

REPUBLIC OF KENYA
NYANDARUA COUNTY ASSEMBLY

1ST ASSEMBLY- 5TH SESSION

OFFICIAL REPORT

Wednesday, 24th May, 2017

The Assembly met at the Assembly Chamber at 9.00 a.m.

[The Speaker (Hon. Ndegwa Wahome) in the Chair]

PRAYER

QUORUM CALL AT THE COMMENCEMENT OF THE SITTING

(The clerk-at-the-table confirms that there is no quorum)

Speaker: Quorum having not been recognized, I invoke the provisions of Standing Order No. 34 and direct that the bell be rung for an initial ten minutes or until such time within the ten minutes that quorum will have been achieved.

*(The bell rings for 4 minutes and quorum is achieved
as confirmed by the Clerk-at-the-Table.)*

Quorum having been achieved, we can proceed with the business of the sitting.
First order.

PAPERLAID

1. COUNTY GOVERNMENT ANNUAL BUDGET ESTIMATES F/Y 2017/18

Speaker: Yes, Member for Njabini/Kiburu and the Chairman Committee on Budget and Appropriations, Hon. James Kiiru Gachomba.

Hon. James Gachomba: Thank you Mr Speaker. I wish to table the Report by the Budget and Appropriations Committee on the County Government Annual Budget Estimates for the Financial Year 2017/18 with the clerk.

Speaker: Very well, the report is duly tabled and the House Business Committee shall give the directions on how the same shall be processed.
Next order.

NOTICE OF MOTION

COUNTY GOVERNMENT ANNUAL BUDGET ESTIMATES F/Y 2017/18

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Speaker: Yes, Member for Njabini Kiburu and the Chairman, Committee on Budget and Appropriations, Hon. James Kiiru Gachomba.

Hon. James Gachomba: Thank you Mr Speaker Sir, I beg to give notice of the following motion;

THAT this House does adopt the Report by the Budget and Appropriations Committee on the County Annual Budget Estimates for the Financial Year 2017/18 as a report of this House and the recommendations therein as the resolutions of this House.

Thank you

Speaker: The notice on the motion on the report having been given, the House Business Committee shall give the directions on how the same will be attended to. Next order.

MOTION

AUDITED REPORT OF OL'KALOU WATER AND SANITATION COMPANY F/Y 2014/15

Speaker: Yes Member for Kanjuiri Ridge and Vice Chairperson, Committee on Public Accounts and Investments.

Hon. Suleiman Kihika: Thank you Mr Speaker. I beg to move the following motion:

THAT the report of the Public Accounts and Investments Committee on the Audited Financial Statement of Ol'kalou Water and Sanitation Company be adopted as a report of this House.

This is the Company's Audited Report for the financial year 2014/15. It was tabled in the House and mandated to write a report on the same. I believe that each and every member has this paper on the table, thus I don't need to go through the literature therein; I will go direct to the observations and recommendations of the committee so that we can save on time. The queries are in the report.

(Hon Dorcas Nyambura Kihara rises on a point of order)

Speaker: What is it Hon. Dorcas Nyambura Kihara?

Hon. Dorcas Kihara: Thank you Mr Speaker. I wish to raise a concern, there seems to be an omission of the name 'County' just before my name and some of the Members of the Committee who are specially elected. I am not a Member from Githioro but a County Member from Githioro.

Speaker: Very well, usually we use 'for' for elected Members and 'from' for the nominated Members as has been done in the report. However, because someone reading the report may not notice the difference, it is important, for record purposes that we amend by inserting the word 'County'. Maybe the person seconding the motion could move that amendment. Proceed chair.

Hon. Suleiman Kihika: Thank you Mr Speaker sir that is good observation from member of the committee. On Page 18 of 28, we can see Audit Query One regarding the trial Balance Mr Speaker, Sir; during the year under review, the Company did not prepare a trial balance to support their financial statements. Further, ledgers were not updated and, as a result, balances reflected in the Financial Statements were unsupported.

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Consequently, the source, accuracy and completeness of the company's financial statements as at June 2015 could not be confirmed. The commercial manager, Mr Bernard Maina, explained to the committee that he had duly prepared the trial balances and the ledgers and had submitted them to the auditors. He, however, indicated that the Auditor General failed to incorporate the trial balance and ledgers thus submitted in his final report. He also stated that there was no exit meeting between the auditors and the management of the Ol'kalou Water and Sanitation Company. The committee observed that:

The management did not submit a trial balance for the year under review to the auditors despite it being the most basic requirement in the preparation of an audit report.

The trial balance and the ledgers could have been submitted to the auditors after the compilation of the Audit Report making it impossible for the auditor to incorporate them into the final report.

The management did not present to the committee any proof of submission of the documents to the Auditor's office. Further, the management did not submit to the committee their trial balances and the ledgers.

This was in contravention of section 197 (1) (L) of PFM Act, 2012 which provides that "A public officer employed by the national government or a national government entity commits an offence of financial misconduct if, without lawful authority, the officer—fails to keep proper records or conceals, or wrongfully destroys, information that is required to be recorded."

The committee recommended that:

The management should ensure compliance with the PFM Act, 2012 in relation to maintaining financial records.

Further investigations should be carried out by the EACC to establish whether the lack of trial balances and ledgers was a calculated move to conceal fraudulent activities.

Mr Speaker, the second audit was on Trade and Other Receivables Balances. During the year under review, the company recorded trade and other receivables balance of Kshs.3, 864,762.50 as at 30 June 2015 which included trade debts amounting to Kshs.739, 998 inherited from the Ministry of water and Irrigation. Mr Speaker these debts have been outstanding for quite a long time and their recoverability remains uncertain. The Company's provision of Kshs.77, 295 for bad and doubtful debts, as made in their financial statements, appears inadequate. Further, the trade and other receivables of Kshs.4, 799,467 was not supported with the relevant schedules and ledgers.

Mr Speaker, Sir; according to the Management's report, the Company inherited a Kshs.739, 998 debt from the Ministry of Water and Irrigation which is included in their receivables balance. This figure resulted from the outstanding water bills since the company started operations and it has been recovered over time although the company keeps accruing more debts. The company's provision of bad debts is currently at 2% but the management plans to propose to the board to have it increased to 5%.

Mr Speaker, Sir; the committee observed that:

The Company's debt has been outstanding for far too long and this may lead to inaccurate statements of the company's financial position

The provision for bad debt percentage is too low and should be revised to reflect the industry's standard.

The company has no working policy for collection of bad debts.

Mr Speaker, Sir; the Committee recommended that;

The management should formulate and adopt a working policy for recovering debts.

The management should formulate and adopt a working policy for dealing with bad debts

The management should consider writing off debts which have been outstanding for a long period.

Mr Speaker, Sir; the third Audit Query was on the Agency Current Account in respect of Rift Valley Water Services Board maintained by the Company which indicated a balance of Kshs.2,929,665 as at 30 June 2015. However, the records maintained by the Company's Board against the same account reflected a balance of Kshs.2, 551,766 on that date. The difference of Kshs.377, 899 between the two records was not explained.

According to the Commercial Manager, the agency account balance reflected was carried forward from previous year's financial statements when the company used to remit Rift Valley Water Services Board levy together with that of Water Services Regulatory Board at the rate of 17% and 1% respectively. The difference noted resulted from the Rift Valley Board allocating the entire amount to the company's account held by the board.

The committee observed that:

There was a discrepancy between the agency account balance given by the management and that given by the Rift Valley Water Services Board.

The difference amounting to Kshs 377,899 does not account for 1%, as stated by the witness in his submissions, but 12%.

The management did not give a satisfactory explanation for the discrepancy.

Mr Speaker, Sir; the committee recommended that:

Further investigations should be conducted by the EACC to establish the cause of the glaring discrepancy.

Further, Mr Speaker, Sir; the Company's statement of financial position reflected total bank and cash balances of Kshs.2,183,407.50 as at 30 June 2015. However, the financial statements reflected bank and cash in hand balances of Kshs.2,183,407.50 and Kshs.34,500 respectively, hence an indication that the cash in hand balances of Kshs.34,500 was excluded from the closing balance. Further, the board of survey report was not availed for audit review to support the cash in hand balance of Kshs.34, 500. The accounts did not disclose the particulars of various accounts making the bank balances of Kshs.2, 183,407.50.

From the management's submissions, the issue of cash in hand was a misallocation in the first draft presented to the auditors. However, the issue was addressed in the amended financial report sent to the auditor. This amendment was, however, not factored in in the auditors' final report.

The committee observed that:

The management did not give a satisfactory explanation of why Ksh. 34,500 (cash in hand) was not reflected in the company's financial position.

The management did not table before the committee the particulars of the various accounts making the bank balances. The company did not maintain proper books of accounts during the period. The committee recommended that;

The management should ensure that proper books of accounts are maintained.

Further investigations should be conducted by the EACC to establish the correct position of Kshs. 34, 500 (Cash in hand)

Further investigations should be done by the EACC to establish the correct and true position of bank balances.

Mr Speaker, Sir; during the year under review, the Company recorded a profit of Kshs.359,494 (2013/2014 loss of Kshs.31,827), which decreased the accumulated loss from Kshs.6,283,387 to Kshs.5,923,893 as at 30 June 2015. Further, the current liabilities balance of Kshs.12, 121,332 exceeded the current assets balance of Kshs.7, 639,213 by Kshs.4, 482,119 thus resulting to a negative working capital balance of equivalent amount. This indicated that the Company's financial position was precarious as it may not be able to meet its obligations as and when they fall due.

Mr Speaker, Sir; from the Management's response, this was an improvement from the previous financial years as the company's total number of consumers in the previous years

was very low. Additionally, the company had to use power to pump water which increased their overhead costs. The management thus felt that the financial position may not be as precarious at the moment since they now relied on gravity for water flow and also the number of connections had significantly increased thereby lowering the operation cost per individual household.

To improve the viability of the company, the management developed a strategic plan for the period 2015-2019 in which it outlined the following strategies to enhance its financial resources.

Increase in collection efficiency from 75% to 95%. This has already been implemented as the collection efficiency currently stands at 93%. Reduce the percentage of Non- Revenue Water from 60% to below 35%. For the past 3 months, the Non- Revenue Water level has reduced to around 35%. Activate dormant accounts and promote new connections. From 2015 the number of connections has gone up from 1,550 to 2,450. This has greatly improved the revenue levels.

Introduce new revenue streams like exhaustor service and bottling plant. These two are still in the pipeline and will be introduced soon. The above strategies have greatly improved the turnover of the company and the company is now able to meet most its operational expenses.

Mr Speaker, Sir; the committee observed that:

The company has accumulated huge losses that might take long to offset if the company's profit margin does not increase substantially.

The company's overhead costs exceed its revenue.

The going concern of the company will be at risk if the company does not receive financial support from the government and its creditors.

The committee recommended that:

The management should put measures in place that will ensure the company increases revenue and cuts on its overhead costs.

The county government should put in place measures to ensure that the company remains a going concern.

Mr Speaker, Sir; the other query was on Unaccounted for Water. During the year under review, the Company produced 431,372 cubic meters (m³) of water. However, out of this volume, only 161,549m³ was billed to consumers. The balance of 269,823m³ or approximately 62.5% of total volume produced represented Unaccounted for Water (UFW) which is 37.5% above the allowable water loss of 25% as per Water Regulatory Board guidelines. The UFW of 62.5% may have resulted in loss of sales estimated at Kshs.18,315,260. The significant level of Unaccounted for Water may negatively impact on the Company's profitability and its long term sustainability.

Mr Speaker, Sir, from the management's response, the company inherited a dilapidated reticulation system from the ministry of water. The Company has improved in the Non - Revenue Water by rehabilitating most of the dilapidated distribution lines, replacing faulty consumer water meters, fixing zonal meters and intensifying on line patrolling and crack down on illegal connections and reconnections. As a result of the above combined actions they have been able to bring down the Non- Revenue Water to about 34% and are still working on reducing it further.

The Committee observed THAT:

Indeed there was loss of revenue due to unaccounted for water.

The management did not do enough to reduce the unaccounted for water.

The committee recommends that:

The management should put in place a working system to eliminate unaccounted for water.

The management should carry out thorough field audits to ensure that meters are fixed and operational, there are no illegal connections there is no loss of revenue.

The management and field officers should be investigated by the EACC to establish whether or not they are part of the illegal connections that lead to high levels of UFW.

Audit Query 7; Mr Speaker, Sir; during the year under review, the repairs and maintenance cost amounted to Kshs.7, 866,219, a 99.67% increase from Kshs.3, 939,652 for the FY2013/2014. From the management's response, the company embarked on pipeline extension at Kaimbaga, Muiiri, Mihuti, Kiganjo, Mwireri, Kedowa, Kiyu and Hospital areas and thus the cost of operations and maintenance went high due to the costs incurred in trenching and backfilling and also purchasing of water pipes and fittings. Secondly the company invested in rerouting of the water systems in the following zones:- Jua Kali, Jerusalem and Bankers near A.C Primary school where for instance at A.C. Primary the company rerouted both 4'' and 3'' pipes. All these costs led to the tremendous increase in cost of operation and maintenance, lastly, the company invested in the rehabilitation of the dilapidated water systems in the following zones:- Vatican3'', Bankers 1'' and site and service 2'', 1''.

The committee observed THAT:

Indeed the company's expenditure on repairs and maintenance was extremely high.

The submission given by the management only explained the operation costs and not the repairs and maintenance costs.

The management did not give the actual cost of the expansions and they did not table any evidence of the repairs.

The management did not give the actual number of households covered in the rerouting of the water systems.

Mr Speaker, Sir; the committee recommended THAT:

The management should ensure that only necessary repairs are done.

The management should ensure that records of the maintenance works are well maintained.

The management should establish the root cause of the numerous repairs and work towards minimizing costs.

In conclusion, Mr Speaker, Sir; it's evident that there is more to the company's management and operations than meets the eye. Being a water supply company, the management should put in place measures to ensure that there is accountability in its operations. It should also ensure that operation costs are significantly reduced now that they rely on gravity for water flow. The County Government should also work hand in hand with the company to ensure that the entity remains a going concern, through close monitoring of its operations and also funding the Company until it breaks even. With those remarks, Mr Speaker, I beg to move and call Hon. Sylvester Kagiri Mwangi to second

Speaker: Yes, Member for Githioro and Chairperson Committee on Public Accounts and Investments Committee, Hon. Sylvester Kagiri Mwangi.

Hon Sylvester Kagiri: Thank you Mr Speaker. I beg to second the report as moved by our very able Vice Chairman. First, I must say that this is the first report of its kind in this term since it is on the audited report of the Ol'kalou Water and Sanitation Company (OLWASCO) financial statements. There before, we have been dealing with the report on public accounts, not public investments; so I must say that we encountered some few hitches here and there. When the company received our letter, indicating that we needed to conduct some investigation on them, they were reluctant to submit the requisite documents, but they,

much later they did. I hope my able chairman has highlighted that we even had to administer oath to some witnesses to be sure we got the right information.

We noted that the management did not prepare trial balances and we could not really ascertain how these public monies were being put to use. Mr Speaker, it is not business as usual; the company had extremely high percentages of unaccounted for water up to over 60% while the water Act allows for only 25 %. We also noted the sustainability of the company cannot be ascertained as its liabilities are more than its assets.

Since the report has been well explained by the vice chairman, I don't have much to say about it but before, I sit down I wish to move an amendment to insert the word County immediately before the word member 6, 7, 8&9 to read *county member from* on page 8 of the report and I call Hon Dorcas to second that amendment.

Speaker: Yes, County Member from Githioro, Hon Dorcas Nyambura Kihara.

Hon Dorcas Kihara: Thank you Mr Speaker Sir, I second the amendment.

(Question on amendment proposed)

(Question on amendment put and agreed to)

Speaker: Yes County Member from Githioro Hon Dorcas Nyambura Kihara

Hon Dorcas Kihara: Thank you Mr Speaker Sir, I wish to support this report. As our Chair has said, this is the first report of its kind that we have had to deal with; all others have been on the County Assembly and the Executive. The witnesses we summoned clearly didn't give any satisfactory submissions to the auditor general or the committee. This shows that the Managing Director and the technical officers are not serious with their work. Though the Managing Director indicated that he was only two months old in the office, we believe there ought to be some form of continuity.

The Committee was also concerned about the company's liabilities which by far exceed its assets. We know that the company supplies gravity water and we don't understand why it is incurring such huge losses. I would wish, as we have recommended, that the E.A.C.C takes up this matter with expediency so that, in future, there is accountability and the public gets value for its money. This company is mandated to serve the public, a public that is paying dearly for these services. Can you believe that a resident of Ol'kalou is expected to pay a standing charge fee of Kshs. 550? With such an exorbitant fee, I do not understand why the company would still be incurring losses. Water is life and there is no reason why residents of Ol'kalou and Nyandarua should not have tapped water. Despite Ol'kalou town being the County Headquarters, we are constantly experiencing water shortages yet we are well within the water tower: The Aberdare ranges. Much needs to be investigated on and I would wish that the recommendations we have made will be taken with the seriousness they deserve. We must make sure that this company is operational and is giving the right information to the relevant bodies. Thank you Mr Speaker, I support.

Speaker: Yes County Member from Njabini Kiburu, Hon. Rebecca Nyangati Weru

Hon Rebecca Nyangati: Thank you Mr Speaker for the opportunity, to support the motion. I wish to request the Water committee to take up this issue and combine it with the statement brought by Hon Ngotho about how the community is complaining about paying high levies for water and getting zero services. I am a beneficiary of the same water company and we have been experiencing a lot of challenges on the same and, as Hon Dorcas has said, I don't understand why the company is getting such high losses yet its standing fee charges are so high. For instance since November last year (2016) we only got water from our taps in May; there was no water for seven months for Kiganjo residents yet we are still paying. The

maintenance is also very poor for instance if there is any damage they take even two months to repair. Thank you Mr Speaker Sir, I support and call the mover to respond.

Speaker: Yes, motion mover.

Hon. Suleiman Kihika: Thank you Mr Speaker I wish to thank the members who have contributed to this report and also the office of the Speaker for giving us the time to interrogate the report. With those remarks, I move the motion. Thank you Mr Speaker.

(Question put and agreed to)

Members, although the Committee's observations and recommendations are clear, it seems that the secretariat which included a Clerk, a Legal Clerk, a HANSARD Reporter and even an Auditor, did the report very casually. I think Members you will note that formatting of the report is wanting; definitely not a report we should be doing after four years. It is true we are getting the message from the committee but, if you look at page 26 for example, the committee's recommendations are not well articulated. So Chair you should sit with your secretariat and read them the riot act.

Further, Members, I would have expected that the problem with Ol'kalou Water is the Human Resource and the Committee should have recommended a Human Resource audit. It has become our habit, as Kenyans, to employ people because they are our friends and not to work because they will do any work; that is the tragedy of Ol'kalou Water; we have employed our friends and families, not to work but to earn salary. In the end, everyone in this town suffers because of their (employees) incompetence.

I think some of these things should be said in black and white if we hope to develop this county. A Human Resource audit should be done because they do not seem to understand what they are doing. This way, we shall have a clear recruitment policy that will put the right people in office. People that will ensure water is delivered to people of Ol'kalou and by extension to the whole county. We cannot compromise on water. I am happy because once the E.A.C.C comes in and finds that our recommendations are not being implemented, they will want to know why and I will not be surprised to find that the accountant does not even qualify to be a cattle dip clerk. If one cannot provide a bank statement, what can he be able to provide? They knew they were coming to meet a parliamentary committee of this assembly and they couldn't even request for a bank statement for company. As of now nobody knows for sure whether the company even operates an account or the money is kept in people's pockets. We are talking of a Water Company supposed to supply water to us when they cannot even manage their in-house primary documentations.

Over and above the Assembly resolutions, we are also going to write on this area because, I am also a resident here and, as a Member has indicated, we cannot continue paying for water yet we don't get even a drop of water. These are issues that directly touch on our people and we should address them with passion to ensure that those given responsibilities are able to discharge them. We are going to do the requisite communications on that.
Next order.

ADJOURNMENT

Speaker: Having exhausted the business for sitting, we shall adjourn again today Wednesday 24th day of May 2017 at 2.30 pm.

(The House rose at 10.10 am)