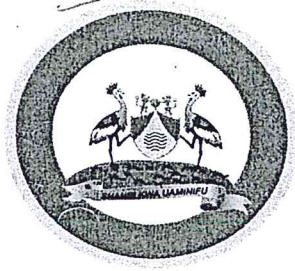


Report laid by Hon. Stazo Omung'ala on 02/05/18.



M/S
PCA (C&P)
02/05/18

NAIROBI CITY COUNTY ASSEMBLY

SECOND ASSEMBLY – SECOND SESSION

PUBLIC INVESTMENTS COMMITTEE FIRST REPORT ON

REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENT OF NAIROBI CITY WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30TH JUNE 2016

APRIL, 2018

Approved
2/5/2018
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1.0. PREFACE

Madam Speaker,

On behalf of the Public Investments Committee (PIC) and pursuant to the provision of Standing Order 198(5), it is my pleasant privilege and pleasure to present to this House the report of the Public Investments Committee's findings on the Report of the auditor-general on the financial statements of Nairobi City Water and Sewerage Company limited (NCSWC) for the year ended 30th June 2016.

The report of the Auditor General was tabled on the floor of the Assembly on 17th November, 2017 and thereafter committed to the Public Investment Committee pursuant to Article 229(8) of the Constitution of Kenya for scrutiny and reporting to the County Assembly within 90 days.

1.1. Mandate of the Committee

The Committee derives its mandate from Standing Order 198(5) which states that:-

“The County Public Investments Committee shall be responsible for the examination of the working of the County Public Investments”.

The Committee is further mandated by Standing Order 198 (5);

- a) examine the reports and accounts of the County public investments;
- b) examine the reports, if any, of the Auditor General on the County public investments; and
- c) examine, in the context of the autonomy and efficiency of the county public investments, whether the affairs of the county public investments, are being managed in accordance with sound financial or business principles and prudent commercial practices

The main objective of the Committee is to ensure that Nairobi City Water and Sewerage Company Limited (NCWSC) is run in a fiscally sound manner and that it delivers proper service to the residents of Nairobi City County.

1.2. Committee Membership

The Committee comprises of the following members:-

1. Hon. Stazo Elijah Omung'ala, MCA - Chairman
2. Hon. Silas Ongwae, MCA – Vice Chairman
3. Hon. Peter Wahinya Njau, MCA
4. Hon. Jacinta Wanjiru, MCA
5. Hon. June Juliet Ndegwa, MCA

1.5. Responsibilities of Accounting Officers

Section 149 of the Public Finance Management Act, 2012 outlines the responsibilities of Accounting Officers for the County Government and categorically states that

“An accounting officer is accountable to the County Assembly for ensuring that the resources of the entity for which the officer is designated are used in a way that is –

- a) Lawful and authorized; and
- b) Effective, efficient, economical and transparent.

In this report, the Committee has applied Sections of the Public Finance Management Act, 2012, the County Government Act, and Article 226 (5) of the Constitution to recommend the investigation and surcharging of various persons that may have been responsible for the loss of public funds.

1.6. Appreciation

The Committee would like to thank all the officers from NW&SC who appeared before it and provided valuable insights into the issues raised by the Auditor General.

Finally Madam Speaker, the Committee wishes to record its appreciation for the exemplary services rendered by officers from the Office of the Auditor General, Office of the Clerk of the County Assembly and indeed Members of the Public Investment Committee. Their commitment and devotion to duty have made the work of the Committee and production of this report successful.

Madam Speaker,

On behalf of the Committee, I now wish to table the report and urge the House to adopt it and the recommendations therein.

SIGNED STAZO..... DATE 18/4/2018.....

HON. STAZO ELIJAH OMUNG'ALA (CHAIRMAN)

2.0. CONSIDERATION OF THE REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENT OF NAIROBI CITY WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30TH JUNE 2016.

2.1. Property, Plant & Equipment

2.1.1. Water Infrastructure Assets

As reported in 2014/2015, the Property, Plant and Equipment of Kshs.1,354,124,225 and disclosed under note 12 to the financial statements (2014/15 Kshs 867,036,046) as at 30 June 2016 includes buildings, plant & machinery and equipment valued at Kshs.30,275,410, Kshs.284,105,928 and Kshs.201,134,964 respectively all of which comprise improvements to the water supply system and infrastructure belonging to the defunct Nairobi City Council, but otherwise assigned to the Nairobi City Water and Sewerage Company Limited. However the land on which the expansion and improvements have been carried out have not been reflected in the financial statements under review. In addition, although the improvements to the water supply system and infrastructure have been included as assets in the financial statements, as per vesting agreements, they are owned by Athi Water Services Board which is presumed water infrastructure assets developer. Further, there are inconsistencies in the classification of computer assets-data loggers procured in different reporting periods.

Consequently, the accuracy and ownership of the property plant and equipment balance of Kshs.1,354,124,225 as at 30 June 2016 could not be confirmed.

2.1.2. Encroachment of Land

As reported in 2014/15, various land parcels belonging to the company meant for the expansion, storage and treatment works have been encroached on by private developers. As at the time of concluding the audit, efforts by the company to repulse the encroachments have not been successful. Correspondences by the Company management with the Nairobi City County Government had not been replied to. The affected parcels of land included:-

- (i) Loresho water reservoir (Nairobi Block 90/587) was subdivided into six sub Plots; Block 90/596 and 5 other Blocks (90/591, 90/592, 90/593, 90/594, and 90/595 currently occupied by a reservoir and issued out to new owners respectively. This is irregular as the original block of land was reserved for future water works expansion;
- (ii) Kariobangi North Sewerage treatment works; the land was allocated to several groups; Kariobangi Sewage farmers self-help group, Provincial administration (chief's camp), Our lady of Fatima Secondary School, Alice Nursing Homes, and Kariobangi Catholic Church for Polytechnic

construction. Allocation and survey records to subdivide the land were not made available despite having been purported to have been carried out by surveyors in the Nairobi City County Government;

- (iii) Encroachment on LR No. 13119/2-Booster Station II situated off Kabete Road where water from Ruiru dam is pumped into Kabete treatment works for redistribution. Records of the land were not made available for review; however a complaint had been lodged by the Company in June 2007. Consequently the status of resolution on the reported encroachment could not be established;
- (iv) The Ruai Dandora Estate Sewerage Treatment Works records relating to the Ruai dumpsite were not made available for audit review. However, Information available indicate that there have been encroachment by private developers

The Managing Director admitted to the audit findings and submitted that:-

- i) The accuracy of valuations of the assets could not be in contention as relevant documents relating to the improvements were available for your review. However the new water Act when implemented and Sanitation Policy and Legislative Framework for City County of Nairobi will resolve the issue of ownership of the water assets. The tripartite agreement signed on the 5th April 2004 guides on how the capital improvements were to be conducted. The agreement period was five years but could be extended by mutual agreement and the company has continued with the same arrangement;
- ii) With the new dispensation the company will be able to acquire the entire asset leased by Nairobi County which will be recognized in the asset register after the transfer is done by the County Government of Nairobi;
- iii) The Data loggers were initially categorized as computer hardware and are fully depreciated. Moreover they are now obsolete as the Company has adopted a new system called Mobile Field Assistant where one module is for meter reading;
- iv) Any capital improvement to existing fixed assets carried out by the assignee shall require the prior approval of the lessor as per the Physical Planning Act, Cap 286 and the building code; and
- v) The company will keep a vigil eye on all the property which are necessary for water operations and will ensure any encroachment is communicated to

the relevant authority and also fence these facilities to keep off land grabbers. The County Government of Nairobi in conjunction with the company has developed a water policy and water bill together with the New water Act that will ensure that the assets are transferred to the company, hence the ownership and possession issue will be under the Company.

Committee observation:-

- i) The Nairobi City Water and Sewerage Company limited does not have ownership documents to its properties;
- ii) The Company's land has been encroached on posing great risk of the land being grabbed;
- iii) That records show that the mandate of the Company is solely to provide water as Athi Water Services Board is mandated to build and improve the water infrastructure- therefore the claim by the Managing Director that the company was ploughing back profits to improve the water infrastructure was not factual; and
- iv) The Company did improvements to the water supply system and infrastructure without authority from the Board (AWSB) who are the owners of the same.

The Committee recommends that:-

- i) There is need to come up with a County Corporation bill to enable Nairobi City Water and Sewerage Company limited to be a parastatal of the County;
- ii) The County Executive to hasten the process of acquiring ownership documents for each property of the Company;
- iii) The Company should secure all their properties and demolish any illegal structures on their land as they wait for ownership documents;
- iv) The legal status of the Company should be resolved since it's under the Company's Act; and
- v) The Company should write to the Ethics and Anti-Corruption Commission and the National Lands Commission to investigate on the encroached parcels of land as under listed;

i) Loresho water reservoir (Nairobi Block 90/587);

- ii) Kariobangi North Sewerage treatment works;
- iii) LR No. 13119/2-Booster Station II situated off Kabete Road;
- iv) The Ruai Dandora Estate Sewerage Treatment Works; and
- v) Karen land offices.

2.2. Inventories

The statement of financial position reflects inventories amounting to Kshs.389,341,992 (2015 Kshs.414,886,094) as at 30 June 2016 a 6.16%. decrease from prior year. Some of the inventories are strategic in nature and some have been in stock for many years. The stocks incur additional costs of storage and maintenance with some likely to have become obsolete. As reported previously, the company is yet to develop a policy on stocks management and re-order levels. Consequently, the company has not determined the optimal stock level.

From the foregoing, the holding costs and carrying cost will be too expensive for the company to sustain. The inventory may become obsolete and have no economic value to the Company.

The Managing Director admitted to the audit findings and submitted that:-

- i) The company has in its inventory material for emergency response in case of a major breakdown. Some materials in this case are not readily available in the market and to get them requires that they be manufactured a fresh or specially fabricated. Some of these materials are large pipes that draw water from the dams and treatment plants;
- ii) Most materials from the Nairobi City Council era are slow moving and cannot be classified as obsolete stocks as they are still usable when need arises;
- iii) The company specializes in provision of water services , thus it cannot adopt a just in time inventory system due to national security concerns with regards to ensuring constant supply of water. Therefore, the company will always have emergency stocks to avert any disruption of water supply; and
- iv) Some of the stocks were received as donations from Athi Water Service Board.

Committee observation:-

- i) The Company maintains high level of inventories to the tune of 389 million.

The Committee recommends that:-

- i) The levels of inventories should be at a minimum; and
- ii) The Company should come up with a policy on optimal reorder levels.

2.3. Trade & Other Receivables

The trade and other receivables balance of Kshs.2,523,118,332 as at 30 June 2016 (2015 Kshs.2,344,535,223) includes other receivables of Kshs.909,274,478 (2015 Kshs.749,625,478) representing a 21% increase indicative of laxity in the company credit control and debt management. Similarly and as reported in 2014/15, the balance includes Kshs.328,763,879 and Kshs.478,001,145 on account of Value Added Tax (VAT) yet to be claimed and claims receivables on unassessed lodgments respectively from Kenya Revenue Authority. However the opening balance of the claims receivable of Kshs. 270,121,670 includes a claim of Kshs.21,366,509 for the period July to September 2009 an unevaluated as at 30 June 2016 despite having been lodged.

Under the circumstances, the accuracy and full recoverability of the trade and other receivables balance of Kshs.2,523,118,332 as at 30 June 2016 could not be ascertained.

The Managing Director admitted to the audit findings and submitted that:-

- i) The company is engaging Kenya Revenue Authority (KRA) on the discussion to find out the position of a claim of Kshs.21,366,509 in the period July to September 2009 which had not been evaluated as at 30 June 2014 despite claims lodged later having been allowed or disallowed.

Committee observations:-

- i) There are very high levels of trade and other receivables;
- ii) The correctness of the debtors and receivables figure cannot be confirmed. Further, full recoverability cannot be ascertained; and
- iii) Although the company maintains that it has a policy on debt provisioning, some of the company's debtors are older than one year and the company does not maintain an aged debtors' analysis.

The Committee recommends that:

- i) The management should come up with a policy to recover all their debts from clients including Kenya Revenue Authority (KRA); and
- ii) The management should give a note on the accumulated debts in accordance to accounting procedures.

2.4. Amount due to Related Parties

The statement of financial position indicates amounts due to related parties current and non-current liabilities of Kshs.1,146,615,016 (2015 Kshs. 907,999,999) and Kshs 1,363,410,975 (2015 Kshs.1,305,494,816) respectively and of as disclosed under note 25 of financial Statement as of 30 June 2016. Of the total lease fees due to Athi Water Services Board during the year of Kshs.1,096,461,447, the company settled Kshs.832,930,270 resulting in a balance of Kshs.263,530,677 that significantly contributed to the increase in the amounts due to related parties. The company's ability to meet its obligations as and when they fall due is doubtful.

The Managing Director admitted to the audit findings and submitted that:-

The company continues to settle its obligations as they fall due. The debt due to Athi water is being liquidated amicably as agreed between the two parties. However the company has undertaken the work of about ksh 1billion as delegated work which is supposed to be offset from the amount above.

Committee observations:-

- i) The Company's amounts due to related parties are very high standing at Ksh.1,146,615,016.

The Committee recommends that:

- i) The Company should come up with measures to clear and settle debts due to related parties; and
- ii) The Company should stop any further payments to Athi Water Services Board pending review of the tripartite agreement.

2.5. Revenue Reserve

As reported in the previous year revenue reserves balance of Kshs. (2,291,794,242) includes Kshs.697,223,410 transferred from the capital reserves

in 2007/2008. According to records available, the capital reserves had been determined through a logical deduction method, as no statement of affairs had been prepared to assess the value of assets and liabilities taken over from the defunct City Council of Nairobi by the company. As reported in the previous year, no justification has however been provided by the company for this method of accounting.

Consequently, in the absence of a statement of affairs, valuation and due diligence, as well as the audited financial statements of the defunct City Council of Nairobi for 2004, it has not been possible to confirm the accuracy of the revenue reserves balance of Kshs. (2,291,794,242) as at 30 June 2016.

In addition, the company made prior year adjustments of Kshs.309,177,993 (2015 Kshs.1,556,702,130) through the revenue reserves for the revised water bills. Measures put in place to ensure accurate meter readings for billings are yet to be fully realized.

The Managing Director admitted to the audit findings and submitted that:-

- i) As earlier explained, the company was incorporated in December 2003 as a wholly owned subsidiary of the City Council of Nairobi (CCN). The former, therefore, took over from the Water and Sewerage Department (WSD) of the Council as a provider for water and sewerage services within Nairobi and its environs; and
- ii) Prior to incorporation, the Water Sewerage Department (WSD) was a semi-autonomous entity within the Council. It maintained its own stores and records. It possessed and operated its own bank account and possessed assets that were uniquely identified as belonging to the department. This status was therefore analogous to that of a close corporation.

Committee observations:-

- i) The Company transferred money amounting to Kshs 697M from capital reserves to revenue reserves which is contrary to provision of Company Act CAP 486 and Accounting Principles; and
- ii) The Company has a negative reserve of Kshs 2,219,794,242.

Committee recommends that:-

- i) The management should desist from transferring money from capital reserves to revenue reserves as it's a violation of the law (Company Act CAP 486 and Accounting Principles) and the management should restate the accounts; and

- ii) The management should improve on efficiency and performance i.e the billings to be accurate.

2.6. Leased Assets

The Company 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 at a consideration of 20% of the total revenue collected during the period 2007 to 2009 out of which the Company paid a total of Kshs.1,558,808,316 during that period. Further, amounts of Kshs.709,361,211, Kshs.753,671,911, Kshs.792,855,936, Kshs.996,155,804, Kshs.920,215,065, Kshs.926,277,518 and Kshs.1,205,092,721 were paid in the financial years 2010, 2011, 2012, 2013, 2014, 2015 and 2016 respectively in relation to the same assets. However the assigned assets and infrastructure have never been valued therefore the basis of setting the lease payments remains unclear.

In the circumstances the value of impending liability in respect of the leased assets could not be confirmed as at 30 June 2016.

The Managing Director admitted to the audit findings and submitted that:-

There was no impending liability in respect of the leased assets as the tripartite agreement provided for payment of 10%, 15% and 20% of the collection in the first, second and third year respectively until the assets are valued by the assets lessor.

The regulator (WASREB) in 2009 approved a new tariff for the company and also included the new lease/levy which was reviewed in 2015 and with the enactment of the new water act the point of paying lease fee will be over.

Committee Observations:-

- i) The Management paying the lease fee was unlawful as the agreement had expired and had not been reviewed or renewed;
- ii) The Company has paid out a total of Kshs 7.2 billion to Athi Water Services Board from the year 2007 – 2016; and

- iii) The lease fee is not based on the current market value of the assets and thus creating doubt on the amounts being paid to Athi Water Services Board (AWSB).

The Committee recommends that:-

- i) Athi Water Services Board (AWSB) should account for the amounts received for the period 2007 – 2016;
- ii) The Company should stop any further payments to Athi Water Services Board pending review of the Tripartite agreement;
- iii) Valuation be done on the assigned assets to give the current value of the assets and an agreement be put in place to guide on the payments of lease fee taking to account the value of the leased assets; and
- iv) All the assets to revert to the Company since it's a County Government Corporation mandated to provide water and sewerage services to the County residents by the constitution.

2.7. Taxation

The report of the Auditor General indicated that, although the Company has been making profits, no provision for corporation tax has been made in the financial statement in line with the income tax legislation. This was mainly due to lack of clear guidelines on the tax status whether to exempt or otherwise. The accuracy of the current liabilities balance of kshs. 3,707,732,263 as at 30th June 2015 could not be confirmed.

The Managing Director admitted to the audit findings and submitted that:-

- i) Following the enactment of the Water Act, 2002 Local Authorities formed institutions under the Companies Act, CAP 486. Most of these companies inherited water and sewerage delivery and distribution systems which are dilapidated and are operating below capacity. Some even inherited huge operational debts incurred by the Local Authorities. Also the operational equipment and other amenities were heavily dilapidated;
- ii) Apart from requiring funds to carry out major rehabilitation the companies must develop and extend water and sanitation services especially to the urban and the rural poor while ensuring that there is adequate and

sustainable delivery of water, sewerage and sanitation services to the rest of the population in line with vision 2030 respectively;

- iii) According to the First Schedule paragraph (8) of the Income Tax Act the income of the County Government are exempted from the provisions of the Income Tax Act and Nairobi City Water and Sewerage Company is a wholly owned company by City County of Nairobi with the view of running water and sewerage services as an Agent of City County of Nairobi; and
- iv) The Company will continue lobbying for exemption and have written to National Treasury to consider and give direction. Accordingly no provision for tax has been made in these financial statements as disclosed in the note no 11 of the Financial Report.

Committee Observations:-

- i) The company is registered under the Company's Act Cap 486 and like all registered public limited companies, the Company is obliged to pay tax;
- ii) The Company has never remitted tax to Kenya Revenue Authority since its inception 14 years ago and this was unlawful;
- iii) Lack of confirmation and reconciliation on the Value Added Tax (VAT) amount due;
- iv) The Value Added Tax (VAT) claims due from Kenya Revenue Authority is a contingency liability which could negatively impact on the solvency of the Company if it crystallizes even though the Company had written to Kenya Revenue Authority and treasury on the issue to help determine the status;
- v) Lack of paying taxes by the subsequent management put the Company at risk of closure if at one time Kenya Revenue Authority comes to collect the accumulated tax over the years;
- vi) The company's assets are at risk to the accumulated tax debt and penalties as they run the risk of being attached or auctioned to recover the outstanding debt; and
- vii) Ignorance of prudent accounting policies by the company's finance department;

The Committee recommends that:-

- i) The Company should provide for tax liability since not doing so exposes the company to risk of penalties and this could ground the company;
- ii) The management should negotiate with relevant government bodies to get a tax waiver; and
- iii) The company should be re-incorporated as a public entity through legislation by the County Assembly to avoid tax liabilities.

2.8. Non- Revenue water (NRW) (Unaccounted for Water)

During the year under review the Company produced 200,352,109 cubic meters (m³) of water. However, out of this volume only 121,146,603 cubic meters (m³) was billed to customers. The balance of 79,205,506 cubic meters or approximately 40% (2014/2015 38%) of the total produced represents Non-Revenue Water (Unaccounted for Water). The NRW (UFW) is 15% over and above the allowable loss of 25% in accordance with the Water Services Regulatory Board guidelines. The NRW (UFW) of 40% may have resulted in loss of estimated revenue of Kshs. 3,128,172,734. The significant level of NRW (UFW) may negatively impact on the Company's profitability and its long term sustainability.

The Managing Director admitted to the audit findings and submitted that:-

The company has laid out numerous strategies to address the challenge of Non-Revenue Water. Some among these include replacement of aged meters, increased meter reading efficiency and metering all identified illegal connections. However it is evident from the table below that increased meter reading efficiency will not give an equal volume billed since the estimated bills seem to have been exaggerated.

Item	FY 2014/15	FY2015/16	Growth/Drop
Number Billed Actual	150,153	178,032	27,879
Volume Billed On Actual	9,184,584	9,476,156	291,572
Amount Billed on Actual	561,165,000.00	688,591,000.00	127,426,000
Number Billed On Estimate	61,419	28,347	(33,072)
Volume Billed On Estimate	1,160,150	581,908	(578,242)
Amount Billed on Estimate	51,707,627.79	34,359,303.23	(17,348,325)

Committee observations:-

- i) There was no clear explanation given by the Managing Director to show why the level of unaccounted for water stood at 15% above the allowable normal loss of 25 % by Water Services Regulatory Board guidelines leading to an apparent loss of sales estimated at Kshs. 3.12 billion.

Committee recommends that:-

- i) The management should ensure that the international standard of 25% Unaccounted for Water (UFW) should be adhered to ;
- ii) The management to expedite the process of installing meters that are easily monitored and tamper-proof which the Company was in the process of procuring as reported to the Committee by the management during the meeting to curb the situation of water loss through unscrupulous people tampering with meters;
- iii) Policies should be formulated that will encourage punitive measures be taken on any person who vandalizes company's property;
- iv) The management should deal with issues of illegal connections conclusively;
- v) In the informal sectors (slums) the company should install bulk meters and look for innovative measures like having private people to man and operate the water supply to the residents; and
- vi) The management to come up with strengthened reinforcement units to help them deal with the cartels operating water supply business illegally.

2.9. Customers with credit balances

Although management has made effort to clear credit balances in the customer accounts, the credit balances amounted to Kshs.88,891,517 as of 30 June 2016. As previously reported the accounts continue to reflect credit balances despite being active but with no billings, receipts for considerably long periods. The origin of the credits could not be explained.

The Managing Director admitted to the audit findings and submitted that:-

The credit balances arose due to several reasons e.g. adjustments, payments, among others. The Company has set targets for the revenue team to ensure that all unjustified credit is reversed. The intention was to ensure that any incorrect credit is verified and action taken and as indicated above the company reduced the balances from ksh 227m as of June 2015 to ksh 88m as of June 2016.

Committee observations:-

- i) The Company's customers with credit balances are very high standing at Kshs. 88M;

Committee recommended that:-

- i) The management should strive to find the cause of the high levels with customers with credit balances and mitigate the same; and
- ii) The Management to procure software programme which cannot be manipulated and which can help in detecting overpayments and underpayment immediately the readings are posted to the system.

2.10. Other Matters

2.10.1. Information Technology Related Matters

From the review Oracle Enterprise Resource Planning (ERP) system, the following weaknesses which could adversely impact on the Company operations were noted:-

2.10.2. Non-Integration of Systems

The Company has two critical applications: CMS, and Oracle Financials which are not integrated. Customer Management System (CMS) application supports the core business of the Company thus its efficiency and effectiveness is critical to the operations of the company. The information captured in the Meter reading system is relayed to this application for generation of customer bills and also recording subsequent revenue. In addition, any adjustments of bills and issuance of rebills is done in this system. However, the output information from CMS is not integrated

into the Oracle financial system. Instead they are being manually uploaded which is prone to errors and manipulation thus impacting on the accuracy of the financial statements generated thereof.

Contract availed for audit showed that the Company had entered into a contract with a vendor on 5 August 2016 for supply, delivery and development of new interface of prepay Stores and Procurement Management System (SPMS) and Customer Management System (CMS) to upgrade Oracle E- business suite 12.1 . The contract duration indicated was 33 days for implementation and one month post implementation support. As of the time of finalizing the audit in December 2016, there two systems were yet to be interfaced despite the stipulated contract period having lapsed. Management has not rendered explanations for the delays.

The Managing Director admitted to the audit findings and submitted that:-

During the procurement process management had planned to complete integration within the stipulated contract period. However due to challenges of interoperability between oracle 10g (CMS SPMS) and 11g for e-business suite there were challenges in the dataflow between the systems. However management has engaged in integrating all the business process into single information silo through enhancement of oracle e-business suite ERP by implementing the missing module (Inventory & supply chain, EAM, project management and human capital.

Committee observations:-

- i) The Customer Management System (CMS) and Oracle financials are not integrated and therefore the information and reports produced could not be relied on.

Committee recommended that:-

- i) The management should integrate its Information Technology systems, the Customer Management Systems (CMS) and Oracle Financials to enable information generated right from meter readings, billings, payments and financial statements are adequately synchronized.

2.11. Unaccounted for Receipt Numbers

Twenty thousand, eight hundred eight and fourteen (27814) receipts are missing and unaccounted as per the CMS system serials. The system has not been configured to ensure validation and editing of input at the point of original entry. The application for the unaccounted for receipts has not been established.

The Managing Director admitted to the audit findings and submitted that:-

The Customer Management System billing system run on oracle 10g which is no longer supported by oracle. The current version of oracle database in the market is 11g/12c. The database has inherent problem and weaknesses in sequencing which relies on outdated buffer random number generations. Management has embarked on the replacement of the current billing system currently at the tendering stage and expected go live in December 2017.

Committee observations:-

- i) Twenty seven thousand, eight hundred and fourteen (27,814) receipts were missing and unaccounted as per the Customer Management System serialization.

Committee recommended that:-

- i) The management should fully account for all receipts.

2.12. Splitting of Receipts in Non – Related Customer Accounts

Analysis of the receipts maintained in Customer Management System revealed that fourteen (14) receipts were being shared by more than one customer. Though the amounts involved were insignificant, it's not clear how single receipts were used to clear bills for more than one customer with different accounts. There is risk that the Configuration weakness could be exploited to perpetrate irregularities that could result in financial losses.

The Managing Director admitted to the audit findings and submitted that:-

This is configuration and setup in the CMS system. CMS run on outdated oracle 10g database system which is no longer supported by Oracle Corporation and as a result the system has a lot of bugs that keeps generating errors like the above case of splitting receipts during allocation to the customer bills. However management has engaged a consultant to resolve the issue. In addition management is in the process of replacing the outdated oracle database.

Committee observations:-

- i) The configuration weakness could be exploited to perpetrate irregularities thus resulting in financial losses.

Committee recommended that:-

- i) The management should improve on the receipt and billing system.

3.0. RECOMMENDATIONS

Madam. Speaker, following the findings and observations recorded by the Committee in the course of scrutinizing the Auditor General's report on the financial statement of Nairobi Water and Sewerage Company Limited for the year ended 30th June 2016, the committee urges this Assembly to resolve as follows:-

- i) Policies to be formulated giving guidelines on the ownership of the property, plant and equipment;
- ii) The management should desist from transferring money from capital reserves to revenue reserves as it's a violation of the law (Company Act CAP 486 and Accounting Principles) and the management should restate the accounts;
- iii) The management to investigate all credit balances and take appropriate corrective action;
- iv) The Management to procure software programme which cannot be manipulated and which can help in detecting overpayments and underpayments immediately the readings are posted to the system;


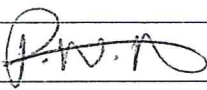

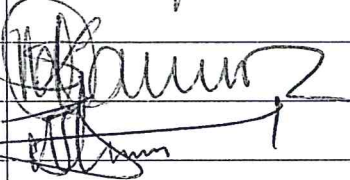
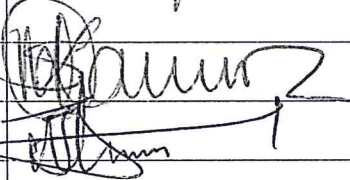
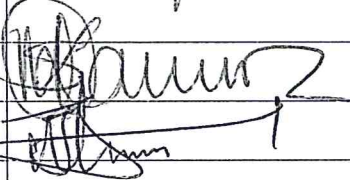
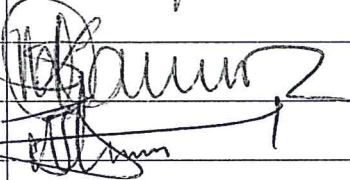

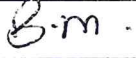

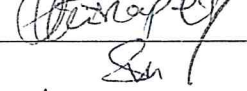

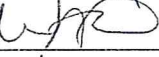


- v) The management should have policies on inventories in place immediately and it should be documented;
- vi) The management to expedite the process of installing meters that are easily monitored and tamper-proof which the Company was in the process of procuring as reported to the Committee by the management during the meeting to curb the situation of water loss through unscrupulous people tampering with meters;
- vii) Policies should be formulated that will encourage punitive measures be taken on any person who vandalizes company's property;
- viii) The Company review its debt management policy especially the debt writing off criteria as its current debt levels are unrealistic;
- ix) The Company should provide for taxation since not doing so exposes the company to risk of penalties and this could ground the company. Since the company claims Value Added Tax refunds from Kenya Revenue Authority and the company owes Kenya Revenue Authority insurmountable amount of money in unpaid corporate tax since inception, the company should consider entering into Debt swapping arrangements;
- x) The company should be re-incorporated as a public entity through legislation by the County Assembly to avoid tax liabilities;
- xi) In the informal sectors (slums) the company should have bulk meters and look for innovative measures like having private people to man and operate the water supply to the residents;
- xii) All documents relating to the property owned by Nairobi City Water and Sewerage Company should be under its custody;
- xiii) Nairobi City Water and Sewerage Company should write to the National Lands Commission seeking repossession of the land that has been grabbed by private developers and demolish any illegal structures on its land;
- xiv) The Company should strengthen its debt collection mechanisms to maximize its revenue; and
- xv) The accounting officer should report back in writing within 60 days on the implementation of the recommendations passed by the County Assembly as per the Public Audit Act 2015.

ANNEXES;

- a) NCWSC financial statement for the year ended 30th June, 2016;
- b) NCWSC Management written responses; and
- c) Minutes of the meetings with NCWSC Management.
- d) List of adoption.

ADOPTION OF THE COMMITTEE REPORT ON THE CONSIDERATION OF THE REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENT OF NAIROBI CITY WATER AND SEWERAGE COMPANY LIMITED FOR THE YEAR ENDED 30TH JUNE, 2016 BY THE SELECT COMMITTEE ON PUBLIC INVESTMENTS

The following members appended their signatures to signify their agreement with the report:-

No.	Name	Signature
1.	Hon. Stazo Elijah Omung'ala - Chairman	
2.	Hon. Silas Ongwae, MCA – Vice Chairman	
3.	Hon. Peter Wahinya Njau, MCA	
4.	Hon. Jacinta Wanjiru, MCA	
5.	Hon. June Juliet Ndegwa, MCA	
6.	Hon. Muchene Kabiru, MCA	
7.	Hon. Julius Maina Njoka, MCA	
8.	Hon. John Ng'ang'a, MCA	
9.	Hon. Paul Ndung'u, MCA	
10.	Hon. Mbugua Kabiro, MCA	
11.	Hon. Benson Mwangi, MCA	
12.	Hon. Mark Ndung'u, MCA	
13.	Hon. Emapet Kemunto, MCA	
14.	Hon. Geoffrey Majiwa, MCA	
15.	Hon. Patrick Logendi, MCA	
16.	Hon. Millicent Okatch, MCA	
17.	Hon. Nicholas Okumu, MCA	
18.	Hon. Kennedy Oyugi, MCA	
19.	Hon. Jackline Apondi, MCA	