness of the assets of the Company could not be confirmed while untagged assets are not easy to trace and are susceptible to loss and theft.

APPENDICES

Appendix A: Unmodified Opinion

NO.	COUNTY	COUNTY CODE	WATER COMPANY
1.	Nyeri	19	Naromoru Water and Sanitation Company Limited

Appendix B: Qualified Opinion

NO.	COUNTY	COUNTY CODE	WATER COMPANY
1.	Mombasa	1	Mombasa Water Supply and Sanitation Company Limited
2.	Kwale	2	Kwale Water and Sewerage Company Limited
3.	Kilifi	3	Kilifi Mariakani Water and Sewerage Company
4.	Kilifi	3	Malindi Water and Sewerage Company Limited
5.	Taita Taveta	6	Tavevo Water and Sewerage Company Limited
6.	Mandera	9	Mandera Water and Sewerage Company Limited
7.	Mandera	9	Elwak Water and Sewerage Company Limited
8.	Isiolo	11	Isiolo Water and Sewerage Company Limited
9.	Meru	12	Meru Water and Sewerage Services Registered Trustees
10.	Meru	12	Imetha Water and Sanitation Company Limited
11.	Tharaka Nithi	13	Nithi Water and Sanitation Company Limited
12.	Embu	14	Ngagaka Water and Sanitation Company Limited
13.	Kitui	15	Kitui Water and Sanitation Company Limited
14.	Kitui	15	Kiambere Mwingi Water and Sanitation Company Limited
15.	Machakos	16	Municipal Council of Machakos Water and Sewerage Company Limited

NO.	COUNTY	COUNTY CODE	WATER COMPANY
16.	Machakos	16	Mwala Water and Sanitation Company Limited
17.	Machakos	16	Yatta Water Services Company Limited
18.	Machakos	16	Matungulu Kangundo Water and Sewerage Company Limited
19.	Machakos	16	Mavoko Water and Sewerage Company Limited
20.	Machakos	16	Kathiani Water and Sanitation Company Limited
21.	Makueni	17	Mbooni Water and Sanitation Company Limited
22.	Makueni	17	Kibwezi-Makindu Water and Sanitation Company Limited
23.	Makueni	17	Wote Water and Sewerage Company Limited
24.	Nyandarua	18	Nyandarua Water and Sanitation Company Limited
25.	Nyandarua	18	Oi Kalou Water and Sanitation Company Limited
26.	Nyeri	19	Nyeri Water and Sanitation Company Limited
27.	Nyeri	19	Tetu Aberdare Water and Sanitation Company Limited
28.	Nyeri	19	Othaya Mukurweini Water Services Company Limited
29.	Nyeri	19	Mathira Water and Sanitation Company Limited
30.	Kirinyaga	20	Kirinyaga Water and Sanitation Company Limited
31.	Kirinyaga	20	Rukanga Water and Sanitation Company Limited
32.	Murang'a	21	Murang'a Water and Sanitation Company Limited
33.	Murang'a	21	Kahuti Water and Sanitation Company Limited
34.	Murang'a	21	Gatamathi Water and Sanitation Company Limited
35.	Murang'a	21	Gatanga Community Water and Sanitation Company limited
36.	Murang'a	21	Murang'a South Water and Sanitation Company Limited
37.	Kiambu	22	Kiambu Water and Sewerage Company Limited

NO.	COUNTY	COUNTY CODE	WATER COMPANY
38.	Kiambu	22	Karuri Water and Sanitation Company Limited
39.	Kiambu	22	Ruiru-Juja Water and Sewerage Company Limited
40.	Kiambu	22	Gatundu Water and Sanitation Company limited
41.	Kiambu	22	Kikuyu Water Company Limited
42.	Kiambu	22	Limuru Water and Sewerage Company
43.	Kiambu	22	Thika Water and Sewerage Company Limited
44.	Kiambu	22	Githunguri Water and Sanitation Company Limited
45.	Trans Nzoia	26	Nzoia Water Services Company Limited
46.	Uasin Gishu	27	Eldoret Water and Sanitation Company Limited
47.	Elgeyo/Marakwet	28	Iten Tambach Water and Sewerage Company Limited
48.	Elgeyo/Marakwet	28	Cherang'any Marakwet Water and Sanitation Company Limited
49.	Nandi	29	Kapsabet Nandi Water and Sanitation Company Limited
50.	Baringo	30	Eldama Ravine Water and Sewerage Company Limited
51.	Laikipia	31	Nanyuki Water and Sanitation Company Limited
52.	Laikipia	31	Nyahururu Water and Sanitation Company Limited
53.	Nakuru	32	Nakuru Water and Sanitation Services Company Limited
54.	Nakuru	33	Nakuru Rural Water and Sanitation Company Limited
55.	Nakuru	32	Naivasha Water and Sanitation Company Limited
56.	Kajiado	34	Olkejuado Water and Sewerage Company
57.	Kajiado	34	Nolturesh Loitokitok Water and Sanitation Company Limited
58.	Kajiado	34	Ololaiser Water and Sewerage Company
59.	Kericho	35	Kericho Water and Sanitation Company Limited
60.	Bomet	36	Bomet Water and Sanitation Company
61.	Kakamega	37	Kakamega County Water and Sanitation Company Limited

NO.	COUNTY	COUNTY CODE	WATER COMPANY
62.	Busia	40	Busia Water and Sewerage Services Company Limited
63.	Siaya	41	Sibo Water and Sanitation Company Limited
64.	Kisumu	42	Kisumu Water and Sanitation Company Limited
65.	Homa bay	43	Homa Bay County Water and Sanitation Company
66.	Migori	44	Migori County Water and Sanitation Company Limited
67.	Kisii	45	Gusii Water and Sanitation Company Limited

Appendix C: Adverse Opinion

NO.	COUNTY	COUNTY CODE	NAME OF WATER COMPANY
1.	Lamu	5	Lamu Water and Sewerage Company Limited
2.	Garissa	7	Garissa Water and Sewerage Company Limited
3.	Embu	14	Embu Water and Sanitation Company Limited
4.	Embu	14	Embe Water and Sanitation Company Limited
5.	Turkana	23	Lodwar Water and Sanitation Company Limited
6.	Samburu	25	Samburu Water and Sanitation Company Limited
7.	Baringo	30	Kirandich Water Company Limited
8.	Narok	33	Narok Water and Sewerage Services Company Limited
9.	Nairobi	47	Nairobi City Water and Sewerage Company Limited
10.	Kakamega	38	Amatsi Water Services Company Limited

Appendix D: Disclaimer of Opinion

NO.	COUNTY	COUNTY CODE	NAME OF WATER COMPANY
1.	Tana River	4	Tana Water and Sanitation Company Limited
2.	Wajir	8	Wajir Water and Sewerage Company Limited
3.	Embu	14	Kyeni Water and Sewerage Company Limited
4.	West Pokot	24	Kapenguria Water and Sewerage Services Company Limited