

*Read by Hon. Anselm  
Mwambi on 17-9-2020  
at 3.13pm.*

*[Signature]*

THE COUNTY GOVERNMENT OF TAITA TAVETA



TAITA TAVETA COUNTY ASSEMBLY

SECOND ASSEMBLY – FOURTH SESSION

REPORT

OF THE

COUNTY PUBLIC ACCOUNTS AND INVESTMENTS COMMITTEE

ON

THE AUDITOR GENERAL'S REPORT

ON

THE FINANCIAL STATEMENTS OF TAVEVO WATER AND

SEWERAGE COMPANY LIMITED

FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018

SEPTEMBER, 2020


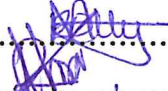

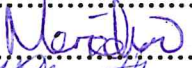


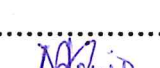



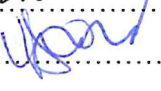
Provided that the Committee shall not examine any of the following, namely:

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

**ACKNOWLEDGEMENT**

**Mr. Speaker, Sir,** I want to sincerely thank the Members of the Public Accounts and Investment Committee for their dedication throughout the period of compiling of this report, the office of the Speaker and the Clerk for their support and adequate facilitation not forgetting the Honorable Members for their valuable input.

**Mr. Speaker, Sir,** it is in this regard that I present before this Honorable House the report on the Financial Statement of TAVEVO Water and Sewerage Company Limited for the year ended 30<sup>th</sup> June, 2018

- 1) Hon. Anselm Mwadime, MCA- Chairperson ..... 
- 2) Hon. Bertina Mwaiseghe, MCA -V/Chairperson ..... 
- 3) Hon. Ronald Sagurani, MCA - Member ..... 
- 4) Hon. Maria Chao, MCA - Member ..... 
- 5) Hon. Nobert Chanzu, MCA - Member ..... 
- 6) Hon. Jason Tuja, MCA - Member ..... 
- 7) Hon. Daniel Nguzo, MCA - Member ..... 
- 8) Hon. Marther Kenio, MCA-Member ..... 
- 9) Hon. Catherine Mwakiwiwi, MCA - Member ..... 
- 10) Hon. Jones Solomon, MCA- Member ..... 
- 11) Hon. Anthony Warighe, MCA - Member ..... 

## GENERAL RECOMMENDATIONS

**Mr. Speaker, Sir,**

The Committee investigated and recommended on the following areas outlined by the Auditor General after thorough scrutiny of documents and interview with key officers:

- i. A forensic audit should be conducted after the adoption of this report to establish the true position of the company's state of affair, since the Financial Statement for the year ended 30<sup>th</sup> June, 2018 could not be relied on.
- ii. Disciplinary action should be taken against the accounting officer, who prepared the Financial Statement for the year ended 30<sup>th</sup> June, 2018.
- iii. A Financial Statement should be prepared and submitted in accordance with the International Financial Reporting Standards (IFRS), in the manner required by the PFM Act, 2012 and the State Corporations Act, 2010, 14 days after the adoption of this report.
- iv. Further investigation by Director of Criminal Investigation and Ethics and Anti-Corruption Commission should be undertaken to establish the status of an unexplained nor unreconciled variance of Ksh. 77,747,927 within 14 days after the adoption of this report.
- v. The Water and Environment Department should initiate a special audit with a view of reconciling the huge amount of trade and other payables between Coast Water Service Board and TAVEVO and come up with a repayment plan in compliance with Presidential directive on pending bills.
- vi. The Company should enhance its capacity in the Finance Department to prepare financial statements that reflects a true and fair view of the company state of affairs.
- vii. The management should adhere to Public Audit Act, 2015 during Audit review on production of evidence to support financial statement.

## Findings

### Mr. Speaker, Sir, the Committee made the following findings:

- i. The accuracy and completeness of the Financial Statements for the year ended 30<sup>th</sup> June, 2018 cannot be relied on because of the casting error amounting to Ksh. 2,330,235 which the management failed to reconcile.
- ii. The management did not have capacity to prepare Financial Statement in accordance with the International Financial Reporting Standards (IFRS), in the manner required by the PFM Act, 2012 and the State Corporations Act, 2010.
- iii. The management could not substantiate the variance between the assets and liabilities in the statement of financial position as at 30<sup>th</sup> June, 2018 giving a variance of Ksh. 3,520,952.

## Committee Recommendations

### Mr. Speaker, Sir, this Committee therefore recommends that:

- I. A forensic audit should be conducted after the adoption of this report to establish the true position of the company's state of affair, since the Financial Statement for the year ended 30<sup>th</sup> June, 2018 could not be relied on.
- II. Disciplinary action should be taken against the accounting officer, who prepared the Financial Statement for the year ended 30<sup>th</sup> June, 2018.
- III. A Financial Statement should be prepared and submitted in accordance with the International Financial Reporting Standards (IFRS), in the manner required by the PFM Act, 2012 and the State Corporations Act, 2010 14 days after the adoption of this report.

## 2.0 Property, Plant and Equipment.

As previously reported, note 10 to the financial statements reflect cost of computers balance of Ksh. 4,012,284 as at 30<sup>th</sup> June, 2018. Included in this is a purchase of computers for the year ended 30<sup>th</sup> June, 2016 at an aggregate cost of Ksh. 129,880, out of which a sum of Ksh. 80,000 was in respect to one laptop computer purchased for the Managing Director. However, the serial number of the laptop was not recorded in the company's asset register. Further, included in furniture and fitting additions for the year ended 30<sup>th</sup> June, 2016 are office equipment additions costing Ksh. 1,072,150 out of which expenditure totaling Ksh. 300,000 relates to twelve (12) lockable steel cabinets which were, however, not tagged to show their existence and location.

The management indicated that they had purchased the tags. However, as at the time of audit in month of February 2019, the assets were not tagged.

In the circumstances, ownership of the laptop and steel cabinets costing Ksh.380, 000 as at 30<sup>th</sup> June, 2018 cannot be confirmed.

### **Committee Recommendation**

**Mr. Speaker, Sir, this Committee therefore recommends that:**

Further investigation by Director of Criminal Investigation should be undertaken to establish the true position of trade and other receivables because of the unreconciled variance of Ksh. 5,359,387.

### **4.0 Customer Deposits**

As previously reported, the statement of financial position as at 30<sup>th</sup> June, 2018 reflects customer deposits balance of Ksh. 13,331,549 out of which only Ksh. 408,334 was banked in the deposit account in the Co-operative Bank of Kenya Ltd, thus leaving a balance of Ksh. 12,923,215 unbanked and unaccounted for as at 30<sup>th</sup> June, 2018. Audit review revealed that the company had not banked the customers deposit in the deposit account. Consequently, the validity and completeness of customer deposits Ksh. 13, 331,549 as at 30<sup>th</sup> June, 2018 could not be confirmed.

### **Management Response**

There was no Board approval for spending of Ksh. 12,923,215. However, to remedy this situation as from January, 2019, monthly customer deposit collections are remitted in the preceding month to the designated customer deposit account at Co-operative Bank plus an addition Ksh. 250,000 monthly to reduce the outstanding arrears due to the account. The balance as at 3<sup>rd</sup> October, 2019 is Ksh 4,799,584.

### **Finding**

**Mr. Speaker, Sir, the Committee made the following finding:**

The company did not bank customers deposit amounting to Ksh.12, 923,213 in the deposit account in accordance with the law and could not account for the same.

### **Committee Recommendation**

**Mr. Speaker, Sir, this Committee therefore recommends that:**

Further investigation by Director of Criminal Investigation and Ethics and Anti-Corruption Commission should be undertaken to establish the status of of Ksh. 12,923,215 unbanked and unaccounted for as at 30<sup>th</sup> June, 2018, 14 days after the adoption of this report with an intention of prosecution on officers found culpable.

### **5.0 Trade and Other Payables**

As reported previously, the statement of financial position as at 30<sup>th</sup> June, 2018 reflects trade and other payables balance of Ksh. 450,558, 166, as detailed in note 21 to the financial statements. The trade and other payables balance of Ksh. 450,558, 166 includes Ksh. 401,974,377 payables to Coast Water Services Board for supply of bulk water costing Ksh. 294,448,623 and lease fees of Ksh. 107,525,754. However, the financial statements of Coast Water Service Board reflected a balance of Ksh. 479,722,304 as the sum receivable from the Company, thus resulting to an unexplained nor reconciled variance of Ksh. 77,747,927.

Further, included in the trade and other payables balance of Ksh. 450,558, 166 are payroll liabilities of Ksh. 10,498,870, out of which salary deduction arrears owed to the National Water Conservation and Pipeline Corporation Staff Pension Scheme totaled

## **6.0 Long Term Loan from Taita Taveta County Government**

As previously reported, the statement of financial position as at 30<sup>th</sup> June, 2018 reflects a long term loan balance of Ksh. 5,983,542 from Taita Taveta County Government. However, records from Taita Taveta County Government indicates that this was an emergency grant given to the Water Company by the Taita Taveta Emergency Fund to pay a water debt that had led to the disconnection of water supply in the whole County. It is not clear why the management decided to treat the grant as a long term loan without Board approval for the borrowing. Management indicated that they had written to the County Government to advice on the treatment of the funds advanced to them. However, at the time of audit in the month of February 2019, the County Government had not responded.

Consequently, the validity of the long-term loan of Ksh.5, 983,542 as at 30<sup>th</sup> June, 2018 could not be confirmed.

### **Management Response**

The management wrote a letter to the CECM of Finance and Planning Taita Taveta County, seeking clarification on how to treat the amount as accurately as possible. Despite follow up with the phone, we have not received any formal communication on how to treat the matter. Management is unable to plan on repayment without having received formal communication from the County Government.

### **Findings**

#### **Mr. Speaker, Sir, the Committee made the following finding:**

The Ksh. 5,983,542 given by the County government to Tavevo was a loan which has not been repaid since it was given contrary to the initial agreements.

### **Committee Recommendation**

#### **Mr. Speaker, Sir, this Committee therefore recommends that:**

The County Government and TAVEVO should come up with a repayment plan on how Ksh. 5,983,542 should be repaid within 14 days after the adoption of this report.

## **7.0 Capital Reserves**

As previously reported, the fair value adjustment reserve balance of Ksh. 97,214,636 reflected in the statement of financial position as at 30<sup>th</sup> June, 2018 represents unsupported assets and liabilities transferred to the Company from the Ministry of Water and Irrigation and National Water Conservation and Pipeline Corporation. Audit review indicated that the management had not traced documents with details of assets and liabilities handed over by the National Water Conservation and Pipeline Corporation.

In the circumstances, it has not been possible to confirm the carrying value of the capital reserve balance of Ksh. 97, 214,636 reflected in these financial statements as at 30<sup>th</sup> June, 2018.

## Committee Recommendations

**Mr. Speaker, Sir, this Committee therefore recommends that:**

- i. The management should fast track the intervention put in place to ensure the desired result is achieved.
- ii. The management should take responsibility for any future losses that are beyond the allowable loss of 25% as per the water service regulatory board, given that there are some intervention measures currently in place.
- iii. The two meters should be calibrated at least twice a year.
- iv. TAVEVO should have a meter checker put in place as soon as possible.
- v. There is need for political goodwill with the neighboring counties that use Mzima springs.
- vi. TAVEVO should embrace digitization for easy monitoring of water use and leakages.

## 9.0 Variances between the Financial statement Figures and Supporting Schedules

### 9.1 Expenses

The statement of comprehensive income for the year ended 30<sup>th</sup> June, 2018 reflects total expenses of Ksh. 30,576,244 while the supporting schedules balance was Ksh. 30,356,714 resulting to unreconciled variance of Ksh. 219,530 as summarized below:

No	Item	Note	Financial Statement Amount Ksh.	Schedule Amount Ksh.	Variance Ksh.
1	Finance Expenses	8	18,958,002	18,705,376	252,626
2	Operations & Maintenance Expenses	4	11,618,242	11,651,338	(33,096)
<b>Total</b>			<b>30,576,244</b>	<b>30,356,714</b>	<b>219,530</b>

In the circumstances, the accuracy and completeness of expenses totaling Ksh.30, 576,244 for the year ended 30<sup>th</sup> June, 2018 could not be confirmed.

### Management Response

The schedules in question are provided herein. The financial expenses were given to the Hon. Members to go through. The operations and maintenance costs were also provided.



### **Committee Recommendation**

**Mr. Speaker, Sir, this Committee therefore recommends that:**

The management should provide a response on unreconciled asset amounting to Ksh. 4,363,778 within 14 days after adoption of this report failure to which the accounting officer should be surcharged.

### **10.0 Cash and Bank Balance**

Note 13 to the financial statements for the year ended 30<sup>th</sup> June, 2018 reflects a bank balance of Ksh. 4,996,998. However, the following observations were made:

#### **10.1 KCB Collection Account**

Note 13 to the financial statements for the year ended 30<sup>th</sup> June, 2018 reflects KCB Collection account balance of Ksh. 1,326,198. However, the balance as at 30<sup>th</sup> June, 2018 reflected by the bank confirmation certificate was Ksh. 1,326,698 resulting to unreconciled variance of Ksh.500.

#### **Management Response**

The variance of Ksh 500 was a fake note received by the cashier.

#### **Finding**

**Mr. Speaker, Sir, the Committee made the following finding:**

The unreconciled variance of Ksh 500 was a fake note received by the cashier which was later rejected by the bank.

#### **Committee Recommendations**

**Mr. Speaker, Sir, this Committee therefore recommends that**

- i. The management should take responsibility and deposit the amount of Ksh.500 to clear the variance.
- ii. The management should operationalize cashless system in all paying points.

### **10.2 KCB Expenditure Account**

Note 13 to the financial statements for the year ended 30<sup>th</sup> June, 2018 reflects KCB Expenditure account balance of Ksh. 1,447,523. However, the bank reconciliation reflects stale cheques amounting to Ksh. 1,432,371 that were not replaced or written back to the cashbook.

#### **Management Response**

No response.

### **Committee Recommendations**

**Mr. Speaker, Sir, this Committee therefore recommends that:**

- i. That proper record should be maintained and documents availed for audit verification promptly during the audit review failure to which the Finance Manager should be reprimanded.
- ii. The management should comply with Public Audit Act, 2015 on provision of audit document as requested.

### **10.5 Post Bank**

Note 13 to the financial statements for the year ended 30<sup>th</sup> June , 2018 reflects Pasta pay balance of Ksh.238, 765. However, the confirmation certificate and bank statements were not availed for audit review.

In the circumstances, the validity, accuracy and completeness of bank balance of Ksh.4, 996,998 as at 30<sup>th</sup> June, 2018 could not be confirmed.

### **Management Response**

No response

### **Findings**

**Mr. Speaker, Sir, the Committee made the following findings:**

- I. Lack of commitment on the part of finance officers in keeping proper books of accounts.
- II. The Postbank certificate and bank statements were not availed for audit review.

### **Committee Recommendations**

**Mr. Speaker, Sir, this Committee therefore recommends that:**

- i. Documents should be availed for audit verification promptly during the audit review period.
- ii. Disciplinary action should be taken on the Finance Manager for failure to provide evidence during audit review period.

### **11. Transport Expenses**

Note 9. to the financial statements for the year ended 30<sup>th</sup> June, 2018 reflects transportation, travelling and subsistence balance of Ksh.4, 819,437.

However, the supporting documents were not availed for audit review.

In the circumstances, the propriety and completeness of the travelling, transportation and subsistence of Ksh.4, 819,437 for the year ended 30<sup>th</sup> June, 2018 could not be confirmed.

### **Management Response**

Provided files of the original vouchers for Travel and subsistence allowances of Ksh. 4,819,437 plus the schedule for the same.

### **Findings**

**Mr. Speaker, Sir, the Committee made the following findings:**

Vouchers presented for review to the committee amounting to ksh 4,819,437 are not fully supported and not authorized to support the expenditure as per the laid down procedures on expenditure management.

- iii. The accounting officer should ensure execution of the strategies of the Company presented to the Committee.

## Other Matter

### Budgetary Control and Performance

#### 1.1 Revenue Budget

During the year under review, the company had a revenue budget of Ksh. 305,356,595 against actual collection of Ksh. 238,487,957 or 78%, resulting to unrealized revenue of Ksh. 66,868,640 or 22% detailed below:

Item	Budgeted Amount (Ksh.)	Actual Amount (Ksh.)	Revenue Over Collection (Ksh.)	Revenue Under Collection (Ksh.)	Variance in %
Water sales	286,785,521	214,864,470		(71,921,051)	(25)
Meter Rent	8,047,385	10,319,780	2,272,395		28
WSTF/CRB C Grants		1,642,847	1,642,847		100
Miscellaneous Income	10,523,691	11,660,860	1,137,169		10.88
<b>Total</b>	<b>305,356,597</b>	<b>238,487,957</b>	<b>5,052,411</b>	<b>(71,921,051)</b>	<b>(21.9)</b>

The overall revenue under collection of Ksh. 66,868,640 or 22% is an indication that the management need to improve on collecting revenue from water sales. Therefore, the management should rethink on the strategies to improve on the water sales and billing.

#### Management Response

The current year revenue budget as at October 2019 has been attained at 81%

Strategies on Revenue collection;

- i. Tavevo has procured 5 new motorcycles to improve mobility of our enforcement teams
- ii. Efficient bill distribution via SMS and e-mail and reminders the same platform (disconnection notices)
- iii. Tavevo has recently appointed substantive Branch managers who have given targets on UFW and revenue collection.
- iv. Tavevo has been holding customer care clinics to create awareness on water issues and solving customer concerns.
- v. We have embraced partial agreement strategies where our clients are encouraged to pay in installments while still enjoying the water services. This is also the case with new clients paying initial connection costs.

## **Basis for Conclusion**

### **1.0 Audit Fees**

Note 21 to the financial statements reflects KENAO fees for outstanding audit fees of Ksh. 4,396,000 charged by the Auditor General as per Section 41 (C) of Public Audit Act 2015 that requires the Auditor General to charge audit fees at the rates prescribed by the Auditor General. This balance has been outstanding for five (5) years. The management has not explained how the audit fees would be cleared.

In the circumstances, the management is in breach of the law.

### **Management Response**

No response

### **Finding**

**Mr. Speaker, Sir, the Committee made the following finding:**

The management has defaulted in paying the audit fees amounting to Ksh. 4,396,000 for the last five years thus in breach of the law.

### **Committee Recommendation**

**Mr. Speaker, Sir, this Committee therefore recommends that:**

The management should factor the audit fee pending bill in the budget as per the presidential directive on payment of pending bills and prepare a payment plan approved by the board to be submitted to the Committee within 14 days after approval of this report.

### **2.0 Directors' Emoluments**

The statement of comprehensive income reflects directors' emoluments totaling to Ksh.2, 762,438 out of which a sum of Ksh.2, 464,938 is in respect to sitting allowances paid to directors of the company. Records presented for audit indicated that during the year under review, there were six (6) full board meetings. However, this number of meetings contravened Section 4.9.2 of Corporate Governance Guidelines for the water services sector which provides that the Committee shall not have more than four (4) sittings in a financial year. Any planned additional meetings and agenda should first be communicated and agreed by the respective Water Services Board. Approval by Coast Water Services Board for the two (2) extra sittings for which board members received sitting allowances totaling to Ksh. 192,000 was not presented for audit review. In the circumstances, the management is in breach of the law.

### **Management Response**

The extra Board meetings/allowance paid did not have formal approval as required. However, below is a list of the activities:

- i) Adhoc full board 19/10/2017
- ii) Branch visits during induction for the new board of directors
- iii) Adhoc meeting; 3/04/2018
- iv) Mzima 2 Stakeholders forum 8/05/2019
- v) Attending H.E Governors' meeting on 16/5/2019
- vi) Shortlisting and interviewing of assistant Technical manager 23/5/2018

In the absence of a clear salary structure, the recruitment and payment of staff may be subjective resulting to low morale and poor performance.

**Management Response**

Attached is the current Tavevo water salary structure for Committee to review.

**Findings**

**Mr. Speaker, Sir, the Committee made the following finding:**

The management has not approved salary structure.

**Committee Recommendation**

**Mr. Speaker, Sir, this Committee therefore recommends that:**

The management should avail an approved salary structure to the Committee for review within 14 days after approval of this report.

**CONCLUSION**

**Mr. Speaker, Sir,** The Taita Taveta Water and Sewerage Company should address the anomalies noted in order to ensure effective delivery of services to the people of Taita Taveta County. Further, laid down Government procedures and regulations should be followed to ensure public resources are only used for purposes for which they were intended.

Signature .....  ..... Date ..... 16<sup>TH</sup> SEPTEMBER, 2020 .....

**Hon. Anselm Mwadime, MCA**  
**Chairperson, Committee on Public Accounts and Investments**