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THE SENATE

THIRTEENTH PARLIAMENT – FIFTH SESSION

REPORT OF THE SELECT COMMITTEE ON COUNTY PUBLIC INVESTMENTS AND SPECIAL FUNDS ON THE CONSIDERATION OF THE AUDIT REPORTS OF KILIFI COUNTY WATER COMPANIES AND MUNICIPALITIES FOR THE FINANCIAL YEAR 2024/2025 (1st JULY, 2024 TO 30th JUNE, 2025):

ENTITY	NO.	
WATER COMPANY	1	MALINDI WATER AND SANITATION COMPANY LIMITED.
	2	KILIFI MARIAKANI WATER AND SANITATION COMPANY LIMITED. (KIMAWASCO)
MUNICIPALITY	1	KILIFI MUNICIPALITY
	2	MTWAPA MUNICIPALITY
	3	MALINDI MUNICIPALITY
	4	WATAMU MUNICIPALITY

DC-EG

Forwarded as recommended for approval

31/03/2026 MARCH, 2026

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ACRONYMS/ABBREVIATION

Acronym	Meaning
KIMAWASCO	Kilifi Mariakani Water and Sanitation Company
CECM	County Executive Committee Member
FIF	Facilities Improvement Financing Act
HDU	High Dependency Unit
ICU	Intensive Care Unit
IFMIS	Integrated Financial Management Information System
IGRTC	Intergovernmental Relation Technical Committee
IMS	Inventory Management System
KRA	Kenya Revenue Authority
NHIF	National Health Insurance Fund
NRW	Non-Revenue Water
NSSF	National Social Security Fund
OAG	Office of the Auditor-General
PAA	Public Audit Act
PFM	Public Finance Management
PSASB	Public Sector Accounting Standards Board
RWWDA	Regional Water Works Development Agency
SHA	Social Health Authority
TNT	The National Treasury
UHC	Universal Health Coverage
WASREB	Water Services Regulatory Board
WRA	Water Resources Authority
WSP	Water Service Provider

DEFINITION OF TERMS

1. **Unqualified opinion:** This refers to a clean opinion, which is the most desirable, in which the auditor states that the financial condition, position, and operations of an organization are fairly presented in the financial statements in accordance with Generally Accepted Accounting Principles (GAAP).
2. **Qualified opinion:** This is an opinion expressed by the auditor if the financial statements appear to contain a small deviation from Generally Accepted Accounting Principles (GAAP) but are otherwise fairly presented. It is also rendered if the organisation's management limits the scope of audit procedures.
3. **Adverse opinion:** This refers to an opinion issued when there are material exceptions to Generally Accepted Accounting Principles (GAAP) that affect the financial statements as a whole, and the auditor indicates that the financial statements are not presented fairly.
4. **Disclaimer:** This is an opinion given by the auditor when there is a significant limitation in the access to audit information and documentation, and inadequate cooperation by the organizational management in the audit process.
5. **Accountability** – This refers to the assurance that an individual or a group will be held responsible for their actions or inactions.
6. **Non-Revenue Water:** Non-Revenue Water refers to the difference between the amount of water put into the distribution system and the amount of water billed/unbilled as authorized consumption. It is usually attributed to physical losses such as leaks, bursts, and overflows in the existing, old, and dilapidated water supply network, and to commercial losses due to metering anomalies and illegal connections.
7. **Going Concern:** This is an accounting principle used for a company that is financially stable enough to meet its obligations and continue its business for the foreseeable future.

PREFACE

Hon. Speaker,

Parliamentary Committees are a creation of the Constitution through Article 124(1) of the Constitution, which empowers each House of Parliament to establish Committees and make Standing Orders (SO) for the orderly conduct of its proceedings, including the proceedings of its committees. The Select Committee on County Public Investments and Special Funds is established pursuant to Standing Order No. 194 of the Senate Standing Orders and is mandated to-

- a) Pursuant to Article 96(3) of the Constitution, to exercise oversight over national revenue allocated to the county governments; and
- b) examine the reports and accounts of county public investments; and
- c) examine the reports, if any, of the Auditor-General on the county public investments; and
- d) To exercise oversight over county public investments.

COMMITTEE MEMBERSHIP

Hon. Speaker,

The membership of the Committee comprises of the following Senators-

- | | |
|---|---------------------------|
| 1. Sen. Godfrey Atieno Osotsi, CBS, MP. | - Chairperson |
| 2. Sen. Eddy Gicheru Oketch, MP. | - Vice-Chairperson |
| 3. Sen. William Kipkemoi Kisang, MP. | - Member |
| 4. Sen. Agnes Kavindu Muthama, MP | - Member |
| 5. Sen. Peris Pesi Tobiko, CBS, MP | - Member |
| 6. Sen. Beth Kalunda Syengo, MP | - Member |
| 7. Sen. George Mungai Mbugua, MP | - Member |
| 8. Sen. Raphael Chimera Mwinzangu, MP. | - Member |
| 9. Sen. Hamida Ali Kibwana, MP | - Member |

COMMITTEE SECRETARIAT

- | | |
|------------------------------|----------------------------|
| 1. Mr. Yussuf Shimoy | - Clerk Assistant I |
| 2. Mr. Erick Njogu | - Clerk Assistant II |
| 3. Mr. Godfrey Nyaga | - Clerk Assistant III |
| 4. Mr. Khatib Omar | - Clerk Assistant III |
| 5. Mr. Kennedy Owuoth | - Fiscal Analyst |
| 6. Mr. Jeremy Chabari | - Legal counsel |
| 7. Ms. Linet Aseka | - Research Officer III |
| 8. Ms. Raisa Mwithi | - Research Officer III |
| 9. Mr. Martin Mulandi | - Research Officer III |
| 10. Mr. Peter Katana Kahindi | - Research Officer III |
| 11. Ms. Janice Lekuton | - Research Officer III |
| 12. Ms. Hamun Abdille | - Research Officer III |
| 13. Mr. David Munene | - Research Officer III |
| 14. Mr. Josphat Ng'enhoh | - Media Relations officer. |
| 15. Mr. Victor Kimani | - Audio officer |
| 16. Mr. Patrick Ngenoh | - Procurement officer |
| 17. Mr. Fredick Okola | - Serjant-at-arms |

ESTABLISHMENT OF THE COMMITTEE

Hon. Speaker,

The Committee was first constituted on 19th October, 2022, pursuant to Standing Order No. 194 of the Senate Standing Orders. The County Public Investments and Special Funds Committee (CPISFC) was split from the broad County Public Accounts and Investments Committee (CPAIC) in the 12th Parliament for the purpose of clearing audit backlog and to consider many audit thematic areas which had not been subjected to Parliamentary scrutiny since the inception of devolution in the year 2013.

Hon. Speaker,

The County Public Investments and Special Funds Committee is one of the financial audit committees through which the Senate, under the provisions of Article 96(3) of the Constitution, conducts ex-post scrutiny on Public Investments and Special Funds in Counties.

EXECUTIVE SUMMARY

In the execution of its mandate, the Committee relied on the reports of the Auditor-General on audited Accounts of Kilifi Mariakani and Sanitation water company, Malindi Water and Sanitation Company Limited and municipalities for the Financial year 2024/2025 (1st July, 2024 to 30th June 2025) as the primary documents for the investigations. The Committee invited the Governor of Kilifi as the Chief Executive Officer pursuant to Article 179(4) as witnesses to respond to the audit queries raised in the reports under consideration.

The Committee received both written and oral evidence from the Governor, accompanied by relevant county officials, in response to the various audit queries raised by the Auditor-General in the reports under consideration on various dates.

This report presents the findings and recommendations of the Select Committee on County Public Investments and Special Funds following its consideration of the Auditor-General's reports on seven (7) entities in Kilifi County for the Financial Year 2024/2025. The entities covered are: Two (2) water company- Kilifi Mariakani Water and Sanitation Company (KIMAWASCO); Four (4) Municipalities – Kilifi Municipality, Malindi Municipality, Mtwapa Municipality and Watamu Municipality.

Six entities received Qualified opinion from the Auditor-General, indicating the existence of significant audit issues that require urgent management attention and corrective action.

The key issues identified across the entities include: inaccuracies in the financial statements; inaccuracies in property plant and equipment; unsupported documentation; going concern uncertainties arising from accumulated losses and negative working capital; irregular engagement of casual employees; non-remittance of statutory deductions; unresolved prior year audit matters; budgetary control issues; over-reliance on County Government transfers; non-compliance with procurement regulations.

This report documents the observations and recommendations of the Committee on each audit query as raised by the Auditor-General.

REPORT STRUCTURE

THE PREFACE DETAILS the place of Committees in the Constitution, Committee establishment and mandate, Committee membership and formation, the niche of the Committee in the Senate, the executive summary, key observations and recommendations and acknowledgement.

CHAPTER ONE is a record of the audit queries raised in the Auditor-General's report on Water Companies for the Financial Year 2024/25, along with the Committee's observations and recommendations for each audit query.

CHAPTER TWO is a record of the audit queries raised in the report of the Auditor-General for Municipalities for the Financial Year 2024/25, along with the Committee's observations and recommendations for each audit query.

CHAPTER THREE is a record of the audit queries raised in the report of the Auditor-General for Hospitals for the Financial Year 2024/25, along with the Committee's observations and recommendations for each audit query.

GENERAL OBSERVATIONS FOR THE WATER COMPANY

The Committee made the following general observations regarding the operations and financial management of Bomet Water Company under review: -

1. **Non-Revenue Water (NRW)** – The Committee observed that the Water Company recorded NRW levels of 63%, that significantly exceeded the sector benchmark of 25% prescribed by the Water Services Regulatory Board (WASREB). This was mostly attributed to physical losses from dilapidated infrastructure, commercial losses from inaccurate meter reading and billing, and illegal connections.
2. **Deficiencies in Financial Reporting** – The Committee noted widespread inaccuracies and errors in the preparation and presentation of financial statements. Furthermore, both Accounting Officers and Managing Directors exhibited challenges in complying with Section 62 of the Public Audit Act, Cap. 412B, by failing to submit supporting documents to auditors on time. This impedes the accountability and audit process, while the persistent delays in finalizing complete financial statements point to a lack of requisite competencies and experience within the entities.
3. **Material Uncertainty Regarding Going Concern** – The committee noted that the water company reported negative working capital during the review period, rendering it unable to meet short-term financial obligations as they fall due. Its continued operation is heavily reliant on financial support from County Executive or development partners, raising material doubts about their long-term financial sustainability.
4. **Weak Budgetary Control and Performance** – The Committee observed that the water company had widespread weaknesses in budget execution. The Water company frequently failed to adhere to approved budget ceilings, resulting in either over-utilization or under-utilization of appropriated funds.
5. **Incomplete Transfer of Assets and Liabilities** – The Committee observed that the water company had not fully completed the transfer of assets and liabilities from the defunct local authorities and Regional Water Works Development Agencies, as required by the Water Act, Cap.372. This omission prevents it from presenting a true and fair view of their financial position in their books of account.
6. **Lack of an Updated Fixed Asset Register** – The Committee observed that the water company failed to maintain and update their fixed asset registers, contrary to National Treasury Circular No. 5/2020. This omission exposes company assets to significant risks, including loss, waste, and misuse. The Committee further noted that the National Treasury issued a circular no. 5/2020 of 25th February 2020 on the preparation of asset registers for entities in County Governments.

GENERAL RECOMMENDATIONS FOR THE WATER COMPANY

The Committee makes the following recommendations to address the observed deficiencies and enhance the performance, compliance, and sustainability of Water Companies: -

1. **Mitigation of Non-Revenue Water** - The Board of Directors and Accounting Officers should institute comprehensive measures to reduce Non-Revenue Water, addressing both physical and commercial losses. These measures should include the adoption of Geographic Information System (GIS) technology for real-time detection of bursts and leakages, installation of smart meters to ensure accurate billing, rehabilitation of dilapidated infrastructure, and the development of institutional anti-corruption policies with robust enforcement mechanisms to curb illegal connections. Furthermore, management should disclose the proportional breakdown of physical and commercial losses, expressed as percentages, in their periodic reports.
2. **Enhancement of Record Keeping and Audit Compliance** - The Board and Accounting Officers must ensure proper record keeping and provide all requisite supporting documents to the Auditor-General in accordance with Section 9(1)(e) of the Public Audit Act, Cap. 412B, within the stipulated audit timelines. Adherence to the provisions of the Accountants Act, Cap. 531, is mandatory. Failure to comply with these requirements shall necessitate the invocation of Section 62 of the Public Audit Act by the Committee.
3. **Strengthening Financial Sustainability and Asset Management** - The Board, Accounting Officers and the County Government should review and regularizing existing assets, finalizing service provider agreements from the defunct local authorities, and maintaining updated asset registers that accurately reflect the current financial position. Companies must determine and ascertain their commercial viability as required by the PSASB. Any financial support received from the County Executive should be clearly classified in the books of account as either a conditional grant or a donation, and should not be treated as a direct transfer. Furthermore, County Governor, through the County Executive Committee member responsible for water, is urged to monitor the financial operations of water companies pursuant to Section 184 of the Public Finance Management Act, Cap. 412A.
4. **Prudent Budgetary Planning and Control** - The Board and accounting officers should prepare realistic budgets and revenue projections to prevent issues of revenue shortfalls, that negatively impact service delivery. In the budget preparation process, the Board should consider previous budgetary allocations and ensure that any

proposed increases are reasonable and justified. The Board must also seek the necessary statutory approvals by forwarding budget estimates to the County Executive Committee member for water, who shall subsequently submit them to the County Treasury as required by law. Additionally, water companies are encouraged to automate their billing systems to enhance revenue collection efficiency.

5. **Expediting Transfer of Assets and Liabilities** - The Governor should engage the Inter-Governmental Relations Technical Committee (IGRTC) and the relevant Regional Water Works Development Agencies to fast-track on the transfer of the assets and liabilities so that they reflect a true position of the companies in their books of account.
6. **Maintenance of Updated Fixed Asset Registers** - The Board of Directors and the managing director should ensure the water company maintains updated fixed asset registers in compliance with section 136 (1) of the Public Finance Management (County Government) Regulations, 2015 and in the format prescribed by the National Treasury and submit the same to the Auditor-General within 60 days from the adoption of this report.

GENERAL OBSERVATIONS FOR THE MUNICIPALITY

The Committee made the following general observations regarding the operational and financial management of Municipalities under review: -

1. **Lack of Operational Autonomy of Municipality** – The Committee observed that the municipality lacked operational independence from the County Executive in areas of management, function and finances. This contravened sections 12 on Management independence, 20 on functional independence, 45 and 46 on financial independence of the Urban Areas and Cities Act, 2011 CAP. 275, which collectively guarantee municipalities the autonomy necessary for effective governance.
2. **Asset Management-** The Committee observed that the assets belonging to municipality were still being held and managed by the county executive. Consequently, this made the municipalities not to maintain and update the asset registers which was contrary to section 104(1)(h) of the Public Finance Management Act, 2012 . Thus, the true financial position of the municipalities could not be reflected in the financial statements.
3. **Late Submission of Audit Documents**– The Committee noted that the Auditor-General encountered significant challenges due to the late submission of supporting documents by municipality during the audit process. This delay hinders the accountability and audit process and contravenes Section 62 of the Public Audit Act, Cap. 412B, which mandates timely provision of documentation.
4. **Weak Budgetary Control and Performance** – The Committee observed that municipality had weaknesses in executing their approved budgets and did not adhere to the approved budget ceilings set for programs. The municipality either over-utilized or under-utilized the appropriated funds.

GENERAL RECOMMENDATIONS FOR THE MUNICIPALITY

The Committee makes the following recommendations to address the observed deficiencies and enhance the governance, financial management, and operational autonomy of Municipalities: -

1. **Enforcement of Municipal Autonomy** - The County Executive Committee member responsible for lands, housing, and urban development should, within sixty (60) days of the adoption of this report, take immediate steps to operationalize Sections 12, 20, 45, and 46 of the Urban Areas and Cities Act, 2011, by formally delegating management, functional, and financial powers to the Municipal Boards and Managers. The Municipal Board shall thereafter provide a compliance report to

the County Assembly and the Senate Committee on County Public Investments and Special Funds.

2. **Transfer of Assets and Maintenance of Asset Registers** -The County Executive Committee member responsible for finance and economic planning shall, within sixty (60) days of the adoption of this report, execute a formal instrument transferring custody and management of all assets belonging to the municipality. Upon transfer, the Municipal Manager shall immediately cause the preparation and regular updating of a comprehensive fixed asset register in compliance with Section 104(1)(h) of the Public Finance Management Act, 2012, and National Treasury guidelines. A copy of the transferred asset register shall be submitted to the Auditor-General within thirty (30) days of completion.
3. **Timely Submission of Audit Documents** - The Municipal Manager and the head of finance are hereby directed to ensure that all supporting documents requested by the Auditor-General are submitted within the timelines stipulated in Section 62 of the Public Audit Act, Cap. 412B. The Municipal Board shall institute an internal tracking mechanism to monitor compliance, and any officer found to have caused undue delay shall be subject to disciplinary action.
4. **Adherence to Approved Budgets** - The Municipal Manager should enforce strict adherence to approved budget ceilings for all programs and should ensure that any reallocation of funds between programs receives prior written approval from the Municipal Board and, where required, the County Treasury. A quarterly budget performance report shall be prepared and submitted to the Municipal Board for review.

GENERAL OBSERVATIONS FOR HOSPITALS

The Committee observed that-

1. **Non-Compliance with Kenya Quality Model for Health Policy Guidelines** - The Committee observed that the hospitals did not fully comply with the Universal Healthcare standards as they were inadequately staffed and were not equipped with all the medical equipment for the hospitals to be fully operational.
2. **Failure to Retain Facilities Improvement Funds (FIF) at the Hospitals** - The Committee observed that the hospitals transferred funds to the County Revenue Fund which was in contravention to Section 5(1) of the FIF Act, 2023, which requires health facilities to retain all monies they generate.
3. **Non-Remittance of Statutory Deductions** – The Committee observed that the hospitals failed to remit NITA, SHA, Affordable Housing Levy, NSSF, PAYE, WIBA payments which contravenes the National Industrial Training Act, Section 48(1) of the Social insurance Act 2023, Section 20(1) of the NSSF Act 2023 and Section 7 of the Work injury Benefits Act 2007 respectively.
4. **Inaccuracies of the Financial Statements** - The Committee observed that there were inaccuracies and errors in regards to the preparation and presentation of financial statements in almost all hospitals. Further, the Accountants, and the Managing Directors faced challenges in submitting supporting documents to the auditors on time, contrary to Section 62 of the Public Audit Act, Cap. 412B. This impedes the accountability and audit process. The persistent delays in preparing complete financial statements indicate a lack of requisite competencies and experience within hospital finance departments.
5. **Non-Compliance with Ethnic Inclusivity Requirements** - The Committee observed that some hospitals are non-compliant with Section 7(1) and (2) of the National Cohesion and Integration Act, Cap. 7N, which requires that all public offices seek to represent the diversity of the people of Kenya in staff employment and that no public institution shall have more than one-third of its establishment from the same ethnic community. Additionally, Section 65(1)(e) of the County Government Act, Cap. 265, requires that at least 30% of vacant posts at the entry level be filled by candidates who are not from the dominant ethnic community in the county. The Committee noted with concern that some hospitals, such as Migori County Level 4 Hospital, had 92% of their staff originating from the same ethnic community.
6. **Weak Budgetary Control and Performance**– The Committee observed that a number of hospitals exhibit weaknesses in budget execution and fail to adhere to approved budget ceilings for programs. Hospitals were observed to either over-

utilize or under-utilize appropriated funds. In some instances, funds were reallocated to items that were not budgeted for without prior approval by the Board of Directors. Additionally, hospitals experience high revenue shortfalls attributable to unrealistic budgeting and poor revenue forecasting.

7. **Incomplete Transfer of Assets and Deficient Asset Registers:** The Committee observed that most hospitals have not fully taken custody of assets from the County Executive and consequently do not maintain updated fixed asset registers as required by Section 149(2)(o) of the Public Finance Management Act, 2012, Cap. 412A. As a result, these hospitals are unable to reflect their correct financial position in their books of account, exposing assets to risk of loss, misuse, or misappropriation.

GENERAL RECOMMENDATIONS FOR HOSPITALS

The Committee recommends that-

1. **Compliance with Kenya Quality Model for Health Policy Guidelines** - The Governor and the Accounting Officer submit a comprehensive plan outlining the specific measures being taken to address the hospital's staffing shortages. The measures should include both short-term and long-term solutions, focusing on optimizing existing resources, improving employee welfare, and ensuring sustainable staffing levels moving forward and encourage the ongoing training and prioritize new recruitments to fill gaps in medical personnel, ensuring specialized services can be offered in-house.
2. **Retention of Facilities Improvement Funds (FIF) at the Hospitals** – The Governor, the Chief Accounting Officer and the Hospital Administrator should ensure compliance to the FIF Act, 2023, and retain all monies within the facilities.
3. **Remittance of Statutory Deductions** – The Governor and the accounting officer should ensure compliance to the National Industrial Training Act, Section 48(1) of the Social insurance Act 2023, Section 20(1) of the NSSF Act 2023 and Section 7 of the Work injury Benefits Act 2007, and remit the statutory deductions to avoid penalties.
4. **Capacity Building on Financial Reporting Standards** - The Board of Directors, in consultation with the Public Sector Accounting Standards Board (PSASB), should facilitate continuous capacity building on financial reporting standards for finance officers and management in hospitals to improve the quality of reporting and enhance compliance. The Board should ensure that accountants possess the requisite competency and experience in financial management as required by the Accountants Act. Furthermore, the Accounting Officer should ensure compliance

with the financial reporting template prescribed by the National Treasury. These measures will strengthen the maintenance of books of accounts, improve the preparation of financial statements, and ensure timely submission of statements and documents to the Auditor-General.

5. **Compliance with Ethnic Inclusivity Requirements** - The Board and County Government should make deliberate and progressive efforts to comply with Section 7(1) and (2) of the National Cohesion and Integration Act, Cap. 7N, and Section 65(1)(e) of the County Governments Act, Cap. 265, regarding diversity, the realization of the one-third rule in public sector recruitment, and ethnic inclusivity. To this end, the Board and County Governments should develop and adopt a formal diversity policy aimed at achieving full compliance with the law. Compliance status shall be reviewed in the subsequent audit period.
6. **Preparation of Realistic Budgets and Revenue Projections** - The Board and Accounting Officers should prepare realistic budgets and revenue projections to avert revenue shortfalls that negatively impact hospitals' service delivery. In the budget preparation process, the Board should consider previous budgetary allocations and ensure that any proposed increases are reasonable and justified. Additionally, the Board should seek the necessary approvals by forwarding budget estimates to the County Executive Committee member for health, who shall then submit them to the County Treasury as required by law. Further, hospitals should automate their billing systems to enhance revenue collection and financial control.
7. **Transfer of Assets and Maintenance of Fixed Asset Registers** - The Governor should ensure that all assets are formally transferred to hospitals to enable them to reflect their true financial position in their books of account. The Board of Directors and the Managing Director should ensure that hospitals maintain updated fixed asset registers pursuant to Section 136(1) of the Public Finance Management (County Government) Regulations, 2015, in the format prescribed by the National Treasury, and submit the same to the Auditor-General within sixty (60) days of the adoption of this report.

ACKNOWLEDGEMENTS

Hon. Speaker,

The Committee wishes to acknowledge the support it received from the Office of the Speaker and the Clerk of the Senate in the execution of its mandate. I also take this opportunity to thank the Members of the Committee for their due diligence and commitment in the consideration of the audit reports. The Committee further wishes to express its appreciation to the able secretariat for their support and services in facilitating the Members and the Committee in its operations.

Hon. Speaker,

On behalf of the County Public Investments and Special Funds Committee, it is my pleasant duty and privilege to table this report on the floor of the Senate and commend it to the House for debate and adoption pursuant to the provision of Standing Order No. 223 (6) of the Senate Standing Orders.

SIGNED:

DATE:

HON. SEN. GODFREY ATIENO OSOTSI, CBS, MP
CHAIRPERSON

ACKNOWLEDGEMENTS

The Committee wishes to acknowledge the support it received from the Office of the Speaker and the Clerk of the Senate in the execution of its mandate. I also take this opportunity to thank the Members of the Committee for their due diligence and commitment in considering the audit reports. The Committee further wishes to express its appreciation to the able secretariat for their support and services in facilitating the Members and the Committee in its operations.

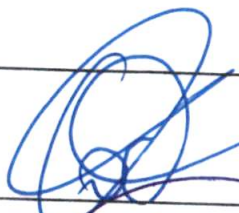



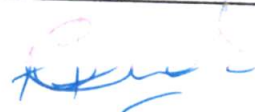
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SIGNED:.....

DATE:.....

HON. SEN. GODFREY ATIENO OSOTSI, CBS, MP
CHAIRPERSON

We, the undersigned Members of the Select Committee on County Public Investments and Special Funds, do hereby append our signatures to adopt this report.

No.	Name	Signature
1.	Sen. Godfrey Atieno Osotsi, CBS, MP (<i>Chairperson</i>)	
2.	Sen. Eddy Gicheru Oketch, MP (<i>Vice - Chairperson</i>)	
3.	Sen. Agnes Kavindu Muthama, MP	
4.	Sen. William Kipkemoi Kisang, CBS, MP.	
5.	Sen. Peris Pesi Tobiko, CBS, MP	
6.	Sen. Beth Kalunda Syengo, MP	
7.	Sen. George Mungai Mbugua, MP	
8.	Sen. Raphael Chimera Mwinzangu, MP	
9.	Sen. Hamida Ali Kibwana, MP	

REPORT ON THE AUDITED FINANCIAL STATEMENTS MUNICIPALITY OF KILIFI MARIAKANI WATER AND SANITATION COMPANY LIMITED FOR THE FINANCIAL YEAR 2024/2025

The Governor of Kilifi County, Hon. Gideon Maitha Mung'aro, OGW, appeared before the Committee on Tuesday, 20th January, 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Kilifi Mariakani Water and Sanitation Company Limited for the Financial Year 2024/2025. The Governor was accompanied by the following officer

- | | |
|------------------------|--------------------------|
| 1. Mr. Philip Charo | - CECM Finance |
| 2. Mr. Omar Said | - CECM Water |
| 3. Mr. K. Lughanje | - County Attorney |
| 4. Mr. Hezekiah Mwarua | - Chief Officer- Finance |
| 5. Ms. Catherine Baya | - MD KIMAWASCO |
| 6. Mr. Faraji Chipinde | - County Solicitor |

REPORT ON THE FINANCIAL STATEMENTS

1. Inaccurate Operating Revenue Amount.

The statement of profit or loss and other comprehensive income reflects operating revenue totalling to Kshs. 597,777,096 as disclosed in Note 6 to the financial statements. Review of the data provided for audit revealed that the company produced a total of 9,711,413 cubic meters of water, out of which only 4,836,916 cubic meters of water was billed to customers, leaving a balance of 4,874,497 cubic meters or 50% being Non-Revenue Water (NRW) resulting to a loss of revenue totalling to Kshs. 653,182,598.

In the circumstances, the accuracy and completeness of the operating revenue amount of Kshs. 597,777,096 could not be confirmed.

Management Response

The Management was in agreement with the auditor's observation. The operating revenue amount for the financial year was not sufficient due to the high non-revenue water levels. During the year under review, the NRW was 50%, which translates to Kenya Shillings Six Hundred and Fifty-Three Million, One Hundred and Eighty-Two Thousand, Five Hundred and Ninety-Eight (Kshs. 653, 182, 598/-). Considering the allowable non-revenue water

levels of 25% by the regulator, the company was supposed to operate with an operating revenue of Kenya Shillings Eight Hundred and Ninety-Six Million, Six Hundred and Sixty-Five Thousand, Six Hundred and Forty-Four (Kshs. 896, 665, 644/-). However, the management has managed to control the NRW at 50% while enhancing strategies to reduce the levels on both physical influences and commercial influences. These strategies include:

- i. On management of physical losses, that is, bursts and leakages, which are mainly contributed by aged water pipelines, which comprise 50% of the network, the company is collaborating with development partners such as the World Bank and the County Government in an effort to replace the aged water supply network. Distribution networks in Kilifi and Mtwapa are currently being replaced under WSDP, which is expected to be commissioned by October 2026.
- ii. The commercial losses which are caused by the stalled water meters, water theft, and illegal water connections. The company has a total of nine thousand (9,000) meters that have outlived useful life and are under registering in billing. The company received a consignment of five thousand, nine hundred and thirty-four (5,934) meters through WSDP on the 30th day of September, 2025, which are going to replace the stalled meters. The replacement exercise of the stalled meters is ongoing. The company has currently replaced eight hundred (800) meters.
- iii. On illegal connections and water theft, the company has established an Inspection Unit with the sole mandate of addressing cases of water theft and illegal connections.

Committee Observations

The Committee observed that Inaccurate Operating Revenue Amount was attributed to that the Non-Revenue Water which stood at 50% way above the sector benchmark of 25% prescribed by the Water Services Regulatory Board (WASREB) guidelines.

Committee Recommendations

The Committee recommends that—

- i. the Governor should put in place comprehensive measures to mitigate on the Non-Revenue Water, that is, both physical and commercial losses. The measures to include replacement of old age dilapidated infrastructure, installation of smart meters for accurate billing and the application of Geographical Information System (GIS) to receive real-time data for the detection of bursts and leakages among other measures. The Auditor-General to review the implementation of the measures put in place to mitigate the Non-Revenue Water and provide a status update on the matter in the subsequent audit cycle;

- ii. given the impact of Non-Revenue Water on the water company's cashflows, the Governor should ensure that a provision for Non-Revenue Water is included in the financial statements; and
- iii. the Governor of Kilifi County to collaborate with the Ethics and Anti-Corruption Commission to ensure pre-emptive measures are put place to reduce cases of theft and illegal connections.

2. Inaccurate Trade and Other Receivables Balance

The statement of financial position reflects trade and other receivables balance of Kshs. 524,668,324 as disclosed in Note 24 to the financial statements. Included in this balance is Kshs. 15, 237,455 in respect of other receivables which have been carried forward from previous years, and Management indicates is under investigation. However, the progress of the investigations and support schedules were not provided.

In the circumstances, the accuracy, completeness, and recoverability of the trade and other receivables balance of Kshs. 524,668,324 could not be confirmed.

Management Response

The Management was in agreement with the auditor's observations.

The Management initiated an investigation into this matter on the 27th day of January, 2025, and found out that the figure for other debtors was first reported in the financial year 2011/2012. The management will continue with the investigation and come up with a final report by the end of the current financial year.

Committee Observations

The Committee observed that the query remains unresolved as the management of the water company as the matter is still under investigation.

Committee Recommendations

The Committee recommends that—

- i. the Accounting Officer should resolve any issues resulting from an audit that remains outstanding as required by section 149(2)(I) of the Public Finance Management Act, Cap. 412A, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences may apply; and**

- ii. the Auditor-General provides a status update on the progress made on the matter in the subsequent audit cycle upon review of the progress report.

3. Inaccurate and Unsupported Bank and Cash Balance

The statement of financial position reflects bank and cash overdraft balance of Kshs. 5, 263,514 as disclosed in Note 25 to the financial statements. In addition, a bank account maintained at a local commercial bank was overdrawn by Kshs. 9, 440,190, and the bank overdraft was netted off the debit bank balance of Kshs.4, 175,817 instead of being disclosed separately. Further, the list of bank accounts operated by the Company included a bank account maintained at a local commercial bank for the Water Services Trust Fund CLSG Programme, which was not disclosed in the financial statements.

In the circumstances, the accuracy, completeness, and existence of the bank and cash overdraft balance of Kshs.5, 263,514 could not be confirmed.

Management Response

The Management was in agreement with the auditor's observations.

The company resorts to short-term bank facilities in some months when cash flows are not favourable. The management makes a formal request to the Board of Directors, and the Board approves through a board resolution. In the month of June 2025, the company applied for a Kenya Shillings Nine Million, Four Hundred and Forty Thousand, One Hundred and Ninety (Kshs. 9, 440, 190/-) facility from Kenya Commercial Bank, and as at 30th June 2025, the uncleared balance was the sum of Kenya Shillings Five Million, Two Hundred and Sixty-Three Thousand, Five Hundred and Fourteen (Kshs. 5, 263, 514/-). There is the Board approval of the bank facility. Going forward, any overdraft facility shall be disclosed separately in the financial statements. We wish to state that the non-disclosure did not cause any inaccuracy in the financial statements.

As regards the undisclosed Water Services Trust Fund (CLSG) bank account, this was erroneously provided in the list of bank accounts operated by the company, as the account was officially closed in the year 2023. See attached herein, Annexure 3B, which appears page 71, which is the Water Sector Trust Fund (WSTF) account closure.

Committee Observations

The Committee observed that—

whereas the board approval of the bank facility and verified by the Auditor-General, the submission was done outside the timelines contemplated under the Public Audit Act, Cap.412B and constitutes an offence under section 62(2) of the Act.

Committee Recommendations

The Committee recommends that—

The Accounting Officer should ensure timely submission of documents during the audit process in line with section 9(1)(e) of the Public Audit Act, Cap.412B failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act in the subsequent audit cycle.

4. Unsupported Property, Plant, and Equipment Balance

The statement of financial position reflects property, plant, and equipment balance of Kshs. 427, 148,606 as disclosed in Note 20 of the financial statements. However, no fixed asset register was provided for audit review. Further, the Company did not have land ownership documents, and the motor vehicles were registered in the name of the regional water service board.

In the circumstances, the accuracy and completeness of the property, plant, and equipment balance of Kshs.427, 148,606 could not be confirmed.

Management Response

The Management is in agreement with the auditor's observation. The company is in the process of developing a fixed asset register, and this is anticipated to be concluded in this current financial year. However, the company has an updated fixed asset movement schedule.

The company has been using the land and motor vehicles in its operations, hence the reporting in the financial statements. However, these assets are owned by the regional water service board, and no transfer of assets has been made. The Management will engage the Coast Water Works Development Agency (CWWDA) on the transfer of ownership of the

assets. In addition, the management will disclose the ownership of the assets in the future financial statements until the matter is resolved.

Committee Observations

The Committee observed that the water company had property, plant and equipment balance of Kshs.427,148,606 owned by Regional Water Service Board which had not been transferred at the close of the year.

Committee Recommendations

The Committee recommends that—

- i. the Governor ensures that the water company secures full ownership of the queried property, plant and equipment and provide a status update to the committee within 60 days of adoption of this report;**
- ii. the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9 (1)(e) of the Public Audit Act, Cap.412B, failure to which the Committee shall recommend for their investigation and prosecution in line with section 62(2) of the Public Audit Act, 2015;**
- iii. the Accounting Officer ensures that the water company maintains an up-to-date asset register in the format prescribed by the Public Sector Accounting Standards Board (PSASB) and the company to carry out a valuation of all its assets and submit the same to the Auditor-General within 60 days from the adoption of this report;**
- iv. the Governor engages the Intergovernmental Relations Technical Committee (IGRTC) to ensure that the process of transfer of all assets and liabilities are completed in a timely manner; and**
- v. the Auditor-General to undertake physical verification of all assets of the water company and provide a status report to the Committee within 60 days from the adoption of this report.**

5. Inaccuracies in Works in Progress (WIP)

The statement of financial position reflects work in progress balance of Kshs. 829,012,178 as disclosed in Note 22 to the financial statements. The balance is in respect to works in progress for ablution blocks, Mtwapa and Kilifi Pipeline, and Sludge treatment facilities. Review of the Water Sanitation Development Programmes (WSDP) documents provided for audit revealed an unreconciled variance of Kshs. 132,520,464.

In the circumstances, the accuracy, completeness, and existence of the works in progress balance of Kshs. 829,012,178 could not be confirmed.

Management Response

The Management is in agreement with the auditor's observations. The financial statements have been amended to reflect the correct amount on work in progress. Further work in progress for the Mtwapa & Kilifi pipeline of Kenya Shillings Eight Hundred and Twenty-Three Million, Three Hundred and Fifty-Six Thousand, One Hundred and Twenty-Eight and Sixty-Seven Cents (Kshs. 823, 356, 128.67) is inclusive of the advance payment of Kenya Shillings One Hundred and Thirty-Two Million, Five Hundred and Twenty Thousand, Four Hundred and Fifty (Kshs. 132, 520,450/-), which has since been recovered in subsequent interim payment certificates, thus making its current work in progress to Kenya Shillings Six Hundred and Ninety Million, Eight Hundred and Thirty-Five Thousand, Six Hundred and Sixty-Four (Kshs. 690, 835, 664/-) as reported in the financial statement.

Committee Observation

The management stated that the reconciliation had been done.

Committee recommendations

The Auditor-General to monitor the progress of the project and provide a status update of the same to the Senate within 60 days of the adoption of this report.

6. Unaccounted for Long-Term Customer Deposits Balance

The statement of financial position reflects trade and other payables balance of Kshs. 631, 798,637 as disclosed in Note 33 of the financial statements. Included in this balance is an amount of Kshs. 106, 817,292 in respect to customers' deposits. However, the local commercial bank account, which is supposed to hold the fixed deposit, had a balance of Kshs.205, 395 resulting to unexplained variance of Kshs.106, 611,897.

In the circumstances, the accuracy, completeness, and existence of the customer's deposit balance of Kshs.106, 817,292 could not be confirmed.

Management Response

The Management was in agreement with the auditor's observation. The variance in the customer deposit balance was occasioned by various borrowings over the years since the incorporation of the company, as approved by the board of directors for the payment of critical expenditure towards the operation of the company in times of cash challenges. which is the Board resolution to borrow. The management had put up a repayment plan, which was approved by the Board but could not be effected due to cash flow challenges. The management has since implemented strategies to ensure the payment plan is adhered to.

Committee observation

the management had put up a repayment plan

Committee Observations

The Committee observed that—

- i. the water company borrowed an amount of Kshs.106, 611,897 from the customer deposits account. The amount was not refunded; and
- ii. the water company established a payment plan to clear the outstanding balance of Kshs. 106, 611, 897.

Committee Recommendations

The Committee recommends that—

- i. **the Accounting Officer should, within 60 days of the adoption of this report, the Auditor-General monitors the compliance of the water company to the repayment plan and provide a status update on the same to the Senate during the subsequent audit cycle;**
- ii. **the Board of Directors should put in place a Customer Deposits Management Policy to guide how the water company can access, utilize and refund the money within specified timelines. Further, the Accounting Officer should ensure that there is full disclosure to the water company's customers on the utilization of the deposits; and**
- iii. **the Accounting Officer should ensure that all customer deposits are deposited in a fixed/call account whose access to the management is limited and where the accrued interests can be used to offset the bank charges. Management to submit evidence of the same to the Auditor-General within 60 days of the adoption of this report for verification.**

7. Inaccurate WSDP Loan Balance.

The statement of financial position reflects a balance of Kshs. 845,031,541 in respect of WSDP Loan as disclosed in Note 32 of the financial statements. Records maintained by the Government investment and public enterprises reflect a corresponding balance of Kshs. 1,255,831,437, resulting in an unexplained variance of Kshs. 410,799,896.

In the circumstances, the accuracy, completeness, and existence of the WSDP loan balance of Kshs. 845,031,541 could not be confirmed.

Management Response

The Management was in agreement with the auditor's observation. The opening loan balance for the financial year was Kshs. 845, 031, 541/- with respect to the WSDP loan disclosed under Note 32. The company received a grant of Kshs. 223, 101, 597/- in the financial year disclosed under Note 18 of the financial statements. The management will engage the Government Investment and Public Enterprise to confirm and reconcile the Kshs. 1, 255, 831, 437/- loan amount. However, we wish to state that at the beginning of the financial year 2025/2026, we received a disbursement of Kshs. 840, 587, 450.18.

Committee Observations

The Committee observed that the financial statements of the water company included variances of kshs. 410,799,896 which remained unreconciled.

Committee Recommendations

The Committee recommends that the Accounting Officer should ensure strict compliance with the provisions of regulation 90 (1) of Public Finance Management (County Government) Regulations 2015 with respect to monthly reconciliation of bank statements, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply.

8. Material Uncertainty on Going Concern

The statement of financial position reflects the total current assets balance of Kshs. 533, 339,721, while the total current liabilities balance was Kshs. 744,114,314 resulting to a negative working capital of Kshs. 210,714,593. In addition, the statement of profit or loss

and other comprehensive income indicates that the Company realized a loss of Kshs. 12,972,547, which resulted to accumulated negative retained earnings of Kshs. 716,823,611 as a result of persistent loss over the years. This condition leads to material uncertainty of the Company's going concern. Even though the lack of sustainability is disclosed under risk by Management under management discussion analysis in the financial report, the measures Management has put in place do not appear to have been fruitful.

Management Response

The Management is in agreement with the auditor's observation.

The company is putting in more effort in enhancing its revenues through the following strategies: -

a) Human resource capital performance improvements.

The company has established staff performance management. All staff have signed performance contracts. Clear targets have been assigned to all staff, and a review of the same will be conducted by the end of this financial year.

b) Organisational restructuring.

The company has reviewed the commercial department organogram and incorporated a Debt Management and Recovery Unit so as to enhance the revenue collection efficiency and reduce the debt portfolio.

c) Water supply operational efficiency.

Water supply operational efficiency is aimed at reducing the non-revenue water by 10% from the current 50%. The company has established a Non-Revenue Water Reduction Unit to help achieve the 10% reduction in non-revenue water. The management is also strategizing to improve billing by replacing the stalled nine thousand (9,000) meters.

Committee observation

The Committee observed that the Company realized a loss of Kshs. 12,972,547, which resulted to accumulated negative retained earnings of Kshs. 716,823,611 as a result of persistent loss over the years

Committee Recommendations

The Committee recommends that—

- i. the Governor of Kilifi County should take keen interest in the management and operations of the water company in line with Article 179 (4) of the Constitution;**
- ii. The Accounting Officer should prepare and submit quarterly reports to the County Treasury in regard to the financial and non-financial status of the water company in line with section 166 of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- iii. the Governor should take full responsibility for monitoring the financial performance of the county corporation in line with section 184 of the Public Finance Management Act, 2012 and regularly report to the Governor through the County Executive Committee in line with Article 179 (6) of the Constitution;**
- iv. the County Treasury should undertake annual reporting on County Corporation including an assessment of the commercial viability of the company in line with the standards set by the Water Services Regulatory Board under section 77(2) of the Water Act, 2016; and**
- v. the Governor should, within 60 days of the adoption of this report, put in place strategic and innovative measures for recovery and to boost the financial health of the water company for self-sustainability. Additionally, the management reviews and regularizes the company's existing assets and have updated assets register that reflect the current financial position. Further, management to determine and ascertain their commercial viability as required by the Public Sector Accounting Standards Board (PSASB).**

Emphasis of Matter

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. 969, 313, 857, and Kshs. 841, 163, 193, respectively, resulting to an under-funding of Kshs. 128,150,664 or 13% of the budget. Similarly, the Company made payments totalling to Kshs. 897,414,832 against actual receipts of Kshs. 841,163,193 resulting to an over-utilization of Kshs. 56,251,639 or 6.7% of the actual receipts.

The underfunding affected the planned activities and may have impacted negatively on service delivery to the public.

Management Response

The Management was in agreement with the auditor's observations. The underfunding was caused by the failure to meet the anticipated revenue growth in the financial year. However, the management will prioritise expenditure on need and value addition basis as a way of controlling expenditure. Further, the management will enhance budgetary controls, including monthly and quarterly management accounts.

Committee Observations

The Committee noted that an underfunding of Kshs. of Kshs. 128,150,664 or 13% of the budget. There was also an under-expenditure of Kshs. an over-utilization of Ksh. 56,251,639 or 6.7% of the actual receipts.

Committee Recommendations

The Committee recommends that—

- i. the Accounting Officer should comply with regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply; and**
- ii. the Board of Directors should institute proper and realistic budget planning as well as measures to enhance its own generated revenue, such as review of tariffs, connection of more customers and automation to address revenue leakages. The Auditor-General to confirm the effectiveness of the mitigating measures put in the water company and report in the subsequent audit cycle.**

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

9. Irregular Expenditure and Failure to Adhere to Statutes on Expenditure on Staff Costs

The statement of profit or loss and other comprehensive income reflects expenditure on staff costs totalling to Kshs. 277,457,523 as disclosed in Note 11 to the financial statements. Review of records revealed that as at 30 June, 2025 the Company had two hundred and seventy-three (273) members of staff. The audit revealed the following:

- i. Out of the staff members, one hundred and six (106) or 38.8 % are from the dominant ethnic community. In addition, all the seven (7) senior management staff are from the dominant community in the County, as a result of which compliance with the requirements of ethnic diversity was not adhered to. This is contrary to Section 65 (e) of the County Government Act, 2012, and 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.
- ii. Forty-nine (49) staff members were female, accounting for 17.9% while two hundred and twenty-four (224) were male, accounting for 82.1% as a result of which the threshold for gender equality was breached. This was contrary to Section B. 22 (2) of the Human Resource Policies and Procedures Manual for the Public Service, 2016, on non-discrimination in employment, which provides that the 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.
- iii. Out of the total number of staff members, one (1) member of staff was from the special interest groups, which represents 0.4 % of the total number of staff, instead of the required 5%. Further, the Company recruited six (6) employees during the year. However, no person living with disability was recruited, as a result of which the threshold for recruitment of persons with disability was breached.
- iv. Salaries of four (4) members of staff for several months was processed below one-third of their basic pay, failing to adhere to the third rule on basic pay. This was contrary to Section 19(3) of the Employment Act which states that the total amount of all deductions 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 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.

- v. During the year under review, six (6) employees were engaged. However, the Company did not maintain a Human Resources plan to support the employment.
- vi. The Company had an authorized personnel staff establishment of three hundred and forty-nine (349) members of staff. However, only two hundred and seventy-three (273) members of staff were employed, representing 78.2% of the staff establishment.
- vii. The expenditure on staff costs includes expenditure on allowances paid to staff which were not were not approved by the Salaries and Remuneration Commission as indicated below:

Allowance	Amount (Kshs)
Staff incentives	2,840,000
Staff welfare	903,707
Other allowances	1,728,000
Lunch/standby allowance	827,000
Responsibility allowance	1,899,000
Reliever allowance	260,000
Field allowance	7,203,000
Extraneous allowance	520,000

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

Management Response

The Management was in agreement with the auditor's observations.

- a) The management is cognizant of Article 232(1)(h) of the Constitution of Kenya, which provides for representation of Kenya's diverse communities and affording adequate and equal opportunities for appointment, training, and advancement at all levels of the public service. The company has placed some strategies which include advertisements

in National dailies and the company website to comply with the requirements of the law progressively in future recruitments.

- b) The management admits the non-compliance with Article 232 of the Constitution of Kenya as relates to the workforce gender balance. This was caused by the recruitment of staff in the past. To mitigate the gender disparity, the management has placed strategies that include conducting a company-wide gender audit and developing a gender mainstreaming plan in compliance with the regulation. The management is cognizant of the legal requirement and will endeavour to ensure there is compliance with the law in future recruitments.
- c) The management acknowledges the non-compliance with the law as relates to the recruitment of persons living with disabilities. However, the management shall endeavour to ensure that there will be reservations for persons living with disabilities in future recruitments.
- d) The management recognizes the over-commitment of salaries above the third rule. This was mainly contributed to by the implementation of the new SHIF rates, the introduction of the housing levy, and the revised NSSF Act by the national government during the year under review. However, we have so far advised the officers concerned to restructure their financial obligations to achieve compliance with the provisions of Section 19 (3) of the Employment Act.
- e) The company is guided by the Human Resources Policy in all matters of recruitment and placement. The six (6) employees recruited in the year under review were casuals and later engaged on a short-term contract of six (6) months in compliance with human resources provisions on staff recruitment and placement.
- f) The company has not been able to implement the approved staff establishment due to financial constraints. The current staffing level is above the regulator's benchmark, as it is at a ratio of eight (8) staff per a thousand (1,000) active connections instead of five (5) staff per a thousand (1,000) active connections. However, the management has put in place some strategies which include reviving cut-off accounts through reconnection drives and part payment plans by customers to increase connections so as to reach the regulator's benchmark and further implement the approved staff establishment of three hundred and forty-nine (349) staff.

- g) The management shall ensure that all staff allowances are aligned with the salaries and remuneration guidelines.

Committee Observation

- i. the management failed to Comply with Article 232 of the Constitution of Kenya as relates to the workforce gender balance.
- ii. the Salaries of four (4) members of staff for several months was processed below one-third of their basic pay, failing to adhere to the third rule on basic pay contrary to Section 19(3) of the Employment Act.
- iii. the total employees comprised of staff from one dominant ethnic community thus there was no ethnic diversity among the company employees.

Committee recommendations

The Committee recommends that-

- i. **The Board and the accounting officer to make deliberate efforts progressively in the endeavor to comply with Section 7 (1) and (2) of the National Cohesion and Integrity Act, 2008, which requires that public establishments shall seek to represent the diversity of the people of Kenya in employment of staff; and**
- ii. **the Committee recommends that the Company adheres with the provisions of to Section 19(3) of the Employment Act, Cap.226 which stipulates that the total amount of all deductions which may be made by an employer from the wages of his employee at any one time shall not exceed two-thirds of the basic pay.**

10. Non-Remittance of Statutory Deductions

Included in this balance is an amount of Kshs. 50,708,250 in respect to other liabilities. The expenditure includes statutory deductions totalling to Kshs. 15,291,380 that has been long outstanding.

Management Response

The Management was in agreement with the auditor's observations. The statutory deductions are supposed to be settled on or before the 10th day of the preceding month, while the cut-off date for financial reporting is the 30th day of June of the same month. Therefore, the reported unremitted statutory deductions of Kenya Shillings Fifteen Million,

Two Hundred and Ninety-One Thousand, Three Hundred and Eighty (Kshs 15, 291, 380/-) were for June 2025. These statutory obligations were settled on the 7th and 8th days of July, 2025.

Committee Observation

The Committee observed that the said statutory deductions were settled on 7th and 8th July 2025.

Committee recommendations

The Committee recommends that the matter be marked as resolved.

11. Failure to Pay Audit Fees

Included in the balance is an amount of Kshs. 5,945,600 in respect of the long-standing audit fees balance. The management did not provide a satisfactory explanation of failure to settle the long overdue, contrary to Section 41(c) of the Public Audit Act, 2015, which requires that the funds of the Office of the Auditor-General shall consist of audit fees charged at the rates prescribed by the Auditor-General.

Management Response

The Management was in agreement with the auditor's observation on the clearance of audit fees. The delay in the non-payment of the fees was occasioned by cash flow challenges. The management shall engage the office of the Auditor General for a structured payment plan.

Committee Observation

The Committee observed that the Water Company did not have a payment plan of Ksh. 5,945,600 Owed to the office of the Auditor-General.

Committee Recommendations-

The Committee recommends that within sixty (60) days of the adoption of this report, the Governor engages Kenya Revenue Authority to formulate a repayment plan for the payables amounting to Kshs. 18,300,794 and file a report on the same with the Auditor-General for verification. The Auditor-General to provide a status update on the matter in the subsequent audit cycle

12. Failure to Settle Accrued Tax Liabilities

Included in the balance is an amount of Kshs. 18,300,794 in respect to tax liability that has been outstanding since 2013. The tax liability includes avoidable tax penalties of Kshs. 8,475,175. The management did not explain the outstanding tax liability and did not give a payment plan on settling the liability. This is contrary to the provisions of the Income Tax Act, Cap 470 Section 92 (a), which requires that all taxes due shall be paid on or before 30 September of the following year.

Management Response

The Management was in agreement with the auditor's observations. The delay in the non-payment of the accrued tax liabilities was occasioned by cash flow challenges. The management shall engage the Kenya Revenue Authority for a structured payment plan.

Committee Observation

The Committee observed that the Water Company did not have a payment plan of Ksh. 18,300,794 Owed Kenya Revenue Authority.

Committee Recommendations-

The Committee recommends that within sixty (60) days of the adoption of this report, the Governor engages Kenya Revenue Authority to formulate a repayment plan for the payables amounting to Kshs. 18,300,794 and file a report on the same with the Auditor-General for verification. The Auditor-General to provide a status update on the matter in the subsequent audit cycle

13. Un-Remitted WASREB Services Levy

Included in the balance is an amount of Kshs.117, 410,046.79 in respect to long outstanding Water Service Regulatory Board (WASREB) service levy. No explanation was provided for the failure to settle the long-standing service levy

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

Management Response

The Management was in agreement with the auditor's observations. The company is remitting the sum of Kshs. 300, 000/- monthly to reduce the Water Service Regulatory Board's (WASREB's) levy arrears from July 2024.

Committee Observation

The Committee observed that the has been remitting the sum of Kshs. 300, 000/- monthly to reduce the Water Service Regulatory Board's (WASREB's) levy arrears from July 2024.

Committee recommendations-

The Committee recommends that the Auditor-General to monitor the company's compliance to the settlement agreement and provide a status update on the same to the Senate during the subsequent audit cycle.

14. Non- Remittance of Retirement Benefit Obligation

The statement of financial position reflects a balance of Kshs. 103,762,134 in respect to retirement benefits obligations as disclosed Note 34 to the financial statements. Review of the documents provided for audit revealed that these balances were in respect to 12% basic salary employees' deductions and 15% of employer contribution, which has not been remitted to Lap trust, a defined contribution scheme.

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

Management Response

The Management Was in agreement with the auditor's observations. The non-remittance of retirement benefits was occasioned by low cash flows to the company. However, the management has placed a weekly standing order of Kenya Shillings Two Hundred and Fifty Thousand (Kshs. 250, 000/-) totalling to the sum of Kenya Shillings One Million (Kshs. 1, 000, 000/-) every month to Lap Trust so as to cushion staff exiting the organization in ensuring that they access their benefits without delay as from October 2023.

Committee Observations

The Committee observed that the management has placed a weekly standing order of Kenya Shillings Two Hundred and Fifty Thousand (Kshs. 250, 000/-) totalling to the sum of Kenya Shillings One Million (Kshs. 1, 000, 000/-) every month to Lap Trust as from October 2023.

Committee Recommendations

The Committee recommends that the Auditor-General to monitor the company's compliance to the settlement agreement and provide a status update on the same to the Senate during the subsequent audit cycle.

15. Non-Submission of Budget for Approval

The statement of comparison of budget and actual amounts reflects final budget of Kshs. 969,313,857. However, no documents were provided to confirm whether the budget was submitted to the County Executive Committee Member responsible for the Kilifi Mariakani Water and Sewerage Company Limited for approval.

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

Management Response

The management acknowledged the auditor's observation. The approved budget was submitted to the County Executive Committee Member of Finance.

In the future, the budget approvals will be forwarded to the CECM in charge of Water before the County Treasury.

Committee Observation

The Committee observed that no documents were provided to confirm whether the budget was submitted to the County Executive Committee Member responsible for the Kilifi Mariakani Water and Sewerage Company Limited for approval.

Committee Recommendations

The committee recommends that—

the Governor should ensure timely submission of documents during the audit process in line with section 9(1)(e) of the Public Audit Act, Cap.412B failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act in the subsequent audit cycle

Other Matter

Prior year Issues.

1. General and operational expenses.

Management Response

On the issue of Unconfirmed Bulk Water Cost, this has been resolved. The company and the Agency do joint meter reading. In addition, a verification and reconciliation exercise is done before billing. On the Unsupported and Irregular Expenditure on Hire of Equipment and Vehicles, this has been resolved. The supporting documents were provided to the Auditor General.

2. Unsupported property, plant, and equipment.

Management Response

The matter is ongoing. The company is in the process of developing a fixed asset register, and this is anticipated to be concluded in this current financial year. The company has been using the land and motor vehicles in its operations, hence the reporting in the financial statements. However, these assets are owned by the regional water service board, and no transfer of assets has been made. Management will engage the Coast Water Works Development Agency (CWWDA) on the transfer of ownership of the assets. In addition, the management will disclose the ownership of the assets in the future financial statements until the matter is resolved.

3. Inaccurate coast water works development agency liability.

Management response

A reconciliation was done between the Agency and the company. The water works development agency's liability in the financial year under review, and the figures are now reconciled as at 30th June, 2025.

4. Unsupported capital reserve fund.

Management response

This is work in progress. The management shall engage the Coast Water Works Development Agency. The statement of financial position reflects a capital reserves fund balance of Kenya Shillings Fifty Million, Ninety-Four Thousand and Nineteen (Kshs. 50, 094, 019/-), which, as disclosed in Note 29 of the financial statements, includes land, buildings, motor vehicles, various expenditures, and adjustments for the cost of bills recognized at the inception of the Company.

5. Unsupported and long outstanding trade and other receivable balance.

Management response

The management initiated an investigation into this matter and found out that the figure for other debtors was first reported in the financial year 2011/2012, with supporting documentation as identified by the interim investigation, which was undertaken. The management will continue with the investigation and come up with a final report by the end of the current financial year.

6. Unaccounted-for long-term customer deposit balance.

Management response

The variance in the customer deposit balance was occasioned by various borrowings over the years since the incorporation of the company, as approved by the Board of Directors for the payment of critical expenditure towards the operation of the company in times of cash challenges. The management strategies include a repayment plan, which was approved by the board.

7. Excessive non-revenue water.

Management response

The management has managed to control the NRW at 50% while enhancing strategies to reduce the levels on both physical influences and commercial influences. The physical influences that is bursts and leakages are mainly contributed by aged water pipelines, which comprise 50% of the network. The company is collaborating with development partners such as the World Bank and the county government in an effort to replace the aged water

supply network. Distribution networks in Kilifi and Mtwapa are currently being replaced under WSDP, which is expected to be commissioned by October 2026. The commercial influences are caused by the stalled water meters, water theft, and illegal water connections. The company has a total of nine thousand (9,000) meters that have outlived useful life and are under registering in billing. The company has received a consignment of five thousand, nine hundred and thirty-four (5,934) meters through WSDP, which are going to replace the stalled meters, and the replacement exercise is ongoing. On illegal connections and water theft, the company has established an Inspection Unit with the sole mandate of addressing cases of water theft and illegal connections.

8. Trade and other payables balance.

Management Response

The matter is ongoing. The delay in the non-payment of trade and other payables has been occasioned by cash flow challenges. The management shall engage the respective institutions for a structured payment plan.

9. Staff costs.

Management Response

On compliance with gender balance, the management admits the non-compliance with Article 232 of the Constitution of Kenya as relates to the workforce gender balance. This was caused by the recruitment of staff in the past. To mitigate the gender disparity, the management has placed strategies, including conducting a gender audit and developing a plan to comply with the regulation. The management is cognizant of the legal requirement and shall endeavour to ensure there is compliance with the law in future recruitments.

On the failure to adhere to the National Cohesion and Integration Act, the management is cognizant of Article 232 (1) (h) of the Constitution of Kenya, which provides for the representation of Kenya's diverse communities and affording adequate and equal opportunities for appointment, training, and advancement at all levels of the public service. The company has placed some strategies, such as nationwide publication of advertisements, to comply with the requirements of the law progressively in future recruitments.

On the failure to adhere to a third rule on basic pay, the management recognizes the over commitment of salaries above the third rule. This was mainly contributed to by the implementation of the revised NSSF Act, the introduction of the housing levy, and the Social Health Insurance Fund by the national government during the year under review. However, we have so far advised the officers concerned to restructure their financial obligations to enable us to achieve compliance with the law.

10. Irregular overdraft facility.

Management Response

The company resorts to short-term bank facilities in some months when cash flows are not favourable. The management makes a formal request to the Board, and the Board approves through a board resolution. On disclosure of the overdraft in the financial statement, we do agree with the auditor's recommendation. Going forward, any overdraft facility will be disclosed separately in the financial statements.

Committee Observations

The Committee observed that the water company had unresolved prior year matters demonstrating the management's lack of action to implement corrective measures.

Committee Recommendations

The Committee recommends that—

- i. the Governor should resolve any issues resulting from an audit that remains outstanding as required by section 149(2)(l) of the Public Finance Management Act, Cap. 412A, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences may apply; and**
- ii. the Auditor-General provides a status update on the progress made on the matter in the subsequent audit cycle upon review of the progress report.**

REPORT ON THE AUDITED FINANCIAL STATEMENT MALINDI WATER AND SANITATION COMPANY LIMITED FOR THE FINANCIAL YEAR 2024/2025

The Governor of Kilifi County, Hon. Gideon Maitha Mung'aro, OGW, appeared before the Committee on Tuesday, 20th January, 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Malindi water and Sanitation Company limited for the Financial Year 2024/2025. The Governor was accompanied by the following officers—

- 7. Mr. Philip Charo - CECM Finance
- 8. Mr. Omar Said - CECM Water
- 9. Mr. K. Lughanje - County Attorney
- 10. Mr. Hezekiah Mwarua - Chief Officer- Finance
- 11. Ms. Catherine Baya - MD KIMAWASCO
- 12. Mr. Faraji Chipinde - County Solicitor

REPORT ON THE FINANCIAL STATEMENTS

1. Inaccuracies in the Statement of Cash Flows

The statement of cash flows reflects cash outflows in respect of non-current assets, which vary with recorded movement in the statement of financial position as indicated in the table below:

Non-Current Asset	Movement in the Statement of Financial Position (Kshs)	Cash Outflows in the Statement of Cash Flows (Kshs)	Unexplained Variance (Kshs)

Property, Plant and Equipment	50,591,957	18,271,963	3,196,838
Intangible Assets	3,323,142	6,519,980	2,671,162
Work in Progress	126,133,252	262,238,030	136,104,778

The variances were not explained.

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

Management's Response

The asset movement refers to the value of total assets as at 2024/2025, less the value of assets as at 2023/2024. It shows growth in assets base. While the cashflow shows the actual cash used in the year to acquire the assets. Note 20 on Property Plant and Equipment, Note 21 on Intangible Assets, and Note 22 on Work In Progress of the financial statements in Annexure 1, which appears at pages 01 – 97, show how the assets increased and how much was utilized to acquire the assets. The variance in the two is outlined below. The variance shown in the observation does not reflect the correct position. The schedules were presented during the audit.

	Property, Plant & Equipment	Intangible Assets	Work in progress
2023/2024 Closing balance	441,395,006/-	1,866,766.00	1,653,732,830/-
2024/2025 Closing balance	491,986,963/-	5,189,908/-	1,779,837,608/-
Movement	50,591,957/-	3,323,142/-	126,104,778/-
Reconciliation			
Actual cash outflow (Purchases)	18,271,963/-	6,519,980/-	262,238,030/-

Capitalized Assets	136,133,252/-	-	-
Depreciation / Capitalized	(103,813,259)	(3,196,838.20)	(136,133,252/-)
Movement for the period	50,591,956/-	3,323,141.80	126,104,778/-

Committee Observations

The Committee observed that the reconciliation has been done.

Committee Recommendations

The Committee recommends that—

- i. **The Governor should ensure that Accounting Officer takes appropriate administrative action on responsible officers within the Accounts and Finance department who fail to keep complete financial records in accordance with section 156(1) of the Public Finance Management Act, Cap.412A and in line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- ii. **the Governor should comply with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- iii. **the Governor should strengthen internal audit controls and ensure proper record keeping in line with section 155 of the Public Finance Management Act, Cap.412A and submit a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**

- iv. **the Governor should enhance the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.**

2. Unsupported Expenditure on Domestic Travel and Subsistence Allowances

The statement of profit or loss and other comprehensive income reflects general and operations expenses totalling Kshs.494,596,947. The expenditure includes an amount on transportation, travelling, and subsistence totalling Kshs. 17,558,596, whose supporting schedule do not indicate name of employee, personal number, job group, number of days, rate, location of travel and work, or activity undertaken.

In the circumstances, the accuracy and completeness of transportation, travelling, and subsistence expenses totalling Kshs.17,558,596 could not be confirmed.

Management Response

The travel imprest application includes essential details for staff traveling, such as the employee's name, personal number, job group, number of days, per diem rate, and the location of travel or the activity undertaken. This application must be approved before any staff travel. The travel payment vouchers were presented for audit. However, the SAGE Accounting system cannot capture all staff details from the imprest form.

To address this issue, we shall customize the journal to ensure that staff details, as provided in the travel imprest form, are accurately captured in the system.

Committee observation

The Committee observed that imprest warrant was not provided during the audit period.

Committee recommendations

The Committee recommends that-

- i. **the committee recommends that the matter be marked as resolved; and**
- ii. **the Accounting Officer to take appropriate administrative action on responsible officers within the Accounts and Finance department who fail to keep complete financial records in accordance with section 156(1) of the Public Finance Management Act, Cap.412A and in line with their**

terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply.

3. Non-Current Assets

3.1 Unsupported property, plant and equipment

Included in the balance of non-current assets is Kshs.491,986,963 in respect of property, plant and equipment as disclosed in Note 20 to the financial statements. However, balance includes additions to plant and machinery, computers and related equipment, office equipment, furniture and fittings worth Kshs. 18,271,963, which was not supported by a detailed schedule indicating asset description, model, function, quantity, cost, and ownership documentation.

Managements Response

The Management was in agreement with the auditor's observations.

The Payment vouchers were presented to the Auditor General at the time of the audit. However, the assets register was presented to the Auditor General after the Management Representation Report.

The ownership of property, plant, and equipment is substantiated by invoices settled by the company and supported by delivery notes included in the payment vouchers, which were presented to the Auditor General at the time of the Audit.

Committee observation

The Committee observed that the management did not provide documents to support property, plant and equipment during the audit period.

Committee recommendations

The Committee recommends that-

- i. the committee recommends that the matter be marked as resolved; and**
- ii. the Accounting Officer to take appropriate administrative action on responsible officers within the Accounts and Finance department who fail to keep complete financial records in accordance with section 156(1) of the Public**

Finance Management Act, Cap.412A and in line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply.

3.2 Unsupported work in progress balance

Committee observation

The Committee observed that the management did not provide documents to support property, plant and equipment during the audit period.

Committee recommendations

The Committee recommends that-

- i. the committee recommends that the matter be marked as resolved; and**
- ii. the Governor to take appropriate administrative action on responsible officers within the Accounts and Finance department who fail to keep complete financial records in accordance with section 156(1) of the Public Finance Management Act, Cap.412A and in line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply.**

Unsupported Work In Progress

Included in the balance of non-current assets is Kshs.1,779,837,608 in respect of work in progress balance as disclosed in Note 22 to the financial statements. However, the detailed project implementation status reports indicating project name, description, tender number, contract value, commencement and completion dates, opening cumulative payments, additions for the year, and outstanding works were not provided for audit. Further, the work in progress balance of Kshs.136,133,252 capitalized during the year under review was not supported by a journal voucher and relevant accounting documentation.

In the circumstances, the accuracy and completeness of the total non-current assets balance of Kshs.2,277,014,478 could not be confirmed.

Management Response

The Management was in agreement with the auditor's observations.

The details of the work in progress, totaling the sum of Kenya Shillings One Billion, Seven Hundred and Seventy-Nine Million, Eight Hundred and Seven Thousand, Nine Hundred and Sixty-Three (Kshs. 1, 779, 807, 963/-), are presented in Annexure 3.2 (a) of this report, which appears at page 269. Annexure 3.2 (a) includes information on the project's status, project name, tender number, contract value, commencement and completion dates, opening cumulative payments, additions for the year, and outstanding works as presented during the audit.

Additionally, the journal for the capitalized works amounting to the sum of Kenya Shillings One Hundred and Thirty-Six Million, One Hundred and Thirty-Three Thousand, Two Hundred and Fifty-Two (Kshs. 136, 133, 252/-)

Committee Observation

The committee observed that details of the work in progress, totaling the sum of Kenya Shillings One Billion, Seven Hundred and Seventy-Nine Million, Eight Hundred and Seven Thousand, Nine Hundred and Sixty-Three (Kshs. 1, 779, 807, 963/ were not provided during the audit period.

Committee recommendations

The Governor should comply with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply.

Unsupported Bank and Cash Balances

balance excludes transactions in eight (8) bank accounts whose supporting cashbooks, bank reconciliations, or certificates of bank balances were not provided for audit.

Closure of two (2) donor-funded project accounts whose banks statements before and after closure were not provided for audit.

Management response

Reconciliations for all banks have been done.

Committee observation

The Committee observed that-

- i. Bank balances were not provided for audit.
- ii. Reconciliation has not been properly done

Committee Recommendations

The Committee recommends that-

- i. the Governor should comply with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- ii. the Governor should strengthen internal audit controls and ensure proper record keeping in line with section 155 of the Public Finance Management Act, Cap.412A and submit a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- iii. the Governor should enhance the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.**

Unsupported Customer Deposit Payable

The statement of financial position reflects customer deposit payable balance of Kshs. 89,147,364. However, the deposits bank account had a balance of Kshs.1,767,283 resulting to unexplained variance of Kshs. 87,380,081.

In the circumstances, the accuracy, completeness, and existence of customer deposit payable balance of Kshs.89,147,364 could not be confirmed.

Management Response

The Management was in agreement with the auditor's observation.

The customer deposit register shows a total of Kenya Shillings Eighty-Nine Million, One Hundred and Forty-Seven Thousand, Three Hundred and Sixty-Four (Kshs. 89, 147, 364/-), while the bank balance stood at Kenya Shillings One Million, Seven Hundred and Sixty-Seven Thousand, Two Hundred and Eighty-Three (Kshs. 1, 767, 283/-) as at the 30th day of June 2025. The variance between these amounts represents cash utilized by the company for operations, primarily due to the non-cost recovery tariff. In the future, the management shall provide additional disclosures in Note 34 of the financial statements.

Committee observation

The committee observed that-

- i. The committee observed that documents to support the customer deposit expenditure of Ksh 87,380,081 was not provided during the audit.
- ii. Reconciliation of bank statements has not been done.

Committee Recommendations

The Committee recommends that—

- i. the Governor should ensure that the Accounting Officer, within 60 days of the adoption of this report, submit to the Committee and the Auditor-General a repayment plan with clear timelines for the repayment of the customer deposits;**
- ii. the Governor through the Board of Directors should put in place a Customer Deposits Management Policy to guide how the water company can access, utilize and refund the money within specified timelines. Further, the Accounting Officer should ensure that there is full disclosure to the water company's customers on the utilization of the deposits;**
- iii. the Governor through the Accounting Officer should ensure that all customer deposits are deposited in a fixed/call account whose access to the management is limited and where the accrued interests can be used to offset the bank charges. Management to submit evidence of the same to the Auditor-General within 60 days of the adoption of this report for verification; and**

iv. the Governor should ensure that the company strictly adheres to the provisions of section 142 of the Public Finance Management Act, Cap.412A on borrowing by County Government entities, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply.

Material Uncertainty on Going Concern

The statement of profit or loss and other comprehensive income reflects a deficit of Kshs.154,017,567, leading to an increase in the accumulated deficit Kshs.306.899,559 to Kshs.460,917,127. 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 the financial statements. Further, the Company reflects current assets balance of Kshs. 557,183,374 against total current liabilities balance of Kshs.1,219,044,605 resulting to negative working capital of Kshs.661,861,231.

In the circumstances, the Company's going concern is dependent on the County Executive and creditors' goodwill.

My opinion is not modified in respect of this matter.

Management Response

The Management was in agreement with the auditor's observations.

On the 1st day of June, 2025, the company developed a strategic plan for the period 2024/2025 to 2033/2034 centered on Operational Excellence, aimed at enhancing financial stability and addressing material uncertainties related to our going concern status. This plan is now in use and is aligned with our business strategy, focusing on streamlining processes, investing in innovation, and implementing robust risk management systems. The management is actively executing initiatives to improve efficiency and explore partnerships to maintain our financial health. While this progress will occur over time and may involve ups and downs, we anticipate an overall turnaround trajectory, as evidenced in the current financial year by a reduction in overall payables in Note 32 on Trade Payables which was available to the Auditor General at the time of the audit.

To address negative working capital, the management has focused on improving revenue collections and boosting sales. Additionally, the management has deferred non-essential

and non-core purchases during this period to stabilize the company's financial position. The Management has also applied for a review of the tariff to address the rising operational costs faced by the company. With the current improved infrastructure and sufficient water production, these challenges are expected to be resolved.

Committee observations

- i. the Management has applied for a review of the tariff to address the rising operational costs faced by the company; and
- ii. the management is focusing on improving revenue collections and boosting sales.

Committee Recommendations

The Committee recommends that—

- i. The Governor of Kilifi County should take keen interest in the management and operations of the water company in line with Article 179 (4) of the Constitution;**
- ii. The Accounting Officer should prepare and submit quarterly reports to the County Treasury in regard to the financial and non-financial status of the water company in line with section 166 of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- iii. the Governor should take full responsibility for monitoring the financial performance of the county corporation in line with section 184 of the Public Finance Management Act, Cap.412A and regularly report to the Governor through the County Executive Committee in line with Article 179 (6) of the Constitution;**
- iv. the County Treasury should undertake annual reporting on County Corporation including an assessment of the commercial viability of the company in line with the standards set by the Water Services Regulatory Board under section 77(2) of the Water Act, Cap.372, failure to which the provisions of section 147 of the Water Act on penalties for offences shall apply; and**
- v. the Governor should ensure that Accounting Officer, within 60 days of the adoption of this report, put in place strategic and innovative measures for recovery and to boost the financial health of the water company for self-sustainability. Additionally, the management reviews and regularizes the company's existing assets and have updated assets register that reflect the current financial position. Further, management to determine and ascertain their**

commercial viability as required by the Public Sector Accounting Standards Board (PSASB).

Emphasis of Matter - Budgetary Control and Performance

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs. 1,064,985,395 and Kshs. 1,042,414,651, respectively resulting to an under-funding of Kshs.22,570,744 or 2% of the budget. Similarly, the Company spent a balance of Kshs.1,270,112,191 against actual receipts of Kshs.1,042,414,651 resulting to over-expenditure of Kshs.227,697,540 or 22%.

The over-expenditure may increase the unpaid obligations by the Company, affecting its subsequent year's budget, since unpaid obligations form a first charge in the following year.

My opinion is not modified in respect of this matter.

Management Response

The Management is in agreement with the auditor's observations. The budget shortfall was primarily due to delays in disbursement from our development partners regarding grant funding that had been included in the annual budget. In response to these delays, the management has rescheduled the activities dependent on this funding to the 2025/2026 financial year.

Additionally, the increase in operating and general expenses was attributed to higher water costs resulting from a greater volume of water received than initially budgeted. This unexpected increase in water supply necessitated additional maintenance expenditures to ensure the sustainability of our water service operations. Moving forward, the management will present a budget review for approval without compromising service delivery.

Committee Observations

The Committee observed that—

- i. under-funding of Kshs.22,570,744 or 2% of the budget during the financial year under review; and

- ii. the water company had resulting an over-expenditure of Kshs. 13,836,543 or 24% of the actual receipts of the budget during the financial year under review.

Committee Recommendations

The Committee recommends that—

- i. **The Governor should ensure that the Accounting Officer complies with regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply; and**
- ii. **the Board of Directors should institute proper and realistic budget planning as well as measures to enhance its own generated revenue, such as review of tariffs, connection of more customers and automation to address revenue leakages. The Auditor-General to confirm the effectiveness of the mitigating measures put in the water company and report in the subsequent audit cycle.**

Other matter - Unresolved Prior Year Audit Matters

Unresolved Prior Year Audit Matters

In the prior years' audit reports, 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. Review of the status during audit of the Company in 2024/2025 revealed that the following nine (9) issues remained unresolved:

No	Audit Matter
1	Unsupported bulk water cost.
2	Long outstanding trade and other receivables balance.
3	Long outstanding trade and other payables balance.
4	Inaccurate customer deposits balance.

- 5 Non-compliance with affirmative action on gender, ethnicity, and regional balance.
- 6 Non-remittance of pension deductions.
- 7 Effectiveness of non-revenue water management.

Management Response

The Management was in agreement with the auditor's observations.

The prior year audit matters have been addressed as follows.

1. Unsupported bulk water costs.

This refers to the payments for bulk water costs that were made without a formal agreement between the Company and the Coast Water Works Development Agency in 2023/2024. As of April 2025, the payment agreement was terminated, and we have since complied with the directives from the Coast Water Works Development Agency. All payments for water purchases are now being made directly to the Coast Water Works Development Agency.

2. Long outstanding trade and other receivables balance

The Board of Directors resolved that the long-outstanding balance of Kenya Shillings Eight Million, Four Hundred and Forty-Three Thousand, Six Hundred (Kshs. 8, 443, 600/-) owed to the Coast Water Works Development Agency be offset against the outstanding bills payable by the Company, thereby considering the matter settled. We are currently awaiting the credit note from the Coast Water Works Development Agency regarding this issue.

3. Long outstanding trade and other payables

This is being addressed by reduction and adherence to cashflow-backed purchases. There was a reduction in the overall payables in the financial year under review from the sum of Kenya Shillings Nine Hundred Forty-Three Million, Seven Hundred and Seven Thousand, Seven Hundred and Sixty-Two (Kshs. 943, 707, 762/-) to the sum of Kenya Shillings Nine Hundred and Thirteen Million, Seven Hundred and Seventy-Two Thousand, Seven Hundred and Thirty (Kshs. 913, 572, 730/-) as disclosed in Note 34.

4. Inaccurate customer deposit balance

This refers to the discrepancy between the customer deposit register amount and the customer deposit bank balance. The Company is addressing this issue by improving cash flow and implementing a new proposed tariff. This situation is expected to be significantly resolved by the beginning of the financial year 2026/2027, when the new tariff will take effect. The tariff includes a structured refund plan spanning the tariff regime.

5. Non-compliance with affirmative action on gender, ethnicity, and regional balance

The management established a policy aimed at promoting diversity and inclusion, but we have not conducted any recruitment activities during the audit period under review. This has resulted in a lack of progress toward achieving the intended diversity goals outlined in our policy.

6. Non-Remittance of pension deductions

The non-remittance of pension deductions is a result of the cash flow challenges that the company has been experiencing. These financial difficulties have made it increasingly difficult to meet all of the company's obligations, including timely payments to pension. To turn this around, the Company is reviewing the strategic and business plan to address the challenges faced. The management has also applied for a new tariff that is expected to be in place from the 1st day of July 2026, which shall have a component on the pension arrears in order to turn this around.

1. Effectiveness of non-revenue water management

The Management has taken up initiatives meant to address the non-revenue water management in two phases. Short-term phases include: -

- a. Pressure management and calibration of pressure-reducing valves.
- b. Intensified leak detection and rapid repair of bursts.
- c. Reconciliation and calibration of bulk and consumer meters.
- d. Regularization of illegal connections in newly supplied areas.
- e. Improved daily water balance monitoring.

The long-term measures are capital-intensive and are being rolled out in phases, as presented in responses to observation number 4 on the report on lawfulness and effectiveness in the use of public resources in this report.

Committee Observations

The Committee observed that the water company had unresolved prior year matters demonstrating the management's lack of action to implement corrective measures.

Committee Recommendations

The Committee recommends that—

- i. **the Governor should ensure that the Accounting Officer resolves any issues resulting from an audit that remains outstanding as required by section 149(2)(l) of the Public Finance Management Act, Cap. 412A, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences may apply; and**
- ii. **the Auditor-General provides a status update on the progress made on the matter in the subsequent audit cycle upon review of the progress report.**

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

1. Non-Compliance with One Third Basic Salary Pay Rule

Review of the Company's payroll records revealed that sixty-eight (68) employees had salary deductions in excess of two-thirds of their basic pay in breach of Section 19(3) of the Employment Act, 2007, which prohibits such excessive deductions.

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

Management Response

The Management was in agreement with the auditor's observation. This situation arose from the recent introduction of mandatory statutory deductions applicable to all staff members. Unfortunately, some employees were already at the maximum deductible limits

before the implementation of these new deductions, resulting in the excessive deductions identified.

To address this issue and ensure future compliance, we are implementing the following corrective measures from the 11th day of August 2025:

a.No further deductions will be allowed for affected employees except as directed by the law.

b.Staff members have been advised to reduce their contributions to voluntary organizations to remain within the legal requirements.

We anticipate that this adjustment will be reversed after a year, allowing us to return to standard deduction practices.

Committee Observations

The Committee observed that an average of 68 employees per month were drawing net salary of less than one third of their basic salary contrary to section 19(3) of the Employment Act, 2007.

Committee Recommendations

The Committee recommends that the Governor adheres with the provisions of to Section 19(3) of the Employment Act, Cap.226 which stipulates that the total amount of all deductions which may be made by an employer from the wages of his employee at any one time shall not exceed two-thirds of the basic pay, failure to which the provisions of section 87 of the Employment Act on penalties for offences shall apply.

1.Non-Conformity with Law on Recruitment of Persons with Disabilities

Review of the staff complement revealed that out of a total of two hundred and twenty-four (224) current staff members, only two (2) (0.8%) were classified as persons with disability. This is in breach of Section 21(2)(a) of the Persons with Disabilities Act, 2025, which states that every employer shall, where an employer has at least twenty (20) employees, reserve at least five per cent (5%) direct employment opportunities for persons with disabilities to secure employment.

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

Management Response

The Management was in agreement with the auditor's observations. No recruitment activities were conducted during the financial period under review, which contributed to our inability to meet this legal requirement. During this time, one staff member was assessed as incapacitated under the Persons with Disabilities Act. The individual has been retained and assigned work that aligns with his/her capabilities. To address this non-compliance and ensure adherence to the law moving forward, we have incorporated these principles into our recruitment policy.

Committee Observations

The Committee observed that the company did not engage persons living with disabilities, contrary to section 13 of the Persons with Disabilities Act, Cap.133.

Committee Recommendations

The Committee recommends that—

- i. the Governor ensures strict compliance with the provisions of section 13 of the Persons with Disabilities Act, Cap.133 with regards to the reservation of five per cent of all casual, emergency and contractual positions in employment in the public and private sectors for persons with disabilities failure to which the provisions of section 48 of the Act on offences for penalties shall apply; and**
- ii. the Auditor-General to monitor the implementation of the above recommendation and provide a status update on the same to the Senate during the subsequent audit cycle.**

2.Irregular Payments of Bulk Water Costs

The statement of profit or loss and other comprehensive income reflects general and operations expenses totalling Kshs.494,596,947 as disclosed in Note 12 to the financial statements. Included in the expenditure is Kshs.322,149,048 incurred on bulk water purchase from Coast Water Works Development Authority (CWWDA). However, the bulk water purchase payments were utilized in payment of electricity costs directly to Kenya Power and Lighting Company (KPLC) collection bank account maintained in a local bank, but which is in the name of CWWDA. No contract was provided to confirm the agreement

between CWWDA and MAWASCO for the latter to pay CWWDA's utility cost, KPLC in lieu of bulk water billings from CWWDA.

This was contrary to Section 37 (2) of the Companies Act, 2015, which states that a document is validly executed by a Company if it is signed on behalf of the Company by two (2) authorized signatories or by a Director of the Company in the presence of a witness who attests the signature.

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

Management Response

The Management was in agreement with the auditor's observation.

The initial payment arrangement was based on mutual communication between the company and the Coast Water Works Development Authority, which allowed for the direct payment of utility costs to Kenya Power and Lighting Company instead of bulk water billings. However, this arrangement was revoked by the Coast Water Works Development Authority as of the 1st day of April 2025. Moving forward, the company is now required to make direct payments to the Coast Water Works Development Agency for bulk water purchases.

Committee Observation

The Committee observed that the management had revoked the payment agreement and it pays direct to the Coast Water Works Development Agency.

Committee Recommendations.

The Committee recommends that the matter be marked as resolved

Unaccounted for Water (Non-Revenue Water)

The statement of profit or loss and other comprehensive income reflects operating revenue amount of Kshs. 760,870,082 in respect to water sales. Water production records revealed that the Company produced 9,514,236 cubic meters of water during the year under review, out of which 5,562,157 cubic meters (or about 59%) was sold to consumers. The variance of 3,952,079 cubic meters of water (or 42%) represents non-revenue water, which is above the acceptable threshold of 12% set by the Water Service Regulatory Board (WASREB).

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

Management Response

The Management was in agreement with the auditor's observation.

The increase in Non-Revenue Water (NRW) from 12% to 42% arose mainly from the commissioning of new upstream water supply investments, which significantly increased water production capacity. During the transition period, production outpaced downstream network optimization, leading to higher apparent losses. Contributing factors included pressure imbalances, integration of new transmission infrastructure, temporary system losses during testing, and delayed metering alignment in newly supplied zones.

The Management considers the increase transitional and has initiated corrective measures to stabilize and reduce NRW.

Measures to Reduce NRW

Short-Term Measures

- a. Pressure management and calibration of pressure-reducing valves.
- b. Intensified leak detection and rapid repair of bursts.
- c. Reconciliation and calibration of bulk and consumer meters.
- d. Regularization of illegal connections in newly supplied areas.
- e. Improved daily water balance monitoring.

Long-Term Measures

- a. Establishment of District Metered Areas (DMAs).
- b. Rehabilitation and replacement of aging pipelines.
- c. Strengthening asset management and preventive maintenance.
- d. Dedicated NRW reduction programs and staff capacity building.

Conclusion

The elevated NRW is linked to strategic infrastructure expansion aimed at long-term water security. With the ongoing interventions, the Company expects a progressive reduction of NRW to acceptable regulatory levels as the system stabilizes.

Committee Observations

The Committee observed that the Non-Revenue Water was 33% way above the sector benchmark of 25% prescribed by the Water Services Regulatory Board (WASREB) guidelines.

Committee Recommendations

The Committee recommends that—

- i. the Governor should put in place comprehensive measures to mitigate on the Non-Revenue Water, that is, both physical and commercial losses. The measures to include replacement of old age dilapidated infrastructure, installation of smart meters for accurate billing and the application of Geographical Information System (GIS) to receive real-time data for the detection of bursts and leakages among other measures. The Auditor-General to review the implementation of the measures put in place to mitigate the Non-Revenue Water and provide a status update on the matter in the subsequent audit cycle;**
- ii. given the impact of Non-Revenue Water on the water company's cashflows, the Governor should ensure that a provision for Non-Revenue Water is included in the financial statements. Further, explanatory notes should be provided to detail the contributions of both commercial and physical loss factors to the overall Non-Revenue Water; and**
- iii. the Governor of Kilifi County to collaborate with the Ethics and Anti-Corruption Commission to ensure pre-emptive measures are put place to reduce cases of theft and illegal connections.**

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT, AND GOVERNANCE

1. Partial Bank Collections Integration

The Company was using M@gics, a revenue collection system, to manage revenue collections from water. The revenue collection system's service contract provides for integration of all local banks maintaining the collection accounts. Review of the system revealed that two (2) of the bank accounts used for revenue collection were not integrated.

In the circumstances, the revenue collection system and internal controls are not working as intended.

Management Response

The Management was in agreement with the auditor's observation.

Although the M@gics system indicated that it could integrate with all local banks, it has been unable to connect with two banks that have implemented newer systems. Management has identified this as a significant deficiency and is considering reviewing the memorandum of understanding with the banks. The management shall conclude by the end of this financial year if the integration is not possible.

Committee Observation

2. Non-Enforcement of Approved Tariff for New Water Connections Deposit

The statement of profit or loss and other comprehensive income reflects other income totalling Kshs. 10,055,058 as disclosed in Note 8 to the financial statements. This income includes Kshs. 5,789,700, which was in respect of new water connection charges. However, review of the new contracts report revealed that some customers paid deposit amounts that were different from the amount prescribed in the approved tariff structure, and in most cases, the deposit amount was zero (0), indicating that no deposit was charged. This is an indication that M@gics does not automatically apply the approved tariff structure during billing, reconcile billings against payments, or is configured to allow overrides of such controls.

In the circumstances, the effectiveness of M@gics' billing internal controls could not be confirmed.

Management Response

The Management was in agreement with the auditor's observation.

These accounts with zero deposits were inherited from community water projects that were already established but faced ongoing management challenges. The system failed to recognize that these deposits had already been paid, as the payments were not processed through the M@gics platform. Management views this as a process issue rather than a problem with the M@gics system. The accounts have since been identified and recorded appropriately, specifically those associated with the Kizingo - Mbaraka Chembe water projects.

3.Active Customer Account Billed for Less than twelve (12) Months

Review of billing data from the M@gics system revealed that seven thousand six hundred forty-one (7,641) active customers were billed for less than twelve (12) months during the financial year under review, as detailed below:

S/No	Account Status	Number of Billed Months during
the year	Number of	Accounts

1	Active Connection	1	402
2	Active Connection	2	287
3	Active Connection	3	352
4	Active Connection	4	394
5	Active Connection	5	484
6	Active Connection	6	441
7	Active Connection	7	625

8	Active Connection	8	581
9	Active Connection	9	779
10	Active Connection	10	1194
11	Active Connection	11	2102
	Total		7641

In the circumstances, the effectiveness of water billing and revenue collection procedures and internal controls could not be confirmed.

Management Response

The Management was in agreement with the auditor's observation. The rationale for not billing the connection is based on the tariff guidelines, which stipulate that water connections should not be billed when they are off supply. Furthermore, if a connection is active but not in use, it should also remain unbilled. An account is considered active if it has been billed within the past six months or has been off supply at any point during that timeframe. Dormant connections are defined as those that have had no activity for the past six months.

4.Customer Account Records without Meter Numbers

Review of the customer account data revealed that one hundred and forty-two (142) active customer accounts did not have meter numbers assigned, out of which fifty-three (53) accounts were billed at Kshs.454,780. In addition, there was a delay in updating the meter information in the customer's account after a disconnection or replacement of a meter, resulting to failure to bill.

The delay was attributed to gaps in system configuration and workflow integration between the Work-Order and Billing modules. Meter replacement or reactivation details were not consistently updated in M@jics, either due to delayed data entry by field staff or lack of automated synchronization between operational and billing functions.

In the circumstances, the effectiveness of internal controls on work-order and billing processes could not be confirmed.

Management Response

The Management was in agreement with the auditor's observation. It is an established practice in metering the Company's customers that water meters can be transferred, enabling them to be used by multiple connections as long as they are registered to one customer at a given time. However, it is important to note that account numbers are unique within our database and are not transferable. Only the water meter numbers are transferable.

An account can be disconnected in the field, and its meter assigned to another customer. The previous billing records shall, however, remain in the billing for the particular customer. The updating is done within a billing cycle. The management shall improve the update turnaround time.

Management is doing an in-depth analysis of all these meters on a case-by-case basis.

5.Omission of Critical Components from MAWASCO ICT Policy

Review of the Company's existing ICT Policy document revealed that although the policy addresses general ICT governance issues, it omits several critical sections necessary for safeguarding information systems and ensuring business continuity. Specifically, the current ICT policy does not include:

- i. A Password Security Policy to define complexity, expiry, sharing, and authentication controls.
- ii. A Backup and Data Retention Policy to guide the frequency, storage, and testing of data backups.
- iii. A Change Management Policy to govern system modifications, updates, and approvals.
- iv. A Network Security Policy to define access controls, firewall management, and monitoring procedures.

In the circumstances, the effectiveness of controls on the Company's ICT policy and governance framework could not be confirmed.

Management Response

The Management was agreement with the auditor's observations.

The Management is conducting a comprehensive review of the ICT policy to incorporate critical components and align it with the audit report recommendations, which will be integrated into the new Enterprise Resource Planning (ERP) system anticipated for

implementation by the start of the 2026-2027 financial year. A technical committee, supported by a steering and implementation committee, has been appointed to address the issues raised in the ICT policy, with the appointment memo attached herein as Annexure 16, which appears at pages 701 – 735.

6.Lack of Backup Site

Review of records revealed that M@jics is hosted on a single primary server without a backup hosting site or disaster recovery environment. In the event of hardware failure, cyberattack, or data corruption at the main site, there is no alternative server to restore system functionality or access critical billing data. This situation poses a significant risk to business continuity, as the Company could experience extended downtime and potential data loss.

In the circumstances, the effectiveness of the Company's controls on financial and operational data could not be confirmed.

Management Response

The Management was in agreement with the auditor's observation.

The Management is actively taking steps to address the situation. We will procure an alternative backup site to ensure robust data protection and business continuity. This backup site will provide the necessary infrastructure to restore system functionality and safeguard critical billing data, thereby minimizing the risk of disruption to operations. The current secondary backup that is manual shall be discontinued once the online backup site is acquired.

Backup is being done manually through the hard drive. The management shall seek an off-site backup storage at either Kenya Commercial Bank or Equity Bank.

7.Lack of an Internet Backup Link

The Company currently relies on a single internet link provided by one (1) Internet Service Provider (ISP) for all its operations, including the M@jics system and email. The Company has no redundant or backup internet connection to maintain connectivity in the event of a service disruption or ISP outage. Consequently, any downtime experienced by the provider leads to total loss of system access, interruption of billing, receipting, and communication services, and delayed operations across departments.

In the circumstances, the effectiveness of controls on internet outages or ISPs could not be confirmed.

Management Response

The Management was in agreement with the auditor's observation.

The Management shall procure and implement a secondary internet link from a different service provider to ensure there is business continuity. This shall be in place by the close of the financial year 2025/2026. Currently, the Company maintains two accounts from the same service provider as backup. One in the main system and one for use in the GIS and mapping section.

8. Inadequate Physical and Environmental Controls Over the Data Center

The Company's data center lacks several critical physical and environmental control measures. Access to the data center is only controlled through a manual key lock, with no biometric or electronic access control to identify and log entry. There is no visitor access register for guests or maintenance personnel who access the facility. Additionally, the data center floor is not raised, exposing equipment to dust and potential water damage. The room space is small and congested, limiting proper airflow and cooling. It was further observed that the data center lacks fire suppression systems and portable fire extinguishers, increasing the risk of fire-related data and equipment loss. These weaknesses collectively expose Company's critical ICT infrastructure and data to environmental and security threats.

The Inadequate physical and environmental controls increase the risk of unauthorized access, damage, or loss of critical ICT infrastructure and data.

Further, the absence of proper access control, environmental safeguards, and fire protection measures exposes the data center to potential system downtime, data loss, and interruption of essential company operations.

In the circumstances, the effectiveness of internal controls, risk management, and governance could not be confirmed.

Management Response

The Management is in agreement with the auditor's observations. The Management is committed to implementing immediate corrective actions, including:

a. Enhancing Access Control: We will install biometric and electronic access control systems to ensure secure and logged access to the data center.

b. Improving Environmental Conditions: Plans are in place to raise the data center floor to protect equipment from dust and moisture, and we will assess the layout to improve airflow and cooling.

c. Establishing Fire Safety Protocols: We will install fire suppression systems and ensure that portable fire extinguishers are available and strategically placed throughout the data center.

We recognize the urgency of these improvements and will prioritize their implementation to enhance the security and resilience of our data center during this mid-year budget review. Additionally, we have introduced a visitor register for anyone accessing the data center and purchased an air conditioner for the data processing room.

REPORT ON THE AUDITED FINANCIAL STATEMENTS MUNICIPALITY OF KILIFI FOR THE FINANCIAL YEAR 2024/2025

The Governor of Kilifi County, Hon. Gideon Maitha Mung'aro, OGW, appeared before the Committee on Tuesday, 20th January, 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Municipality of Kilifi for the Financial Year 2024/2025. The Governor was accompanied by the following officers—

- | | |
|------------------------|-------------------------------|
| 1. Mr. Philip Charo | - CECM – Finance |
| 2. Mr. Hezekiah Mwarua | - Chief Officer- Finance |
| 3. Mr. K. Lughanje | - County Attorney |
| 4. Mr. Suleiman Salim | - Chairman, Malindi Municipal |
| 5. Mr. Charles Ngala | - Chairman, Kilifi Municipal |

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified Opinion** on the financial statements of the Municipality of Kilifi for the financial year on the following basis—

Unsupported Expenditure on Hire of Transport and Equipment

The statement of financial performance reflects expenditure totalling to Kshs. 104,024,503 on the use of goods and services as disclosed in Note 8 to the financial statements. Included in the expenditure is Kshs. 74,261,262 incurred on hire of transport and equipment, out of which Kshs. 55,100,089 was in respect of a garbage collection contract awarded to a service provider at Kshs. 4,499,950 per month. In addition, Kshs. 18,946,952 was incurred on shoveling services at Mtondia Dumpsite. However, even though the payments have been supported by weekly checklist signed by the Municipal Supervisor and the service provider representative and a report by the environmental officer, the evidence of actual work done in terms of job cards/work tickets and registration details for truck(s) and machinery deployed indicating the actual equipment, specific work done, number of hours and endorsed by both the person who undertook the task and the person who supervised when work was done was not provided for audit verification.

In the circumstances, the accuracy, completeness, and value for money on expenditure on the hire of transport and equipment totalling Kshs. 74, 261,262 could not be confirmed.

Management Response

The Management is in agreement with the auditor's observations. The Municipality has been compiling a report with the attached daily work schedule, as signed by the Municipality Supervisor and the service provider supervisor, and approved by the Municipality Environment Officer, since the start of the contract. Currently, the evidence of actual work done in terms of job cards and registration details for truck(s) and machinery deployed, indicating the actual equipment, specific work done, number of hours, and endorsed by both the person who undertook the task and the person who supervised, is prepared and available.

Committee observations

The Committee observed that the management failed to submit documents to the Auditor-General during the audit period.

Committee Recommendations

The Committee recommends that –

- i). The Governor should comply with section 149(2) of the Public Finance Management Act, Cap. 412A regarding preparation and management of financial and accounting records failure to which provisions of section 199 of the Public Finance Management Act on penalties for offenses shall apply;**
- ii). The Governor should ensure that he strengthens internal audit controls and ensure proper record keeping;**
- iii). The Governor should ensure that administrative action is taken on the officers within the Accounts and Finance department who fails to keep complete financial records in accordance with their terms and conditions of appointment or employment and as required by the Accountants Act, Cap. 534.**

Inaccurate and Long Outstanding Trade and Other Payables Balance

The statement of financial position reflects the trade and other payables balance of Kshs. 236,421,819 as disclosed in Note 17 to the financial statements. Review of the supporting documents revealed that the trade payables balance included supplier invoices amounting to Kshs. 75,872,825 that had been outstanding for over two (2) years, and an amount of Kshs.73,718,321 incurred in the year under review that were not settled within a period of sixty (60) days. No explanation or justification was provided for the failure by management to settle overdue invoices owed to suppliers. In addition, Note 17 to the financial statements reflects a restated opening trade payables balance of Kshs. 171,266,423 from the prior year

audited balance of Kshs. 65,344,311. Even though this was increase of Kshs.105,922,112 was explained as a result of amount owed to one hundred and fourteen (114) suppliers that had been omitted from prior year audited financial statements, the amounts were supported by contract agreements which was between the service providers and the County Government of Kilifi, which is a separate legal entity, and whose principle place of business was different in every agreement.

In the circumstances, the accuracy, completeness, and existence of trade and other payables balance of Kshs. 236,421,819 could not be confirmed.

Management Response

The Management is in agreement with the auditor's observations. Limited resources and budgetary constraints have posed a significant challenge for the Municipality in settling the overdue invoices. Nonetheless, the Municipality has been settling the outstanding amounts in phases based on the availability of funds. Currently, as at the end of the second quarter, Kenya Shillings One Hundred and Sixteen Million, Nine Hundred and Eighty-Seven Thousand, Four Hundred and Sixty-Four and Eighty-Seven Cents (Kshs. 116, 987, 464.87) has been paid, and the outstanding payables is at Kenya Shillings One Hundred and Fifteen Million, Eight Hundred and Eighty-One Thousand, One Hundred and Twenty-Five (Kshs. 115,881,125/-).

The service providers delivered services to the Municipality of Kilifi, and all related expenses were fully borne by the Municipality. Although the contract documents indicate that the agreements were between the service providers and the County Government of Kilifi, the actual contractual engagement and execution were undertaken by the Municipality. Currently, the Municipality has adopted its own agreements template and no longer uses the County Government's contracts template.

Internal controls have been enhanced, and human resource capacity in the Municipality accounts office has also been increased by an additional two staff.

Committee Observations

The Committee observed that the query remains unresolved for the following reasons –

- i). there were significant financial statement discrepancies such as-

- Multiple instances of unexplained variances between the Statement of Financial Performance, Statement of Cash Flows, and Statement of Financial Position.
 - Inconsistencies in the reporting of receivables, payables, and capital/development funds.
 - Lack of supporting documentation for several adjustments and amendments.
 - Issues related to the correct application of IPSAS accrual accounting.
 - Discrepancies between budgeted and actual amounts.
- ii). management failed to undertake the necessary adjustments and reconciliation of the financial statements as well as provision of supporting documents at the time of audit;
- iii). management explanations of the transfers from county treasury, and the payment made by the county treasury on behalf of the entity, highlight a misunderstanding of how these transactions should be accounted for within the statement of cash flows, an indication of capacity challenges in the finance and accounting sections; and
- iv). the numerous inaccuracies are an indication of weak internal control systems.

Committee Recommendations

The Committee recommends that –

- i). the Governor should ensure that the inaccuracies observed in the financial statements are adjusted accordingly using the relevant journal entries and reflected as prior year adjustments in the financial statements of the subsequent financial year. Auditor-General to provide a status update on the matter in the subsequent audit cycle;**
- ii). the Governor should ensure that he complies with section 149(2) of the Public Finance Management Act, Cap. 412A regarding preparation and management of financial and accounting records failure to which provisions of section 199 of the Public Finance Management Act on penalties for offenses shall apply ;**

- iii). **the Governor should ensure that he strengthens internal audit controls and ensure proper record keeping;**
- iv). **the Governor should ensure that the capacity of officers preparing financial statements is enhanced to comply with the accounting standards and should further invest in technology and processes that reduce inaccuracies in the preparation of financial statements; and**
- v). **the Governor should ensure that the administrative action is taken on the officers within the Accounts and Finance department who fails to keep complete financial records in accordance with their terms and conditions of appointment or employment and as required by the Accountants Act, Cap. 534.**

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects the final revenue budget and actual on a comparable basis of Kshs. 318,637,909 and Kshs. 253,637,909 respectively, resulting to an under-funding of Kshs. 65,000,000 or 20% of the budget. However, the Municipality spent Kshs. 222,042,274 against actual receipts of Kshs.253,637,909 resulting to under-utilization of Kshs. 31,595,635 or 12% of the total revenue received.

The under-funding and under-utilization affected the planned activities and may have impacted negatively on service delivery to the public.

Managements Response

The Management is in agreement with the auditor's observations. The underfunding was primarily caused by the Municipality not receiving its full cash disbursement by the close of the financial year. As a result, this shortfall led to under-utilization of the approved budget, and the Municipality was therefore unable to fully absorb its budget by year-end. However, the Municipality received the sum of Kenya Shillings Sixty-Five Million (Kshs. 65,000,000/-) on the 9th day of July 2025.

Committee observation

- i. The Committee observed that the under-funding was due to late disbursement; and

ii. The disbursement was done on 9th July,2025

Committee recommendations

The Committee recommends that the matter be marked as resolved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Use of Goods and services

Included in the expenditure is Kshs. 1,094,502 incurred on utilities, supplies, and services, out of which Kshs. 143,930 was incurred through the use of imprest issued to three (3) officers to cater for electricity and gas expenses. This was contrary to Regulation 93 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 purposes specified in the imprest warrant. Temporary imprests shall be issued mainly in respect of official journeys and are intended to provide officers with funds with which they can meet travelling, accommodation, and incidental expenses. Before issuing temporary imprests, the Accounting Officer shall ensure that the main objective of the journey cannot be achieved by other cheaper means.

Management Response

The Management is in agreement with the auditor's observations. The expenditure incurred relates to standing office imprests and reimbursements for operational office expenses paid through petty cash. The expenditures included payment of office electricity bills through the buying of tokens and refilling of office cooking gas. The specific purpose of each imprest was duly disclosed on the respective imprest warrants and the request letters approved by the Accounting Officer.

Committee observation

The Committee observed that the management provided imprest warrant.

Committee recommendations

The Committee recommends that the matter be marked as resolved

i. Irregular Expenditure on Hospitality, Supplies and Services Irregular

Included in the expenditure is Kshs. 2,188,431 incurred on hospitality, supplies, and services, out of which Kshs. 723,700 was incurred through use of imprest issued to five (5) officers to cater for expenditure on catering services (receptions), accommodation, gifts, food, and drinks. This was contrary to Regulation 93 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 purposes specified in the imprest warrant. Temporary imprests shall be issued mainly in respect of official journeys and are intended to provide officers with funds with which they can meet travelling, accommodation, and incidental expenses. Before issuing temporary imprests, the Accounting Officer shall ensure that the main objective of the journey cannot be achieved by other cheaper means.

Management Response

The Management is in agreement with the auditor's observations. The expenditure incurred relates to standing office imprests and reimbursements for operational office expenses paid through petty cash. This included expenditures such as the purchase of bottled water for office consumption. The specific purpose of each imprest was duly disclosed on the respective imprest warrants and the request letters approved by the accounting officer.

Committee observations

The Committee observed that the management has provided Imprest warrant.

Committee recommendations

The Committee recommends that the matter be marked as resolved.

ii. Expenditure on Specialized Materials and Services

Included in this expenditure is Kshs. 4,861,500 incurred on specialized materials and services paid to five (5) service providers, out of which Kshs. 3,364,8250 was in respect of branded T-shirts, reflectors, and caps (hats), and uniform to enforcement officers. In addition, Kshs. 1,490,232 was in respect to supply of tools and equipment for solid waste management. Review of records for supply of T-shirts, reflectors and branded caps revealed that even though Management has attached an undated market survey, the prices charged appear to have been determined before the initiation of the procurement as evidence by the requisition form serial number 470 dated 27 January, 2025, the prices charged are higher

than the market survey prices and the list of recipients of the items does not indicate the personal number of staff members. This was contrary to Section 12 (2) of The Urban Areas and Cities Act, 2011 on management of cities and municipalities which states that the Board of an area granted the status of a city or municipality under this Act shall be a body corporate with perpetual succession and a common seal and shall, in its corporate name, be capable of suing and being sued; taking, purchasing or otherwise acquiring, holding, charging or disposing of movable and immovable property; borrowing money or making investments; entering into contracts; and doing or performing all other acts or things for the proper performance of its functions in accordance with this Act or any other written law which may lawfully be done or performed by a body corporate.

Management Response

The Management agreed with the auditor's observations.

The price differences noted between the market survey and the final items supplied appear to have resulted from variations in indicative estimates and the actual supplier quotations received at the time the items were required. The requisition referenced was prepared to confirm quantities and specifications and was not intended to predetermine pricing. The procurement process was duly followed since quotations were issued to bidders. After the bidders quoted, an evaluation was done, and the award was awarded to the lowest bidder.

The management has taken steps to strengthen internal controls and increase human resource capacity in the procurement office to ensure that the procurement process complies with the Law.

The distribution list verified during the audit by the auditor had no disclosure of personal numbers of the officers who received the t-shirts. A corrected distribution list, which includes personal numbers, is now available.

The market survey verified during the audit by the auditor was not dated. A corrected market survey, which is dated, is now available.

Committee observation

The Committee observed that there was numerous errors in financial statements

Committee Recommendations

The Committee recommends that-

- i) **the Governor should ensure that he strengthens internal audit controls and ensure proper record keeping is done by accounting officer; and**
- ii) **the Governor should ensure that the capacity of officers preparing financial statements is enhanced to comply with the accounting standards and should further invest in technology and processes that reduce inaccuracies in the preparation of financial statements;**

Irregular Procurement of Office and General Supplies and Services

Included in the expenditure is Kshs. 3,035,512 incurred on office and general supplies and services, out of which Kshs. 490,812 was incurred through use of imprest issued to five (5) officers. This was contrary to Regulation 93 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 be only for the purposes specified in the imprest warrant. Temporary imprests shall be issued mainly in respect of official journeys and are intended to provide officers with funds with which they can meet travelling, accommodation, and incidental expenses. Before issuing temporary imprests, the Accounting Officer shall ensure that the main objective of the journey cannot be achieved by other cheaper means.

In addition, Kshs. 2,544,700 was incurred in respect to supply and delivery of tonners and cleaning items for the Municipality office. However, review of the payment records on supply of cleaning materials revealed the following:

- i. While the quotation was determined as Quotation No. MOK/RFQ/003/2024/2025, the letter to the successful bidder dated 25 July 2024 refers to Quotation No. MOK/RFQ/004/2024/2025, which has not been explained.
- ii. The letters to the unsuccessful bidders dated 30 July 2024 appear not to have been received by the intended parties.
- iii. The letters of acceptance by the successful bidder dated 26 July 2024 refer to the letter of notification dated 29 July 2024, three (3) days after acceptance of the award. In addition, the two (2) letters have unexplained alterations on the quotation number reference.
- iv. The Principal Procurement Officer forwarded the names of three firms on 15 July, 2024 for approval by the accounting officer to participate in the procurement, a process which was not supported by any known law.

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

Management response

- Expenditure relates to standing imprest and reimbursements for operational office expenses
- Imprest warrants
- Corrected letter to successful bidder provided
- Names of three firms and list of prequalified suppliers provided

Committee observation

The Management failed to submit records to the auditor during the audit period.

Committee recommendations

The Committee recommends that-

- i) the Governor should ensure that the Accounting Officer strengthens internal audit controls and ensure proper record keeping;**
- ii) the Governor should ensure that the Accounting Officer enhances the capacity of officers preparing financial statements to comply with the accounting standards and should further invest in technology and processes that reduce inaccuracies in the preparation of financial statements; and**
- iii) the Governor should ensure that administrative action is taken on the officers within the Accounts and Finance department who fails to keep complete financial records in accordance with their terms and conditions of appointment or employment and as required by the Accountants Act, Cap. 534.**

Irregular Procurement of Maintenance of Civil Works

The statement of financial performance reflects expenditure on repairs and maintenance totalling to Kshs. 46,280,889 as disclosed in Note 12 to the financial statements. Included in this expenditure is Kshs. 44,702,016 on maintenance of civil works, out of which Kshs. 23,683,743 was paid to eleven (11) contractors in respect of maintenance of other assets and motor vehicles. The quotations were opened between 9 September, 2024 and 24 February, 2025, and evaluations were carried out from 10 September, 2024 to 26 February, 2025, and Management notified the bidders as from 12 September, 2024 to 28 February, 2025. The resultant contracts were signed between 25 September, 2024 and 11 March, 2025 at a total contract sum of Kshs. 23,958,165. Review of procurement and payment

records revealed that the user requisition forms do not disclose clear specifications of works to be carried out and were not supported by a bill of quantities as required. In addition, the signed contracts were between service providers and the County Government of Kilifi, a separate legal entity, whose principle place of business is indicated to be different for different contracts. All the signed contracts did not include clause indicating the expected start date and the expected period to complete the works. This was contrary to Section 129 (2) of the Public Procurement and Assets Disposal Act, 2015 states that the contract, which shall be in writing, shall set out either the maximum amount of money that can be paid under the contract; or the maximum amount of time that can be paid for under the contract.

In the circumstances, value for money on expenditure on repairs and maintenance totalling to Kshs. 46,280,889 could not be confirmed, and Management was in breach of the law.

Management Response

The Management was in agreement with the auditor's observations. The management clarifies that the procurement under review, extracts of the Bills of Quantities with clear technical specifications, have been attached to the user requisitions to guide the procurement process and ensure accurate costing and execution of works.

The service providers delivered services to the Municipality of Kilifi, and all related expenses were fully borne by the Municipality. Although the contract documents indicate that the agreements were between the service providers and the County Government of Kilifi, the actual contractual engagement and execution were undertaken by the Municipality. Currently, the Municipality uses its own agreements.

Standard Contract Templates have been revised to ensure full compliance with Section 129 (2) of the Public Procurement and Assets Disposal Act, Cap 412C of the Laws of Kenya, including clear start dates and expected completion timelines.

The management confirms that the works were undertaken, inspected by the technical officers, and payments were supported by approved documentation, hence no loss of public funds.

Attached herein are the User requisitions, Extracts of BoQs with clear specifications & payment certificate, completion certificate, and works inspection certificates, corrected contract agreements with expected start date and the expected period to complete the works, updated contract agreement template.

Committee observation

The Committee observed that payment records on user requisition forms did not disclose clear specifications of works to be carried out and were not supported by a bill of quantities as required.

Committee recommendations

The Governor should ensure that administrative action is taken on the officers within the Accounts and Finance department who fails to keep complete financial records in accordance with their terms and conditions of appointment or employment and as required by the Accountants Act, Cap. 534.

Inaccurate Procurement Planning

According to the procurement plan, the Municipality of Kilifi planned to procure goods, works, and services amounting to Kshs. 201,547,592. However, the procurement plan did not conform to the required format and did not disclose the estimated timelines required to process each tender in respect of bid opening, bid evaluation, tender award, notification of award, contract signing, and total time required to complete each contract. This was contrary to Regulation 42 of the Public Procurement and Assets Disposal Act regulations, 2020, which states that pursuant to Section 53(2) of the Act, the annual procurement plan shall be done in accordance with the format specified in the Third Schedule. The procurement plan also did not provide a detailed and accurate breakdown of the required goods, works, and services, including clear specifications and justification for each item, and was not linked to items in the budget estimates. This was contrary to Regulation 40(1) of the Public Procurement and Asset Disposal Regulations, 2020, which states that the procuring entity shall prepare a procurement plan for each financial year as part of the annual budget preparation process, and where applicable, multi-year procurement plans may be prepared, which shall be integrated into the medium-term budgetary expenditure framework.

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

Management response

Management shall comply in subsequent years

Committee observations

The Committee observed that-

- i. the Committee observed that the Procurement plan provided by the management did not conform to the required format.
- ii. there was inaccurate breakdown of the required goods, works and services, including clear specifications; and
- iii. Justification for each item was not linked to items in the budget estimates

Committee Recommendations

The Committee recommends that-

- i). **the Governor should ensure that he strengthens internal audit controls and ensure proper record keeping;**
- ii). **the Governor should ensure that the capacity of officers is enhanced on preparing financial statements to comply with the accounting standards and should further invest in technology and processes that reduce inaccuracies in the preparation of financial statements; and**
- iii). **the Governor should ensure that administrative action is taken on the officers within the Accounts and Finance department who fails to keep complete financial records in accordance with their terms and conditions of appointment or employment and as required by the Accountants Act, Cap. 534.**

Failure to Deduct and Remit Public Procurement Capacity

Review of procurement records revealed that contracts worth Kshs. 62,737,167 was awarded and paid by the Municipality in the period beginning 25 September, 2024 without withholding public procurement capacity building levy amounting to Kshs. 18,821. This was contrary to Public Procurement Regulatory Authority (PPRA) Circular No.01/2024 dated 30 Aug, 2024 state that Paragraph 3 (1) of the Levy Order, 2023 provided that there shall be paid a levy by a supplier on all procurement contracts signed between the supplier and a procuring entity, at the rate of Zero point zero three per centum (0.03%) of the value of the signed contract, exclusive of applicable taxes. In addition, the Levy Order, 2023 shall apply to signed contracts from 1 September, 2024 and apply to contracts that are long-term in nature (Term Contracts) where Local Service Orders (LSOs) or Local Purchase Orders (LPOs) are raised as and when orders are made.

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

Management Response

The Management is in agreement with the auditor's observations. The failure to withhold the Public Procurement Capacity Building Levy was an oversight. However, the Management followed up with the contractors, and the PPRA Levy amounting to the sum of Kenya Shillings Eighteen Thousand Eight Hundred and Twenty-One (Kshs. 18, 821/-) was fully settled on Monday, the 12th day of January, 2026.

Committee observations

The committee observed that the Levy has since been paid on 12 January, 2026

Committee Recommendations.

The Committee recommends that the matter be marked as resolved.

REPORT ON THE AUDITED FINANCIAL STATEMENTS MUNICIPALITY OF MTWAPA FOR THE FINANCIAL YEAR 2024/2025

The Governor of Kilifi County, Hon. Gideon Maitha Mung'aro, OGW, appeared before the Committee on Tuesday, 20th January, 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Municipality of Mtwapa for the Financial Year 2024/2025. The Governor was accompanied by the following officers—

- | | |
|-------------------------|----------------------------|
| 13. Mr. Philip Charo | - CECM Finance |
| 14. Mr. Omar Said | - CECM Water |
| 15. Mr. K. Lughanje | - County Attorney |
| 16. Mr. Hezekiah Mwarua | - Chief Officer- Finance |
| 17. Ms. Catherine Baya | - MD KIMAWASCO |
| 18. Mr. Faraji Chipinde | - County Solicitor |
| 19. Ms. Calolyn Kamino | - Municipal Manager Mtwapa |

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified Opinion** on the financial statements of the Municipality of Mtwapa for the financial year on the following basis—

Inaccurate Property Plant and Equipment

Capital Works in Progress of Kshs.24,200,000 not supported by detailed Schedule

The statement of financial position reflects property, plant, and equipment balance of Kshs. 34,978,037 as disclosed in Note 12 to the financial statements. However, the balance includes capital works in progress of Kshs. 24,200,000 that have not been supported by detailed schedule indicating name of supplier, nature of works, contract value and duration, payments made if any, and project implementation status report.

In the circumstances, the accuracy, ownership, and completeness of property, plant, and equipment balance of Kshs. 34,978,037 could not be confirmed.

Management Response

The Management was in agreement with the auditor's observations. The amount of Kenya Shillings Twenty-Four Million, Two Hundred Thousand (Kshs. 24, 200, 000/-) relates to the supply and delivery of two (2) tipper trucks.

Payment to the supplier had not been made at the time of the review, as this formed part of the pending bills. However, during the current financial year, payment for one tipper truck has been settled, and arrangements are underway to secure funds for payment of the remaining truck.

Committee Observation

The Committee observed that the query remains unresolved for the following reasons –

- i).management failed to provide evidence of adjustments and reconciliation to Property Plant and Equipment; and
- ii).presence of misstatement is an indication of weakness in internal control systems and possible capacity challenges in the finance and accounting sections; and
- iii).management failed to undertake the necessary adjustments and reconciliation of the Property, Plant and Equipment as well as provision of supporting documents at the time of audit.

Committee Recommendations

The Committee recommends that –

- i). the Governor should ensure that a reconciliation of the understatements and overstatements in the Property, Plant and Equipment and ensure that the adjustments are reflected as prior year adjustments in the financial statement of the subsequent financial year. The Auditor-General to provide a status update on the matter in the subsequent audit cycle;**
- ii). the Governor should comply with section 149(2) of the Public Finance Management Act, Cap. 412A regarding preparation and management of financial and accounting records failure to which provisions of section 199 of the Public Finance Management Act on penalties for offenses shall apply;**
- iii). the Governor should strengthens internal audit controls and ensure proper record keeping;**

- iv). **the Governor should should enhance the capacity of officers preparing financial statements to comply with the accounting standards and should further invest in technology and processes that reduce inaccuracies in the preparation of financial statements; and**
- v). **the Governor should ensure that administrative action is taken on the officers within the Accounts and Finance department who fails to keep complete financial records in accordance with their terms and conditions of appointment or employment and as required by the Accountants Act, Cap. 534.**

EMPHASIS OF MATTER

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs. 111,500,000 and Kshs. 39,245,000, respectively, resulting to an under-funding of Kshs. 72,255,000 or 65% of the budget. Similarly, the Municipality spent Kshs. 39,227,503 against actual receipts of Kshs.39,245,000 resulting to under-utilization of Kshs. 17,497 or 0.04%.

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

Management Response

The Management was in agreement with the auditor's observation. The underfunding arose from delays in cash disbursements from the County Treasury.

Committee Observation

The Committee observed that there was delay in disbursement by County Treasury.

Committee Recommendations

The Committee recommends that –

The National treasury should ensure timely disbursement of funds to counties in accordance with the disbursement schedule passed by the Senate.

Non-Compliance with Public Sector Accounting Standards Boards Requirements

The report of the Municipality Manager on page xv reflects actual total expenditure of Kshs.108,338,471, whereas the statement of comparison of budget and actual amounts indicated Kshs. 39,227,503 resulting to unexplained variance of Kshs. 69,110,968.

Management Response

The Management was in agreement with the auditor's observations. The Municipality had an expenditure of Kenya Shillings One Hundred and Eight Million, Three Hundred and Thirty-Eight Thousand, Four Hundred and Seventy-One (Kshs. 108, 338, 471/-) out of which only Kenya Shillings Thirty-Nine Million, Two Hundred and Twenty-Seven Thousand, Five Hundred and Three (Kshs. 39, 227, 503/-) was the actual amount that was settled and paid to the suppliers as the balance of Kenya Shillings Sixty-Nine Million, One Hundred and Ten Thousand, Nine Hundred and Sixty-Eight (Kshs. 69, 110, 968/-) was the amount due to suppliers, thus leading to a pending bill to the municipality.

During the period under review, the Municipality incurred a total expenditure amounting to Kenya Shillings One Hundred and Eight Million, Three Hundred and Thirty-Eight Thousand, Four Hundred and Seventy-One (Kshs. 108, 338, 471/-). Of this amount, the sum of Kenya Shillings Thirty-Nine Million, Two Hundred and Twenty-Seven Thousand, Five Hundred and Three (Kshs. 39, 227, 503/-) was fully settled and paid to suppliers. The remaining balance of Kenya Shillings Sixty-Nine Million, One Hundred and Ten Thousand, Nine Hundred and Sixty-Eight (Kshs. 69, 110, 968/-) represented outstanding obligations to suppliers and consequently constituted the Municipality's pending bills.

Committee Observation

The committee observed that there was an explained variance of Kshs. 69,110,968.

Committee recommendations

The committee recommends that the Governor ensures that he enhances the capacity of officers preparing financial statements to comply with the accounting standards and should further invest in technology and processes that reduce inaccuracies in the preparation of financial statements

REPORT ON THE AUDITED FINANCIAL STATEMENTS MUNICIPALITY OF MALINDI FOR THE FINANCIAL YEAR 2024/2025

The Governor of Kilifi County, Hon. Gideon Maitha Mung'aro, OGW, appeared before the Committee on Tuesday, 20th January, 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Municipality of Malindi for the Financial Year 2024/2025. The Governor was accompanied by the following officers—

- | | |
|-------------------------|-------------------------------|
| 6. Mr. Philip Charo | - CECM – Finance |
| 7. Mr. Hezekiath Mwaura | - Chief Officer –Finance |
| 8. Mr. Charles Ngala | - Chairman, Kilifi Municipal |
| 9. Mr. K. Lughanje | - County Attorney |
| 10. Mr. Suleiman Salim | - Chairman, Malindi Municipal |
| 11. Mr. Faraji Chipinde | - County Solicitor |

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified Opinion** on the financial statements of the Municipality of Malindi for the financial year on the following basis—

1. Inaccurate Property Plant and Equipment

The statement of financial position reflects property, plant, and equipment balance of Kshs. 508,739,294 as disclosed in Note 15 to the financial statements. However, the detailed schedule indicating property description, location, cost, and ownership records were not provided for audit. In addition, the balance includes work in progress valued at Kshs. 52,002,640, which was not supported by the list of projects and the project implementation status report. Further, the assets schedule provided for audit included an amount of Kshs. 447,446 in respect to assets category described as 'Others', hence not specified nor traceable to the assets registers.

In the circumstances, the accuracy, completeness, and existence of the property, plant, and equipment balance of Kshs. 508,739,294 could not be confirmed.

Management's Response

The Municipality of Malindi reported a work in progress of Kenya Shillings Fifty-Two Million, Two Thousand Six Hundred and Forty (Kshs 52, 002, 640/-). All the projects that constitute the work in progress report, as provided in the financial statements for the year ending 30th June 2024, have been completed and are currently in use.

In the Asset schedule provided for audit, the amount of Kenya Shillings Four Hundred and Forty-Seven Thousand, Four Hundred and Forty-Six (Kshs. 447, 446/-) relates to the netbook value for assets categorized as other assets. The other assets category includes the purchase of an air conditioner and the purchase of motorcycles bought in previous financial years at a cost of Kenya Shillings One Million, Four Hundred and Twenty-Eight Thousand, and Twenty (Kshs. 1, 428, 020/-) and their accumulated depreciation amount of Kenya Shillings Nine Hundred and Eighty Thousand, Eight Hundred and Seventy-Four (Kshs. 980, 874/-) resulting in a netbook value of Kenya Shillings Four Hundred and Forty-Seven Thousand, Four Hundred and Forty-Six (Kshs. 447, 446/-) as reported in the financial statement for the financial year under review under the property, plant, and equipment schedule is the Property, Plants and Equipment schedule and breakdown of other assets. The other assets category will be reclassified in the current financial year 2025/2026.

The reported Property, Plants, and Equipment balance of Kenya Shillings Five Hundred and Eight Million, Seven Hundred and Thirty-Nine Thousand, Two Hundred and Ninety-Four (Kshs. 508, 739, 294/-) represents assets acquired and are detailed in the asset register, which provides information such as asset location, cost, and ownership. A corrected, detailed asset register.

Committee Observation

The Committee observed that the query remains unresolved for the following reasons –

- i) management failed to provide evidence of adjustments and reconciliation to Property Plant and Equipment; and
- ii) presence of misstatement is an indication of weakness in internal control systems and possible capacity challenges in the finance and accounting sections; and
- iii) management failed to undertake the necessary adjustments and reconciliation of the Property, Plant and Equipment as well as provision of supporting documents at the time of audit.

Committee Recommendation

The Committee recommends that –

- i). **the Governor should ensure that reconciliation of the understatements and overstatements in the Property, Plant and Equipment and ensure that the adjustments are reflected as prior year adjustments in the financial statement of the subsequent financial year. The Auditor-General to provide a status update on the matter in the subsequent audit cycle;**
- ii). **the Governor should comply with section 149(2) of the Public Finance Management Act, Cap. 412A regarding preparation and management of financial and accounting records failure to which provisions of section 199 of the Public Finance Management Act on penalties for offenses shall apply;**
- iii). **the Governor should strengthen internal audit controls and ensure proper record keeping;**
- iv). **the Governor should enhance the capacity of officers preparing financial statements to comply with the accounting standards and should further invest in technology and processes that reduce inaccuracies in the preparation of financial statements; and**
- v). **the Governor should ensures that the administrative action is taken on the officers within the Accounts and Finance department who fails to keep complete financial records in accordance with their terms and conditions of appointment or employment and as required by the Accountants Act, Cap. 534.**

2. Inaccuracies in the Statement of Cashflows

The statement of cash flows reflects cash generated from the operations of Kshs. 11,501,161 as reconciled at Note 19 to the financial statements. However, the recomputed reconciliation yielded a balance of Kshs. 15,921,301, resulting to unexplained variance of Kshs. 4,420,140. In addition, the statement reflects purchase of property, plant, and equipment as Kshs. 11,532,865 while the schedule on property, plant, and equipment reflects additions of Kshs 15,302,069, resulting to unexplained variance of Kshs. 3,769,204.

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

Committee Observation

The Committee observed that the query remains unresolved for the following reasons

- i). there were significant financial statement discrepancies such as –

1. Cash generated from operations of Kshs.11,501,161 differ with recomputed amount of Kshs.15,921,301 resulting to unreconciled variance of Kshs.4,420,140

2. PPE amount of Kshs.11,532,865 differ with asset schedule balance of Kshs.15,302,069 resulting to unreconciled variance of Kshs.3,769,204

The discrepancies are an indication of capacity challenges in the finance and accounting sections.

ii). Management failed to undertake the necessary adjustments and reconciliation of the financial statements as well as provision of supporting documents at the time of audit;

iii). Management made amendments and adjustments to the financial statements beyond the audit timelines, and these changes have yet to be verified by the Auditor-General; and

iv).The numerous inaccuracies are an indication of weak internal control systems.

Committee Recommendations

The Committee recommends that –

i). the Governor should ensure that the inaccuracies observed in the financial statements are adjusted accordingly using the relevant journal entries and reflected as prior year adjustments in the financial statements of the subsequent financial year. Auditor-General to provide a status update on the matter in the subsequent audit cycle;

ii). the Governor Should comply with section 149(2) of the Public Finance Management Act, Cap. 412A regarding preparation and management of financial and accounting records;

iii). the Governor should strengthen internal audit controls and ensure proper record keeping is done.

iv). the Governor should enhance the capacity of officers preparing financial statements to comply with the accounting standards and should further invest in technology and processes that reduce inaccuracies in the preparation of financial statements; and

v). **The Governor should ensure that administrative action is taken on the officers within the Accounts and Finance department who fails to keep complete financial records in accordance with their terms and conditions of appointment or employment and as required by the Accountants Act, Cap. 534.**

3. Material Uncertainty Related to Going Concern

The statement of financial position reflects total current liabilities balance of Kshs. 61,680,252 against total current assets balance of Kshs. 50,325,718, resulting in a negative working capital of Kshs. 11,354,534. This is an indication that the Municipality may not be able to settle its short-term obligations as and when they fall due. There exists a material uncertainty, which casts doubt on the Municipality's ability to sustain its services, which are dependent on continued support from the county Government and its creditors. However, this material uncertainty relating to going concern and measures taken to mitigate the undesirable financial position have not been disclosed in the financial statements.

In the circumstances, the company is not able to settle its short-term obligations as and when they fall due, and its going concern is in doubt.

Management Response

The Municipality depends on transfers from the County Executive. However, sometimes there are delays in these transfers, which may lead to an increase in payables due to nonpayment. Under-funding in previous financial years led to a negative working capital due to already committed expenditure whose payments were not made, leading to a buildup of payables in the subsequent financial years. The management has come up with the following new measures to mitigate this situation:

(i) Ensuring procurement of goods and services is undertaken within available resources. This is through the use of a vote book to control expenditure and procurement to ensure that it is done within the available resources. The vote book will also enable the management to monitor the available resources within the financial year.

(ii) Preparation of trade payables payment plans at the beginning of the financial year, ensuring trade payables are first charge items in the financial year. Management has implemented a trade payable payment plan under which outstanding obligations are prioritized in subsequent budgets, while ensuring that the Municipality's essential

operations and service delivery needs remain adequately funded. This leads to a reduction in the trade payables, which improves the working capital of the municipality.

(iii) Follow-ups on submitted cash requests to ensure timely disbursement of funds from the County Executive. The management is keen on ensuring that transfers from the County Executive are made timeously by continuously engaging with the County Treasury.

(iv) Management has also put in place austerity measures to control recurrent expenditure by limiting expenditure on external conferences and prioritizing the use of municipal town halls for meetings. This initiative is expected to result in reduced expenditure on allowances and conference-related fees. The savings realized will be redirected towards priority service delivery activities, thereby improving the Municipality's financial position.

Committee Observation

The Committee observed that negative working capital was caused by prior and current year delayed disbursements.

Committee Recommendations

The National treasury should ensure timely disbursement of funds to counties in accordance with the disbursement schedule passed by the Senate.

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs. 219,346,411 and Kshs. 169,544,406, respectively, resulting to under-funding of Kshs. 49,802,000 or 23% of the budget.

The underfunding affected the planned activities, which may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of this matter.

Management Response

The Municipality spent the sum of Kenya Shillings One Hundred and Sixty-Nine Million, Five Hundred and Forty-Four Thousand, Four Hundred and Six (Kshs. 169, 544, 406/-) against the sum of Kenya Shillings Two Hundred and Nineteen Million, Three Hundred and Forty-Six Thousand, Four Hundred and Eleven (Kshs. 219, 346, 411/-), which is an

absorption rate of 77% of the budget, resulting in an underfunding of Kenya Shillings Forty-Nine Million, Eight Hundred and Two Thousand (Kshs. 49, 802, 000/-) or 23% of the budget. This was brought about by the delayed transfer of the sum of Kenya Shillings Forty-Nine Million, Eight Hundred and Two Thousand (Kshs. 49, 802, 000/-) from the County Executive, which was done on the 9th day of July 2025, which was past the cutoff date of 30th June 2025. Attached is a copy of the bank statement showing the transfers from the County Government as Appendix 5, which appears at page 022 - 023.

Committee Observation

The Committee observed that there was delay in disbursement by County Treasury.

Committee Recommendations

The Committee recommends that –

- i) the Governor should comply with regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures failure to which provisions of section 199 of the Public Finance Management Act on penalties for offenses shall apply; and**
- ii) the National treasury should ensure timely disbursement of funds to counties in accordance with the disbursement schedule passed by the Senate.**

1. Unresolved Prior Year Audit Matters

Other Matter

Unresolved Prior Year Matters

In the prior years' audit reports, 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. Review of the status during audit of the Municipality in 2024/2025 revealed that the following five (5) issues remained unresolved:

No	Audit Issue
1	Inaccurate Opening Amounts and Balances

2	Unexplained Variances between Financial Statements, Amounts and Balances and Supporting Schedules
3	Delayed Recruitment of the Municipality Manager
4	Irregular Engagement of Casual Workers
5	Staff Under-Establishment

Management's Response

NO.	AUDIT ISSUE	STATUS
1	Inaccurate opening amounts and balances	The inaccuracy in the opening balances was corrected in the amended financial statement for the financial year 2023-2024. Attached is an extract from the financial statements submitted to the auditor as Appendix 6, which appears at pages 024 – 026.
2	Unexplained variances between financial statements' amounts and balances supporting schedules	The variances in the financial statements and the supporting schedules were corrected in the amended financial statement for the financial year 2023-2024. Attached is an extract from the financial statement submitted to the auditor as Appendix 6, which appears at pages 024 – 026.
3	Delayed recruitment of the Municipality Manager.	The Kilifi County Public Service Board advertised and recruited a substantive Municipal Manager who was appointed on 10 th November 2025, and deployed on 12 th November 2025, to serve as the Municipal Manager for the Municipality of Malindi.

4	Irregular engagement of casual workers	This matter was corrected. The regularization of the 176 casual workers of the municipality was done through the issuance of employment contracts on the 29 th day of October, 2025, by the Kilifi County Public Service Board.
5	Staff under establishment	The Management has ensured the Municipality has all the necessary staff required for its operations through recruitment and secondment from County Executive Departments for the transferred functions.

Committee Observation

The Committee observed that the municipality had unresolved prior year matters demonstrating management lack of action to implement corrective measures.

Committee Recommendation

The Committee recommends that—

- i. **the Governor should ensure he resolves any issues resulting from an audit that remains outstanding as required by section 149(2)(1) of the Public Finance Management Act, Cap. 412A, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences may apply; and**
- ii. **the Auditor-General provides a status update on the progress made on the matter in the subsequent audit cycle upon review of the progress report.**

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Non-Compliance with Fiscal Responsibilities Principles

The statement of comparison of budget and actual amounts reflects a final total income and expenditure budget of Kshs. 219,346,411. However, the Municipality’s development or Capital budget for the year was not clearly stated as a line item in the statement, contrary to the standard requirement of budget preparation and the reporting template. Further, during the year under review, the Municipality spent Kshs. 18,185,529 on development activities, or only 9% of the total budget. This was contrary to the fiscal principles prescribed under section 107(2)(b) of the Public Finance Management Act, 2012, which requires that over the medium term, a minimum of thirty percent of the county government entity’s budget shall be allocated to the development expenditure.

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

Management’s Response

The Management is in agreement with the auditor’s observations that the development budget was not compliant with the fiscal principle that requires that the development budget should be a minimum of 30% of the total budget. However, the management has taken the auditor’s observation in the preparation of the subsequent budget for FY 2025/2026, which is now compliant with the law as indicated below:

Municipality Of Malindi Analysis Of 2025/2026 Budget

	Recurrent	Development	Total budget
Amount	82,118,421	38,643,963	120,762,384
% of the total budget	68%	32%	100%

Committee Observation

The Committee observed that budget for 2024/2025 did not comply with the law.

Committee recommendations

The Governor should comply with regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures failure to which provisions of section 199 of the Public Finance Management Act on penalties for offenses shall apply;

2. Staff Under Establishment

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT, AND GOVERNANCE

Staff Under-Establishment

The statement of financial performance reflects staff costs of Kshs. 53,527,956 as disclosed in Note 9 to the financial statements. However, the Municipality's staff establishment indicated that out of the three hundred and ninety-five (395) job positions, two hundred and twenty-five (225) positions were substantially filled, with eleven (11) positions being held either secondments or deployments from the County Executive departments, resulting to staff shortage of one hundred and seventy (170).

In the circumstances, the Municipality may not meet its mandate as envisaged.

Management Response

The Municipality's staff establishment is informed by the Municipal Charter. The variance of one hundred and seventy (170) in the staff establishment relates to positions whose functions had not been fully transferred to the Municipality by the County Executive Departments as at the 30th day of June, 2025, as well as functions that are yet to be transferred to the Municipality by the County Government.

The functions that had not been fully transferred as at 30th June, 2025, are as listed below:

1. Construction and maintenance of storm drainage and flood control.
2. Construction and maintenance of walkways and other non-motorized transport infrastructure.
3. Construction and maintenance of recreational parks and green spaces.
4. Construction, maintenance, and regulation of traffic controls and parking facilities.

5. Construction and maintenance of bus stands and taxi stands.

6. Construction and maintenance of fire station, provision of firefighting services, and disaster Management.

These functions were fully transferred on the 10th day of December, 2025.

Committee Observation

The Committee observed that the operations of the Municipality lacked autonomy which contravenions of Section 9(1) of the Urban Areas and Cities Act, 2011.

Committee Recommendations

The Committee recommends that the Governor of Kilifi County takes all the necessary steps to ensure the Municipality of malindi achieves full operational independence by 30th June, 2025 in accordance with sections 12 (management independence), 20 (functional independence), 45 and 46 (finance management Act)

REPORT ON THE AUDITED FINANCIAL STATEMENTS MUNICIPALITY OF WATAMU FOR THE FINANCIAL YEAR 2024/2025

The Governor of Kilifi County, Hon. Gideon Maitha Mung'aro, OGW, appeared before the Committee on Tuesday, 20th January, 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Municipality of Watamu for the Financial Year 2024/2025. The Governor was accompanied by the following officers—

- 20. Mr. Hezekiah Mwarua - Chief Officer- Finance
- 21. Mr. K. Lughanje - County Attorney
- 22. Mr. Suleiman Salim - Chairman, Malindi Municipal

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified Opinion** on the financial statements of the Municipality of Watamu for the financial year on the following basis—

Unsupported Property, Plant and Equipment Balance

The statement of financial position reflects property, plant and equipment balance of Kshs. 44,448,675 as disclosed in Note 13 to the financial statements. Included in this balance is an amount of Kshs. 12,100,100

in respect to acquisition of a lorry. However, no ownership documents for the truck acquired were provided for audit review.

In the circumstances, the accuracy, completeness, and existence of the property, plant, and balance could not be confirmed.

Management Response

The Management is in agreement with the auditor's observations. The Management confirms

NTSA logbook for the lorry acquired at a cost of Kshs. 12, 100, 100/- is available.

Committee Observation

The committee observed that the management did not provide logbook at the time of audit.

The Committee recommendations

- i). **the Accounting Officer should comply with section 149(2) of the Public Finance Management Act, Cap. 412A regarding preparation and management of financial and accounting records failure to which provisions of section 199 of the Public Finance Management Act on penalties for offenses shall apply;**
- ii). **the Accounting Officer to take administrative action on the officers within the Accounts and Finance department who fails to keep complete financial records in accordance with their terms and conditions of appointment or employment and as required by the Accountants Act, Cap. 534.**

Emphasis of Matter.

Budgetary Control and Performance

The statement of comparison and actual on of budget and actual amounts reflects final receipts budget comparable basis of Kshs. 125,427,564 and Kshs. 46,343,782, respectively, resulting to an under-funding of Kshs. 79,083,782 or 63% of the budget. Similarly, the municipality spent Kshs. 32,380,574 against actual receipts of Kshs.46,343,782 resulting to underutilization of Kshs. 13,963,208 or 430 of the total receipts.

The under-funding and underutilization affected the planned activities and may have impacted negatively on service delivery to the public

Management Response

he Management is in agreement with the auditor's observations and notes that the underutilization of Kshs. 13, 963, 208 (43% of actual receipts) was mainly due to the delayed and partial disbursement of nent of funds from the County Treasury, which constrained the timely implementation nplementation ofo planned p activities. In particular, the sum of Kshs. 25, 000, 000/- was disbursed in July after the close of the financial year, limiting its utilization, while the sum of Kshs. 54, 083, 782/-, which was budgeted for, was not disbursed at all by the Couaty Tressuy tesultine to oder-fiodine n the suum of Kshs. 79.083.782 (63% of the budget). County Treasury, resulting in under-funding in the suin of Kshs. 79,083,782 (63 of the budget). The Management will continue to engage the County Treasury toto ensure ensu timely and full disbursement of funds to improve absorption and service delivery in subsequent financial years

Committee observation

The Committee observed that there was late disbursement of the funds from the National treasury.

Committee Recommendations

The Committee recommends that –

- i) the Accounting Officer should comply with regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures failure to which provisions of section 199 of the Public Finance Management Act on penalties for offenses shall apply; and**
- ii) The National treasury should ensure timely disbursement of funds to counties in accordance with the disbursement schedule passed by the Senate.**

Irregular Expenditure on Garbage Collection Services

Contract signed for the supply of the garbage collection services was between the service provider and the County Government and was signed on 23 December, 2022 which was approximately thirteen (13) months before the Municipality was established

Documents to proof the method under framework agreement used were not provided while the price charged was determined uncompetitively by the County Government

Daily tasks undertaken including the work ticket of the truck(s) used, ownership documents and demonstration of thirty (30) ton payload to qualify for Kshs.50,000 rate per day were not provided for verification

Committee observation

The Committee observed that-

1. Documents to proof the method under framework agreement used were not provided during the audit while the price charged was determined uncompetitively by the County Government

2. The management did not provide documents for daily tasks undertaken including the work ticket of the truck(s) used, ownership documents and demonstration of thirty (30) ton payload to qualify for Kshs.50,000 rate during the audit.

Committee recommendations

The Committee recommends that-

- i). the Accounting Officer should comply with section 149(2) of the Public Finance Management Act, Cap. 412A regarding preparation and management of financial and accounting records failure to which provisions of section 199 of the Public Finance Management Act on penalties for offenses shall apply;**

- ii). **the Accounting Officer should strengthen internal audit controls and ensure proper record keeping;**
- iii). **the Accounting Officer should enhance the capacity of officers preparing financial statements to comply with the accounting standards and should further invest in technology and processes that reduce inaccuracies in the preparation of financial statements; and**
- iv). **the Accounting Officer to take administrative action on the officers within the Accounts and Finance department who fails to keep complete financial records in accordance with their terms and conditions of appointment or employment and as required by the Accountants Act, Cap. 534.**

Irregular Expenditure on Event Management Services

Reason why some of the services were outsourced to the service provider including procurement of gifts, VIP tickets, refreshments, transport to and from the destination and uniforms for the unidentified subcommittee team, instead of being paid direct to the dealers, was not provided

Justification for the expenditure not provided

Management responses

Outsourcing was done due to lack of capacity to procure multiple items.

Committee Observation

Committee recommendations

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

1. Lack of a Risk Management Policy

During the period under review, it was observed that the municipality did not have a risk management policy in place, nor had it instituted risk management strategies, including fraud prevention, risk management system, and internal controls that builds robust business operations.

This was contrary to Regulation 158(1) (a) of the Public Finance Management (County Governments) Regulations, 2015, which provides 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.

In the circumstances, the effectiveness of internal controls, risk management, and governance could not be confirmed.

Management Response

The Management is in agreement with the auditor's observations. At the time of the audit, the Municipality did not have an approved risk management policy. We only had a draft policy. Subsequently, the Risk Management Policy has been finalized and formally approved by the Board, in compliance with Regulation 158(1)(a) of the Public Finance Management (County Governments) Regulations, 2015. The policy provides for risk management, fraud prevention mechanisms, and internal control systems.

Committee observation

The committee observed that the risk management policy is in place.

Committee Recommendations

Management having provided documents to the Committee, the Committee recommends that the matter be marked as resolved.

2. Irregularity in Board Operations

The statement of financial performance reflects board expenses totalling Kshs. 3,803,210 as disclosed in Note 8 to the financial statements. However, a review of the documents provided for audit revealed that the Board is composed of eight (8) gazetted members instead of the recommended nine (9) members contrary to Section 14 of the Urban Areas and Cities Act, 2011 which states that the provisions of Section 13 shall apply with respect to the Board of a Municipality except that such Board shall comprise nine (9) members of whom four (4) shall be appointed and five (5) elected in the prescribed manner.

In addition, out of the eight (8) members of the Board, no member of the Board was from special interest groups contrary to Section 13 (3) of the Urban Areas and Cities Act, 2011, which states the executive committee shall, while appointing members of the board ensure gender equity, representation of persons with disability, youth and marginalized groups. Section 13 of the Persons with Disability Act mandates the reservation of at least five

percent (5%) of casual, emergency, and contractual positions in both public and private sector for persons with disabilities.

Further, during the period under review, the Board of Management operated without an annual work plan with a minimum focus on a review of management implementation of strategies, policies, and plans, and the Board did not determine its evaluation criteria and carry out an annual evaluation of its performance during the period under review. This was contrary to Section 1.9 of the Mwongozo, which provides that Board members should ensure the development of an annual board work plan. The Board work plan should at minimum focus on a review of management's implementation of strategies, policies, and plans, risk assessment and management, budgeting and financial management, quality assurance process, board evaluation, strategic planning and review, governance and compliance, and competence development for board members.

In the circumstances, the effectiveness of internal controls, risk management, and governance could not be confirmed.

Management Response

The Management was in agreement with the auditor's observations. In compliance with this requirement, the (9th) ninth Board member has been duly nominated and is awaiting vetting and approval by the County Assembly of Kilifi. The nominated member qualifies under the special interest group category as provided for in law, and upon completion of the vetting process, the composition of the Municipal Board will be fully compliant with the provisions of Section 13(3) of the Act.

The Management further commits that all future Board appointments will strictly adhere to the statutory requirements on gender equity and representation of special interest groups, to sustain compliance and strengthen governance.

Committee observation

- i. the Committee observed that at the time of audit the Municipality had eight members of board as opposed to nine. However the appointment of the ninth member is in the process as nomination has been done is awaiting approval of the County Assembly; and
- ii. the municipality has annual work plan in place;

Committee recommendations

The committee recommends that the the Auditor-General provides a status update on the progress made on the matter in the subsequent audit cycle upon review of the progress report.

CHAPTER THREE: HOSPITALS

3.0 REPORT ON AUDITED FINANCIAL STATEMENTS FOR KILIFI COUNTY REFERRAL HOSPITAL FOR THE FINACIAL YEAR 2024/2025

The Committee received written management responses to the following queries raised in the report of the Auditor-General on financial statements Kilifi County Referral Hospital for the Financial Year 2024/2025 –

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **qualified opinion** on the financial statements of Kilifi County Referral Hospital for the period under review.

1. Unsupported Additions to Property, Plant and Equipment

The statement of financial position reflects a balance of Kshs.38,754,598 in respect of property, plant and equipment as disclosed in Note 21 to the financial statements. The balance includes additions for the year of Kshs.24,756,690. However, the additions have been omitted in the statement of comparison of the budget and actual amounts.

In the circumstances, the accuracy, completeness, and existence of the additions to property, plant, and equipment could not be confirmed.

Management Response

The Management was in agreement with the auditor's observations. The omission of the additions in property, plant, and equipment in the statement of comparison of budget and accrual amounts was due to oversight, and the same shall be corrected in the financial statements for the financial year ending on the 30th day of June 2026. The Management shall restate the financial statement to correct the variance in the financial statements for the financial year ending on the 30th day of June 2026.

The Management has also put in place measures to ensure this does not recur. In January, 2026, the Management launched an Accounts Module in the EMR system. The Accounts Module shall minimize the challenge of misreporting in the financial statements during the audit period.

Committee Observation

The Committee observed that the management failed to submit documents to the Auditor-General during the audit period.

Committee Recommendations

The Committee recommends that-

- i. the Accounting Officer to take appropriate administrative action on responsible officers within the Accounts and Finance department who fail to keep complete financial records in accordance with section 156(1) of the Public Finance Management Act, Cap.412A and in line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply; and**
- ii. the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9(1)(e) of the Public Audit Act, Cap.412B failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act in the subsequent audit cycle.**

2. Variance between Financial Statements and Supporting Schedules

The financial statements reflect amounts in eight (8) items that vary with corresponding schedules as indicated below:

No.	Particulars	Financial Statement Amount (Kshs)	Supporting Schedule Amount (Kshs)	Variance (Kshs)
i.	Revenue from Non-Exchange Transactions	318,326,846	243,368,614	74,958,232
ii.	In-Kind Contribution from County Govt	96,937,420	95,444,387	1,493,033
iii.	Revenue from Exchange Transactions	129,057,359	-	129,057,359
iv.	Employee Costs	77,864,705	78,227,997	363,292

No.	Particulars	Financial Statement Amount (Kshs)	Supporting Schedule Amount (Kshs)	Variance (Kshs)
v.	Depreciation & Amortization Expenses	8,389,422	8,038,090	351,332
vi.	Cash and Cash Equivalent	1,859,776	193,740	1,666,036
vii.	Current Portion of Receivables	118,898,089	-	118,898,089
viii.	Intangible Assets	30,100,000	-	30,100,000

The variances have not been explained.

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

Management Response

The schedules for the 8 items were provided for audit on different dates between 23rd September 2025 and 29th September 2025. The intangible asset total amount is Kshs 43,000,000, which shall be restated in the financial statements for the financial year ending on the 30th day of June 2026.

Committee Observation

Reconciliation for 4 items was not comprehensively done.

Committee recommendations

The Governor ensures that, within ninety (90) days of the adoption of this report, the Accounting Officer responsible for the municipality establishes and operationalizes comprehensive internal controls and oversight mechanisms to guarantee that all officers involved in the preparation of financial statements prepare, maintain, and periodically update complete and accurate financial and accounting records in compliance with section 149(2)(b) of the Public Finance Management Act, Cap. 412A section 47 of Public Audit Act, Cap. 412B failure to which the Accounting Officer may be held liable under section 199 of the Public Finance Management Act, Cap. 412A as read together with section 62(2) of the Public the Public Audit Act, Cap. 412B on penalties for offences.

3. Unsupported Inventories Balance

The statement of financial position reflects inventories balance of Kshs.61,758,030 as disclosed in Note 20 to the financial statements. However, the movement schedule, stock take sheets, or report was not provided for audit.

In the circumstances, the accuracy, completeness, and existence of the inventories balance of Kshs.61,758,030 could not be confirmed.

Management Response

The Movement Schedule was checked at the stores section physically by the auditors at the time of the audit. The Stock Take Report was provided at the time of the audit. The inventory report for the year under review. On the 9th day of December, 2025, the Management upgraded the Inventory Management System in the Electronic Medical Record EMR to facilitate the maintenance of accurate and complete inventory records.

Committee Observation

The Committee observed that the management had taken remedial measures by upgrading Inventory system in December, 2025.

Committee recommendations

The Committee recommends that the matter be marked as resolved

4. Inaccurate Trade and Other Payables Balance

The statement of financial position reflects trade and other payables balance of Kshs.66,487,213 as disclosed in Note 22 to the financial statements. However, the movement schedule and detailed aging analysis, indicating the name of the creditors, LPO/LSO number, and invoice number was not provided for audit.

In the circumstances, the accuracy, completeness, and existence of trade and other payables balance of Kshs.66,487,213 could not be confirmed.

Management Response

The schedule for Trade and Other Payables was provided to the Auditor General at the time of the audit. This schedule showing trade payables of Kshs. 66,487,213, which was provided to the Auditor General at the time of audit, is accurate and complete.

The detailed aging analysis was not requested by the Auditor General at the time of the audit and thus was not provided to the Auditor General. The detailed aging analysis, which was available at the time of audit.

Committee Observation

The Committee observed that the ageing analysis was not provided and verified by the Auditor-General.

Committee Recommendation

The Committee recommends that –

- i). the Governor ensures that the Accounting Officer responsible for the hospital makes timely submission of documents during the audit process in line with section 9(1)(e) of the Public Audit Act, Cap. 412B, failure to which the Accounting Officer may be held liable under section 62(2) of the Public Audit Act, Cap. 412B on penalties for offenses; and**
- ii). the Governor ensures that within 60 days of the adoption of this report, the Accounting Officer responsible for the hospital submits to the Auditor-General an ageing analysis of receivables and payables with all the necessary details for verification.**

5. Unresolved Prior Year Matters

In the prior years' audit reports, several issues were raised under the Report on the Financial Statements, Lawfulness and Effectiveness in Use of Public Resources, and Effectiveness on Internal Controls, Risk Management, and Governance. Review of the status during audit of the Hospital in 2024/2025 revealed that the following nine (9) issues remained unresolved:

No	Financial Year	Audit Issue
i	2023/2024	Inaccurate Expenditure on Employee Costs
ii	2023/2024	Inaccurate cash and cash Equivalent Balance
iii	2023/2024	Unsupported Inventory Balance
iv	2023/2024	Failure to submit Revenue Reports to the County Treasury
v	2023/2024	Irregular Expenditure on Repair and Maintenance of Property Buildings
vi	2023/2024	Irregular Procurement for Motor Vehicle Expenses
vii	2023/2024	Failure to Undertake Internal Audit

No	Financial Year	Audit Issue
viii	2023/2024	Poor Controls on Waiver Management
ix	2023/2024	Failure to update the Fixed Asset Register

The unresolved prior matters have since been resolved as below

i. Inaccurate Expenditure on Employee Costs

The statement of financial performance reflects payments on employee costs totalling Kshs.81,462,281 as disclosed in Note 10 to the financial statements. However, Management did not disclose the number of the medical staff employed and paid by the County Government as an in-kind contribution as prescribed by the template.

In the circumstances, the accuracy and completeness of the expenditure on employee costs totalling Kshs.81,462,281 could not be confirmed.

Management Response

The employee costs of Kshs. 81,462,281/- is accurate and complete as it is the amount that was expensed as salaries to the staff that was engaged at the hospital.

At the time of the audit, the Kilifi County Referral Hospital had 330 medical staff. The Management sought payroll data, which was made available after completion of the audit exercise. Attached herein, as Appendix 5 KCRH (i), is the list of staff paid by the County Government of Kilifi.

ii. Inaccurate cash and cash Equivalent Balance

The statement of financial position and Note 16 to the financial statements reflects cash and cash equivalents balance of Kshs.157,124. Included in this amount is a Nil balance held in a local commercial bank, while the corresponding bank reconciliation statement reflects a cashbook balance of Kshs.1,400,627 resulting to an unexplained variance of Kshs.1,400,627.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.157,124 could not be confirmed.

Management Response

The Management is in agreement with the auditor's observation. The inaccuracy in the cash and cash equivalents balance of Kshs.157,124/- shall be corrected in the financial statements for the financial year ending on the 30th day of June 2026. The Management

shall restate the financial statement to correct the inaccuracy in the financial statements for the financial year ending on the 30th day of June 2026.

iii. Unsupported Inventory Balance

The statement of financial position and Note 18 to the financial statements reflects inventories balance of Kshs.31,750,607. However, Management did not provide quarterly stock take reports and end-of-the-year stock take reports to support the balance.

In the circumstances, the accuracy and completeness of inventories balance of Kshs.31,750,607 could not be confirmed.

Management Response

During the year under review, the end-of-year stock take report was provided to the Auditor General on the 19th day of November, 2024. The Management prepares inventory stock monthly, as can be seen in Appendix 5 KCHR (iii), which is a Sample Stock-Take Report, and Appendix 5 KCRH (iii)b, which is a Sample – Internal Memo on Stock-Take. These quarter reports are used to prepare quarter financial statements.

iv. Failure to Submit Revenue Report to the County Treasury

Note 8 to the financial statements reflects revenue totalling Kshs.125,872,525 from rendering of services being collections by the Hospital in the form of medical service income for rendering various services. However, revenue reports prepared and submitted to the County Treasury were not provided contrary to Regulation 54 (1) of the Public Finance Management (County Governments) Regulations, 2025 which states that an Accounting Officer of a County Government entity shall not later than the 10th day of each month submit a monthly financial and non-financial budgetary report in the format to be issued by the Cabinet Secretary relating to the activities of his or her County Government entity for the preceding month to the County Treasury with copies to the Controller of Budget and the Auditor-General. In the circumstances, Management was in breach of the law

Management Response

The hospital collects its revenue and pays it into the Health Services Improvement Fund (HSIF) in accordance with the Health Services Improvement Fund Act 2016. Monthly revenue reports are sent to the Fund Administrator, as can be seen in Appendix 5 KCRH (iv), which is a letter of submission of reports to the Fund Administrator, who further reports the fund's revenues to the County Treasury. The revenue reports have always been submitted to the County Treasury to enable the Treasury to prepare the Receiver of Revenue report every quarter.

The County Treasury takes the role of preparing the quarterly and annual County Receiver of Revenue reports and submits them to the National Treasury and a copy to the Auditor General.

v. Irregular Expenditure on Repair and Maintenance of Property Buildings

The statement of financial performance and Note 13 to the financial statements reflect expenditure on repairs and maintenance totalling Kshs.21,279,426. Included in the amount is Kshs.17,596,982 in respect of repair and maintenance of property buildings. However, review of project files and payment vouchers for expenditure totalling Kshs.8,019,641 revealed that quarterly reports detailing an analysis of items procured through framework agreements were not provided, including an analysis of the pattern of usage, procurement costs in relation to the prevailing market rates, and any recommendations. In addition, there was no documentary evidence provided to show that the Accounting Officer reported the said contracts awarded to Public Procurement Regulatory Authority monthly contrary to Section 114(6) of the Public Procurement and Assets Disposal Act, 2015 which requires that a procurement management unit shall prepare and submit to the Accounting Officer with a copy to the internal auditor quarterly reports detailing an analysis of items procured through framework agreements and these reports shall include, an analysis of pattern of usage, procurement costs in relation to the prevailing market rates and any recommendations. In the circumstances, Management was in breach of the law.

Management Response

The Management is in agreement with the auditor's observations and has noted the gap. The hospital prepares quarterly reports on the implementation of the provisions of the Public Procurement and Asset Disposal Act, the preferences and reservation scheme as can be seen in Appendix 5 KCRH (v), which is a report on implementation of the provisions of the Public Procurement and Asset Disposal Act, Cap 412C of the Laws of Kenya and forwards the same to the Principal Procurement of the Department of Health Services who consolidates the report and forwards the same to the Public Procurement Regulatory Authority as required in Section 114 (6) of the Public Procurement and Assets Disposal Act.

vi. Irregular Procurement for Motor Vehicle Expenses

The statement of financial performance and Note 13 to the financial statements reflect payments on repairs and maintenance totalling Kshs.21,279,462. Included in the payments is Kshs.2,623,836 in respect of motor vehicle expenses. However, review of project files and payment vouchers for payments totalling Kshs.1,831,536 revealed that there was no fair rotation among suppliers since payment amounting to Kshs.1,831,536 out of the expenditure of Kshs.2,623,836 had been awarded to one (1) contractor. The driver's defect report was not completed. Further, review of records revealed that quarterly reports

detailing an analysis of items procured through framework agreements were not submitted for review to include an analysis of the pattern of usage, procurement costs in relation to the prevailing market rates, and any recommendations. This is contrary to Section 114(6) of the Public Procurement and Assets Disposal Act, 2015 which requires that a procurement management unit shall prepare and submit to the Accounting Officer with a copy to the internal auditor quarterly reports detailing an analysis of items procured through framework agreements and these reports shall include, an analysis of pattern of usage, procurement costs in relation to the prevailing market rates and any recommendations. In the circumstances, Management was in breach of the law.

Management Response

The Management is in agreement with the auditor's observations. The Management has engaged different suppliers for the maintenance of motor vehicles, as can be seen in Appendix 5 KCRH (vi), which is the Framework for maintenance of Motor Vehicles. The Management indeed used only one supplier during the year under review because that was the only supplier willing to work with the hospital, and to avoid interruption of services, the Management proceeded with the said supplier.

vii. Failure to Undertake Internal Audit

Review of records, including Board minutes, revealed that an internal audit was not undertaken during the period under review.

In the circumstances, the effectiveness of the internal controls, risk management, and governance could not be confirmed.

Management Response

An internal audit was done during the period under review. The audits are necessary. We have a dedicated internal audit team in the County Treasury, which handles our internal audits. The Management had presented to the Board of Management the audit report for their review, as can be seen in Appendix 5 KCRH (vii), which are the Board Meeting Minutes. The audit report for the financial year 2024-2025 was reviewed by the Board of Management in the current financial year.

viii. Poor Controls on Waiver Management

Note 8 to the financial statements reflects rendering of services - Medical Service Income totalling Kshs.125,872,525. During the year under review, the Hospital waived hospital bills totalling Kshs 10,748,735. However, review of records and supporting documentation revealed that the Hospital's waiver/crediting committee forms were not signed by all waiver committee members, where in some cases, only one (1) or two (2) of the four (4) members had approved the waiver.

In the circumstances, the effectiveness of the internal controls, risk management, and governance could not be confirmed.

Management Response

The Management is in agreement with the auditor's observation. The quorum of the Waiver Committee is three (3) members. Some members did not sign the waiver form, but there was consultation through phone calls before proceeding with the waiver process.

Controls on the waiver process have since been improved in the current financial year to include a recommending officer and an assessment by a medical social worker before the case is presented for deliberation at the Waiver Committee. Each of these officers is required to append their signatures to a waiver form, and the deliberations of the Waiver Committee are minuted and signed, as can be seen in Appendix 5 KCRH (viii), which is a Waiver form, Assessment form, and Minutes.

ix. Failure to update the Fixed Asset Register

The statement of financial position reflects property, plant and equipment balance of Kshs.20,108,369. However, the asset register provided for review did not indicate details and the nature of the assets, dates of acquisition, cost, unique identification number, current value, current location/user, accumulated depreciation, and net book value.

In the circumstances, the effectiveness of the internal controls, risk management, and governance could not be confirmed

Management Response

The Management is in agreement with the auditor's observation. The Asset Register format has been corrected in the current financial year. The Management has since adopted the template used by the County Department of Health to maintain its fixed asset register.

Committee Observation

The Committee observed that, whereas the Accounting Officer had put in place some remedial measures, several audit issues remained outstanding.

Committee Recommendations

The Committee recommends that—

- i. the Governor ensures that Accounting Officer responsible for the hospital resolve any issues resulting from an audit that remains outstanding as required by section 149(2)(l) of the Public Finance Management Act, Cap. 412A, failure to which the accounting officer may be held liable under**

**section 199 of the Public Finance Management Act on penalties for offences;
and**

- ii. the Governor ensures the accounting officer submits a detailed status report on the mitigation measures taken to resolve prior year matters within 60 days of the adoption of this report.**

6. Non-compliance with the law on disability and ethnic composition

Review of personnel records for the three hundred and eight (308) permanent staff revealed that only one (1) or zero percent (0.001%) of the workforce were people living with disability contrary to Section 21(2)(a) of the Persons with Disabilities Act, 2025 which states that every employer shall where an employer has at least twenty employees, reserve at least five per cent direct employment opportunities for persons with disabilities to secure employment. Further, sixty-eight percent (68%) of the total staff population are from the dominant ethnic group in the County. This was in breach 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.

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

Management Response

The Management is in agreement with the auditor's observations. The hospital will adhere to the relevant laws in future recruitments. To mitigate this, the hospital shall place strategies in complying with the law gradually in cases where there are retirements or in scenarios where vacancies occur.

Under the County Government Act, Cap 265 of the Laws of Kenya, the mandate for the recruitment of staff rests with the Kilifi County Public Service Board. Nevertheless, the Management will formally communicate the audit findings to the Kilifi County Public Service Board and recommend that future recruitment processes prioritize compliance with the relevant statutory provisions.

Committee Observation

The Committee observed that the query remains unresolved as 68% of the staff compliment of the hospital were drawn from the dominant local ethnic community contrary to the provisions of 7(2) of the National Cohesion and Integration Act. Management did not demonstrate any legislative and other measures taken to correct the imbalance.

Committee Recommendation

The Committee recommends that-

- i). **the Governor ensures that the Board and the Accounting Officer responsible for the make deliberate efforts to progressively comply with section 65(1)(e) of the County Governments Act, Cap. 265 which provides that at least thirty percent 30% of the vacant posts at entry level be filled by candidates who are not from the dominant ethnic community; and**
- ii). **the Governor ensures that the Board and the accounting officer to make deliberate efforts progressively in the endeavor to comply with Section 7(1) and (2) of the National Cohesion and Integrity Act, Cap. 7N, which requires that public establishments shall seek to represent the diversity of the people of Kenya in employment of staff.**

7. Non-compliance with the Kenya Quality Model for Health for Level 4 Hospital requirements.

Review of documents revealed that the Hospital had fifty-three (53) medical staff against the minimum requirement of two hundred and nineteen (219), resulting to understaffing by one hundred and sixty-six (166) members of staff or 76%, which included the shortage of specialists such as anesthesiologists, gynecologists, and pediatrics. In addition, the Hospital had fifteen (15) equipment and machines against the requirement of forty-four (44) for a Level 4 Hospital resulting to a shortage of twenty-nine (29) or 66% which included shortage of vital services such as functional Intensive Care Unit (ICU) beds and High Dependency Unit (HDU) which require a minimum of six (6) beds.

This was contrary to Gazette Notice No. 786 Vol. CXXII No.24 of 4 February, 2020, which provides for the classification of healthcare facilities, including the basic essential primary services each level should carry out. Article 43(1) of the Constitution of Kenya, 2010 provides that every person has the right to the highest attainable standard of health, which includes the right to health care services, including reproductive health care.

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

Management Response

The Management is in agreement with the auditor's observations. The mandate to recruit medical staff lies with the Kilifi County Public Service Board, which advertises and recruits. The Department of Health and Sanitation has a staff establishment for recruitment of staff, as can be seen in Appendix 7 (i)a KCRH. The Department of Health and Sanitation has formally engaged the Kilifi County Public Service Board for the recruitment of medical staff, as can be seen in Appendix 7 KCRH (i)b, which is an indent to the Kilifi County Public Service Board. The County Public Service Board has since undertaken the recruitment process, as can be seen in Appendix 7 KCRH (i)c.

The Department of Health Services has continued to upgrade equipment in the hospital. However, acquisition of equipment and upgrade of the same is usually done on a need-to-need basis and in phases due to financial constraints. In the financial year 2024/2025, the Management confirms that it received a digital X-ray machine, a CT scan, and an ultrasound machine, as can be seen in Appendix 7 (i)d KCRH, which are photos of the X-ray machine, CT scan, and ultrasound machine.

The KQ Model for health has six (6) fundamental blocks of health system strengthening. The policy is envisioned to be implemented based on the Kenya Essential Package for Health Services delivery, which outlines service delivery in the hospital based on facility level. Kilifi County Referral Hospital is a level 4 hospital, which is supposed to conduct comprehensive Reproductive, Maternal, Neo-Natal, Child, and Adolescent Health services. The hospital, together with the County Government of Kilifi, has, over the years, invested in the following areas:

i. Infrastructure:

The Kilifi County Medical Complex building was launched on 19th July, 2022 by Governor Amason Jeffa Kingi, marking the commissioning of the new state-of-the art medical facility and has significantly enhanced service delivery at the hospital by providing comprehensive inpatient services and fully functional theatres, as can be seen in Appendix 7 KCRH (ii), which is a Photo of the Kilifi County Medical Complex Building.

ii. Health Products and Technology:

The County Government of Kilifi, in collaboration with the hospital's management, continues to strengthen the availability and optimal utilization of essential medical equipment, medical supplies, and health technologies to enhance effective and efficient service delivery. This initiative ensures improved diagnostic accuracy, timely treatment interventions, enhanced patient outcomes, and overall quality of healthcare services within the facility. This is achieved through budget allocations, as can be seen in Appendix 7 KCRH (ii)b, which is the itemized budget showing allocations.

iii. Leadership and Governance:

The governance structure and management systems have improved operational efficiency and service quality. Various functional committees have been established and operationalized. These committees support structured decision-making, reinforce internal controls, and enhance transparency in the management of the hospital's resources and service delivery processes.

iv. Service Delivery:

The management of the hospital, in collaboration with the Department of Health Services, has continuously improved the services offered in the hospital through the upgrade of services, including inpatient services, laboratory services, diagnostic services, and surgical interventions.

v. Human Resource for Health:

The management of the hospital, in collaboration with the Department of Health Services focus on ensuring the availability of adequate, competent, and motivated health workers to deliver quality health services. This is done through recruitment and deployment of healthcare workers to the hospital, providing in-service training through conducting continuing medical education (CME), structured supervisions, and appraisal systems, as can be seen in Appendix 7 KCRH (ii)c.

vi. Health System Financing:

The County Government of Kilifi continues to allocate financial resources towards strengthening health services within the limits of available funding. These allocations support the provision of essential health services, operational sustainability, and infrastructure development. The Hospital's own source revenue collection has steadily improved, resulting in increased internal funding. This has enabled the hospital to supplement the County Government of Kilifi's allocations and enhance service delivery in terms of quality, coverage, and patients' outcomes.

Committee Observation

The Committee observed that the query remains unresolved as the optimal staffing levels have not been achieved as is required under the Kenya Quality Model for Healthcare for a level 4 hospital.

Committee Recommendation

The Committee recommends that within sixty (90) days of the adoption of this report, the Governor submits to the Senate a comprehensive plan outlining the specific measures being taken to address the hospital's staffing shortages. The measures should include both short-term and long-term solutions, focusing on optimizing existing resources, improving employee welfare, and ensuring sustainable staffing levels moving forward. The Auditor-General to monitor progress and keep this matter under review in the subsequent audit cycle.

8. Non-compliance with the Public Sector Accounting Standards Board Financial Reporting Requirements.

Key Management Team information excludes academic/professional qualifications, age, or work experience. The Report of Medical Superintendent on page xv, total budget amount of Kshs.328,251,444 against receipts of Kshs.243,368,614. The statement also reflects expenditure of Kshs.326,456,724 against a budget of Kshs.326,456,724, which are not in agreement with the statement of comparison of budget and actual amounts. The internal control oversight information on page xxii reflects the word Director and Fund instead of Management and Hospital.

In the circumstances, Management did not comply with the Public Sector Accounting Standards Board Financial Reporting Requirements.

Management Response

The Management is in agreement with the auditor's observations. The failure to include academic/professional qualifications, age, or work experience shall be corrected in the financial statements for the financial year ending on the 30th day of June 2026. The Management shall restate the financial statement to correct the failure to include the academic/professional qualifications, age, or work experience in the financial statements for the financial year ending on the 30th day of June 2026.

The Management has restated the Financial Statement on the Report of the Medical Superintendent to reflect the budgetary allocations.

The Management shall restate the financial statement on the report of the medical superintendent to comply with the Public Sector Accounting Standards Board on Financial Reporting requirements in the financial statements for the financial year ending on the 30th day of June 2026.

Committee observation.

The Committee observed that the management failed to comply with the Public Sector Accounting Standards Board Financial Reporting Requirements.

Committee Recommendation

The Committee recommends that—

- i). the Governor ensures that the Accounting Officer undertakes prior year adjustments to restate the financial statements in the subsequent financial year 2025/2026. The Auditor-General to keep this in view in the subsequent audit cycle;**
- ii). the Governor ensures that the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47 of Public Audit Act, Cap.412B in the preparation and management of financial**

and accounting records, failure to which the Accounting Officer may be held liable under section 199 of the Public Finance Management Act, Cap. 412A as read together with section 62(2) of the Public the Public Audit Act, Cap. 412B on penalties for offences;

- iii). the National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties;
- iv). the Governor ensures that the Accounting Officer enhances the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements; and
- v). the Governor ensures the Accounting Officer strengthens internal audit controls and ensure proper record keeping in line with section 155 of the Public Finance Management Act, Cap.412A and submit a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap.412A, failure to which the Accounting Officer may be held liable under section 199 of the Public Finance Management Act, Cap. 412A as read together with section 62(2) of the Public the Public Audit Act, Cap. 412B on penalties for offences.

9. Lack of an Internal Audit Function and Audit Committee

Review of the Board of Management meeting minutes revealed that there was no functional Internal Audit or Audit Committee established during the financial year under review.

In the circumstances, the internal controls were inefficient due to the lack of an Internal Audit Function.

Management Response

The hospital complies with the Public Finance Management Act, Cap 412A of the Laws of Kenya, through the County Government's shared services model. In line with Section 155 of the Public Finance Management Act, the Kilifi Sub-County Hospital is supported by the Kilifi County Treasury Internal Audit Department. This centralized internal audit function ensures independence and proper technical oversight for all devolved units, without the need to establish separate audit departments at each facility. Oversight is also provided by the County Audit Committee, which reviews the financial processes of all County Departments and their devolved units.

The County Internal Audit Department conducts regular, risk-based audits of the hospital's operations. The audit reports are reviewed by the Hospital's Management Board to ensure that any recommended corrective actions are implemented. This function has been conducted annually by officers from the County Treasury, as can be seen in Appendix 9 KCRH, which is the Internal Audit Letter of Notification.

Committee Observations

The Committee observed that the operationalization of the hospital was being audited by the county internal audit team.

Committee Recommendations

The Committee recommends that the hospital management ensures compliance with Regulations 153(1) and 155(5) of the Public Finance Management (County Governments) Regulations, 2015 and have an audit committee in place to guide in the internal operations of the hospital

THE REPORT OF THE AUDITOR-GENERAL ON AUDITED FINANCIAL STATEMENTS OF THE MALINDI SUB-COUNTY HOSPITAL FOR THE FINANCIAL YEAR 2024/2025

REPORT ON AUDITED FINANCIAL STATEMENTS FOR MALINDI SUB-COUNTY HOSPITAL FOR THE FINACIAL YEAR 2024/2025

The Committee received written management responses to the following queries raised in the report of the Auditor-General on financial statements Malindi Sub- County Hospital for the Financial Year 2024/2025 –

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a qualified opinion on the financial statements of Malindi Sub- County Hospital for the period under review.

1. Inaccurate Depreciation and Amortization Expense

The statement of financial performance reflects expenditure on depreciation and amortization expense totaling Kshs. 4,214,436 as disclosed in Note 11 to the financial statements. However, the corresponding depreciation on property, plant and equipment as indicated in Note 17 to the financial statements was Kshs.366,566, resulting to a variance of Kshs.3,847,870 attributed to the use of accumulated depreciation expense instead of depreciation for the year under review.

In the circumstances, the accuracy and completeness of depreciation and amortization expense could not be confirmed.

Management Response

The Management Was in agreement with the auditor's observations. The variance arose from the misposting of the depreciation and amortization expense on the property, plant, and equipment for the year under review.

The misposting of the depreciation and amortization expense on the property, plant, and equipment in the statement of financial performance and the depreciation on property, plant, and equipment shall be corrected in the financial statements for the financial year ending on the 30th day of June 2026. The Management shall restate the financial statement to correct the misposting of the depreciation and amortization expense on the property, plant, and equipment in the financial statements for the financial year ending on the 30th day of June 2026.

The Management has since reviewed the depreciation computations and corrected the accounting records to reflect only depreciation and amortization expenses applicable. This will be restated in the financial statements for the financial year ending on the 30th day of June 2026.

Committee Observation

The Committee observed that management acknowledged the anomaly and undertook to make the necessary adjustments in the financial statements for the subsequent financial year.

Committee recommendation

The Committee recommends that –

- i). **the Governor ensures that the Accounting Officer responsible for the hospital undertakes prior year adjustments in the financial statements of the financial year 2025/2026 to correct the anomalies identified in Trade and other payables. The Auditor-General to keep the matter in view and provide a status update in the subsequent audit cycle; and**
- ii). **the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47 of the Public Audit Act, Cap.412B in the preparation and management of financial and accounting records for payables to strengthen record-keeping and reporting failure to which the Accounting Officer may be held liable under section 199 of the Public Finance Management Act, Cap. 412A as read together with section 62(2) of the Public the Public Audit Act, Cap. 412B on penalties for offences.**

2. Inaccurate Expenditure and Deficit Amounts

The statement of financial performance reflects expenditure totaling Kshs.161,519,825 and a deficit of Kshs.18,966,081. Included in the expenditure is Kshs.4,214,436 on depreciation and amortization expense. However, depreciation charge for the year was Kshs.366,566 as disclosed in Note 17 to the financial statements, resulting to overstatement of total expenditure and deficit by Kshs.3,847,870 attributed to the use of accumulated depreciation expense instead of depreciation for the year under review.

In the circumstances, the accuracy and completeness of the total expenditure of Kshs. 161,519,825 and deficit of Kshs.18,966,081 could not be confirmed.

Management Response

The Management was in agreement with the auditor's observations. The Management has initiated the process of reconciling the statement of performance against the property, plant, and equipment movement schedule, and this shall be restated in the financial statements for the financial year ending on the 30th day of June 2026.

Committee Observation

The Committee observed that management acknowledged the anomaly and undertook to make the necessary adjustments in the financial statements for the subsequent financial year.

Committee recommendation

The Committee recommends that –

- i). **the Governor ensures that the Accounting Officer responsible for the hospital undertakes prior year adjustments in the financial statements of the financial year 2025/2026 to correct the anomalies identified in Trade and other payables. The Auditor-General to keep the matter in view and provide a status update in the subsequent audit cycle; and**
- ii). **the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47 of the Public Audit Act, Cap.412B in the preparation and management of financial and accounting records for payables to strengthen record-keeping and reporting failure to which the Accounting Officer may be held liable under section 199 of the Public Finance**

3. Inaccurate and Unsupported Property, Plant and Equipment Balance

The statement of financial position reflects the property, plant, and equipment balance of Kshs.14,493,462 as disclosed in Note 17 to the financial statements. Included in this balance is Kshs.7,503,796 in respect of ICT equipment for which additions during the year amounted to Kshs.1,221,888. However, the list and details of the additions to ICT equipment was not provided for review. In addition, the Department of Health purchased one hundred and twenty-six (126) computers and Uninterruptible Power Supply (UPS) for Malindi and Kilifi Sub-County Hospitals at a cost of Kshs.25,132,116. Kilifi Sub-County Hospital is indicated as having received thirty-two (32) computers and UPSs, while Malindi Sub-County Hospital is indicated as having received ninety-four (94) computers and UPSs, which are not indicated as having been received. Further, the ownership documents, detailed schedule, and updated asset register were not provided for audit.

In the circumstances, the ownership, existence, and valuation of property, plant, and equipment balance of Kshs.14,493,462 could not be confirmed.

Management Response

The Management is in agreement with the auditor's observations. The procurement of one hundred and twenty-six (126) computers and Uninterruptible Power Supply (UPS) for Malindi and Kilifi Sub-County Hospitals at a cost of Kshs. 25, 132, 116/- was done at the County level. The Management has initiated the process of reconciling the statement of performance against the property, plant, and equipment movement schedule, and this shall be restated in the financial statements for the financial year ending on the 30th day of June 2026.

Committee Observation

The Committee observed that the query remains unresolved for since despite submission that management was in the process of following up with Coast Water Works Development Agency on transfer of land registration documents, the transfer was yet to be done.

Committee Recommendation

The Committee recommends that within sixty (60) days of the adoption of this report, the Governor, through the County Executive Committee Member responsible for matters of Hospital, should ensure the reconciliation is fast-tracked. The Auditor-General to keep the matter in view and provide a status update on the matter in the subsequent audit cycle.

4. Unsupported Trade and Other Payables from Exchange Transactions Balance

The statement of financial position reflects trade and other payable balances from exchange transactions balance of Kshs.20,633,436. However, the movement schedule and detailed aging analysis, including date of purchase, LPO/LSO numbers, Invoice numbers, and delivery notes numbers and dates, among other details was not provided for audit.

In the circumstances, the accuracy, completeness, and existence of trade and other payables from exchange transactions balance of Kshs.20,633,436, could not be confirmed.

Management Response

The movement schedule and detailed aging analysis, including date of purchase, LPO/LSO numbers, Invoice numbers, and delivery notes numbers and dates, among other details, were provided to the Auditor General on the 26th day of October, 2025, for audit.

The accuracy, completeness, and existence of trade and other payables from exchange transactions balance of Kshs.20,633,436/- can be confirmed. A comprehensive reconciliation of trade and other payables was undertaken to confirm the accuracy of the balances, which are trade and other payables schedule that was provided to the Auditor General on the 26th day of October, 2025, for audit.

5. Unresolved Prior Year Matters

In the prior years' audit reports, several issues were raised under the Report on the Financial Statements, Lawfulness and Effectiveness in Use of Public Resources, and Effectiveness on Internal Controls, Risk Management, and Governance. Review of the status during audit of the Hospital in 2024/2025 revealed that the following six (6) issues remained unresolved:

No	Financial Year	Audit Issue
1	2023/2024	Variance between financial statements and supporting schedules
2	2023/2024	Misclassification of expenditure
3	2023/2024	Inaccurate bank balance
4	2023/2024	Lack of an audit committee and internal audit function
5	2023/2024	Non-compliance with Public Sector Accounting Standards Board (PSASB) reporting requirements
6	2023/2024	Non-compliance with the Kenya Quality Model for Health Policy

Variations between the Financial Statements and Supporting Schedules

The Financial statement reflect amount that differ with supporting schedules' amounts detailed below:

Item	Financial (Kshs.)	Statement Supporting (Kshs.)	Schedules Variance (Kshs.)
Employee Costs	41,988,158	43,023,257	1,035,099
Board Management	1,404,800	3,197,445	(1,792,645)
Depreciation	5,975,266	0	5,975,266

Management Response

The Management was in agreement with the auditor's observations and confirms that there was no loss of public funds.

i. The variance on employee costs was reconciled. See Note 8 on page 15 of the financial statement and the supporting schedules attached herein as Appendix 5 MSCH(i), which are employee cost supporting schedules that were provided to the Auditor General on the 19th day of March, 2025, for audit.

ii. The correct Board of Management expenses was the sum of Kshs. 1,319,000. It is important to note that the figure of Ksh.1,319,000/- for the Board of Management represents expenditure that was specific to the hospital board's activities, and it was pulled

out of the whole document to show a picture of how the board conducts its activities and how much money they utilized for those activities.

iii. The amount of depreciation in the amended Financial Statement was the sum of Kshs. 3,847,870/-, which was provided in Note 10, which appears on page 15 of the financial statement. The breakdown of the depreciation and net book values for property, plant, and equipment was provided.

Committee Observation

The Committee observed that, whereas the Accounting Officer had put in place some remedial measures, several audit issues remained outstanding.

Committee Recommendations

The Committee recommends that—

- i. **the Governor ensures that Accounting Officer responsible for the hospital resolve any issues resulting from an audit that remains outstanding as required by section 149(2)(l) of the Public Finance Management Act, Cap. 412A, failure to which the accounting officer may be held liable under section 199 of the Public Finance Management Act on penalties for offences; and**
- ii. **the Governor ensures the accounting officer submits a detailed status report on the mitigation measures taken to resolve prior year matters within 60 days of the adoption of this report.**

2. Misclassification of Expenditure

The statement of financial performance reflects repairs and maintenance, and general expenses of Kshs. 16,936,426 and Ksh.44,737,136, respectively. However, the amounts include expenditures that have erroneously been misclassified as detailed below: -

Component	Amount (Kshs.)	Correct Classification
Repair and Maintenance – Buildings	6,651,232	Property, Plant, and Equipment
Computers & Other IT Equipment	148,945	Intangible Assets
Travel accommodation allowances	6,097,350	Domestic Travel Subsistence
Conference & Delegation	2,017,645	Catering Services

Management Response

The Management confirms that there was no loss of funds as a result of misclassification of the expenditure.

i. On repair and maintenance - buildings, the figure of Kshs. 6,651,232/- represents money used in the maintenance of various buildings in the hospital and, therefore, was classified as general expenses and not capitalized because doing so would amount to partial capitalization of buildings. We shall report and classify the value of the whole building (s) (including the improvements as a result of the renovation) under property, plant, and equipment after the due process of valuation and depreciation is done as required.

ii. The sum of Kshs. 148,945/- under computers and other IT equipment was properly classified as an intangible asset in the statement of financial position of the financial statement for the financial year 2023/24.

iii. The sum of Kshs. 6,097,350/- under travel accommodation allowances was properly classified under Domestic Travel Subsistence in the statement of financial position, of the financial statement for the financial year 2023/2024.

The sum of Kshs. 2,017,645/- under conference & delegation was properly classified under catering services in the statement of the financial statement for the financial year 2023/2024.

Committee observation

The Committee observed that there was misclassification in the expenditure.

Committee Recommendations

The Committee recommends that-

- i. The Governor, through the Accounting Officer, should undertake a reconciliation that pertains to payments for outstanding works for which no certificate had been issued. The Auditor-General to provide a status update in the subsequent audit cycle;**
- ii. The Governor, through the Accounting Officer should ensure compliance with section 149(2) of the Public Finance Management Act, Cap. 412A regarding preparation and management of financial and accounting records failure to which provisions of section 199 of the Public Finance Management Act on penalties for offenses shall apply;**
- iii. The Governor, through the Accounting Officer, should strengthen internal audit controls and ensure proper record keeping;**
- iv. The Governor, through the Accounting Officer, should enhance the capacity of officers preparing financial statements to comply with the accounting standards and should further invest in technology and**

processes that reduce inaccuracies in the preparation of financial statements; and

- v. The Governor, through the Accounting Officer, to take administrative action on the officers within the Accounts and Finance department who fails to keep complete financial records in accordance with their terms and conditions of appointment or employment and as required by the Accountants Act, Cap. 534.**

3. Inaccurate Bank Balance

The statement of financial position reflects cash and cash equivalent balance of Ksh.54,966. However, the balance excludes Ksh.2,670 held in Account Number 1018366800 at a local bank, and whose cash books, together with bank reconciliation statements, were not provided for audit.

In the circumstances, the accuracy and completeness of the cash and cash equivalent balance of Ksh.54,966 could not be confirmed.

Management Response

The Management clarifies that the said amount of Kshs. 2, 670/- was disclosed in Note 13 of the financial statement for the financial year 2023/2024. The sum of Kshs. 2, 670/- was included in the statement of financial position and other statements for the financial year 2023/2024. Cash books together with bank reconciliation statements were submitted to the Auditor General on the 19th day of March 2024.

Committee Observations

The Committee observed that there was misstatement of opening balances in the financial statements that resulted into variances, failure to reconcile prior year audited figures with current year records and errors in posting capital fund and development grant transactions.

Committee Recommendations

The Committee recommends that-

- i. The Governor, through the Accounting Officer, should undertake a reconciliation that pertains to payments for outstanding works for which no certificate had been issued. The Auditor-General to provide a status update in the subsequent audit cycle;**
- ii. The Governor, through the Accounting Officer should ensure compliance with section 149(2) of the Public Finance Management Act, Cap. 412A regarding preparation and management of financial and accounting**

records failure to which provisions of section 199 of the Public Finance Management Act on penalties for offenses shall apply;

- iii. The Governor, through the Accounting Officer, should strengthen internal audit controls and ensure proper record keeping;**
- iv. The Governor, through the Accounting Officer, should enhance the capacity of officers preparing financial statements to comply with the accounting standards and should further invest in technology and processes that reduce inaccuracies in the preparation of financial statements; and**
- v. The Governor, through the Accounting Officer, to take administrative action on the officers within the Accounts and Finance department who fails to keep complete financial records in accordance with their terms and conditions of appointment or employment and as required by the Accountants Act, Cap. 534.**

4. Lack of an Audit Committee and Internal Audit Function

The statement of performance reflects the Board of Management expenses of Ksh.1,404,800. However, records provided revealed that there was no functional internal audit and no audit committee meetings held during the year under review.

Management Response

The hospital complies with the Public Finance Management Act, Cap 412A of the Laws of Kenya, through the County Government of Kilifi's shared services model. In line with Section 155 of the Public Finance Management Act the Malindi Sub-County Hospital is supported by the Kilifi County Treasury Internal Audit Department. This centralized internal audit function ensures independence and proper technical oversight for all devolved units, without the need to establish separate audit departments at each facility. Oversight is also provided by the County Audit Committee, which reviews the financial processes of all County Departments and their devolved units.

The County Internal Audit Department conducts regular, risk-based audits of the hospital's operations. The audit reports are reviewed by the Hospital's Management Board to ensure that any recommended corrective actions are implemented. This oversight function is carried out annually by officers from the County Treasury, which is an internal audit notification letter.

5. Non-Compliance with the Public Sector Accounting Standards Board (PSASB) Reporting Requirements

The table of contents omits the statement of cash flow. The Key management information on pages xiii to xvi omits academic and professional qualifications, including working experience. The financial statements do not reflect the date of Board approval. Note 10 does not reflect depreciation and amortization expenses. The Statement of Cash Flows is not complete and omits the opening and closing balances.

In the circumstances, Management did not comply with the Kenya Accounting Standards Board reporting template requirements.

Management Response

The Management was in agreement with the auditor's observations. The failure to include academic/professional qualifications, age, or work experience shall be corrected in the financial statements for the financial year ending on the 30th day of June 2026. The Management shall restate the financial statement to correct the failure to include the academic/professional qualifications, age, or work experience in the financial statements for the financial year ending on the 30th day of June 2026.

6. Non-Compliance with the Kenya Quality Model for Health Policy

Review of services offered, equipment used, and the number of members of staff at the Hospital revealed that during the year under review, the hospital did not meet the requirements of the Kenya Quality Model of Health Policy Guidelines due to staff deficits four (4) Medical Officers, two (2) Anaesthesiologists, and one (1) Paediatrician, and radiologists.

These deficiencies contravene the first schedule of the Health Act, 2017, and imply that accessing the highest attainable standards of health may not be achieved.

Management Response

The Management was in agreement with the auditor's observations. The issue of staff deficit is the mandate of the Kilifi County Public Service Board as provided for in Section 59 (1) (a) & (b) of the County Governments Act, Cap 265 of the Laws of Kenya. The Department of Health forwarded to the Kilifi County Public Service Board its staff establishment and indent for Malindi Sub-County Hospital, which is a level 4 facility, which is the Department of Health's staff establishment.

REPORT ON AUDITED FINANCIAL STATEMENTS FOR MTWAPA SUB-COUNTY HOSPITAL FOR THE FINACIAL YEAR 2024/2025

The Committee received written management responses to the following queries raised in the report of the Auditor-General on financial statements Mtwapa Sub-County Level 4 Hospital for the Financial Year 2024/2025 –

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **qualified opinion** on the financial statements of Mtwapa Sub- County Level 4 Hospital for the period under review.

1.Inaccurate Expenditure on Employee Costs

The statement of financial performance reflects expenditure of Kshs.13,020,754 in respect of employee costs, while the corresponding Note 7 to the financial statements reflects an expenditure of Kshs.13,566,932 resulting to unexplained variance of Kshs.546,178.

In the circumstances, the accuracy and completeness of expenditure on employee costs totaling Kshs.13,020,754 could not be confirmed.

Management Response

The Management was in agreement with the auditor's observations. The variance of Kshs.546,178 was due to misreporting, which was captured as NSSF payables, but was missed in the financial performance. This did not result in the loss of public funds.

This variance shall be corrected in the financial statements for the financial year ending on the 30th day of June 2026. The Management shall restate the financial statement to correct the variance of Kshs. 546, 178/- in the financial year ending the 30th day of June 2026.

Committee Observation

The Committee observed that the query remains unresolved for the following reasons –

The Accounting Officer responsible for the hospital failed to undertake the necessary reconciliations at the time of audit to correct the identified anomalies. However, management demonstrated how the anomaly would be addressed in the subsequent financial statements as prior year adjustments.

Committee Recommendations

The Committee recommends that –

- i). **the Governor ensures that the Accounting Officer responsible for the Hospital undertakes the necessary amendments in the financial statements of the subsequent financial year as prior year adjustments to reflect the true financial position of the hospital;**
- ii). **the Governor ensures that the Accounting Officer responsible for the hospital enhances the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and all other relevant reporting frameworks and should further invest in technology to enhance efficiency and improve the accuracy of financial statements; and**
- iii). **the Governor ensures that, within ninety (90) days of the adoption of this report, the Accounting Officer responsible for the hospital establishes and operationalizes comprehensive internal controls and oversight mechanisms to guarantee that all officers involved in the preparation of financial statements prepare, maintain, and periodically update complete and accurate financial and accounting records in compliance with section 149(2)(b) of the Public Finance Management Act, Cap. 412A section 47 of Public Audit Act, Cap. 412B failure to which the Accounting Officer may be held liable under section 199 of the Public Finance Management Act, Cap. 412A as read together with section 62(2) of the Public the Public Audit Act, Cap. 412B on penalties for offences.**

2. Unsupported Expenditure on Training Expenses

The statement of financial performance reflects expenditure on general expenses totaling Kshs.11,573,335 as disclosed in Note 10 to the financial statements. Included in this amount is domestic travel and subsistence allowance totaling Kshs.3,446,800. Review of the documents provided for audit revealed an expenditure of Kshs.443,000 in respect to leadership and governance training. However, the hospital had not developed annual training plans and carried out training needs assessments to identify skills gaps to inform on budget allocation. Further, no evidence was provided to show how the training's conducted were identified and how the intended beneficiaries were selected.

In the circumstances, the accuracy and completeness of the expenditure on training expenses totaling Kshs.443,000 could not be confirmed.

Management Response

The training on leadership and governance was captured in the Hospital Annual work plan 2024/2025 under Program 3 – General administration, planning, management support and coordination under managerial trainings and the beneficiaries were the members of the Hospital Management.

The Annual work plan and Hospital Management Team list were made available to the Auditor General during the Audit period.

Additionally, the Kilifi County Public Service Board, in collaboration with the Department of Health, is currently developing a standardized Training Needs Assessment (TNA) to be adopted by all health facilities, based on data collected through the staff performance appraisal forms and questionnaires administered to staff across the County of Kilifi.

Committee Observation

The Committee observed that the supporting ledgers and schedules were provided and verified by the Auditor-General.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

3. Inaccurate Cash and Cash Equivalents Balance

The statement of financial position reflects cash and cash equivalents balance of Kshs. 50,727, while the corresponding Note 11 to the financial statements reflects a balance of Kshs.1,509,152 resulting to unexplained variance of Kshs.1,458,425.

In the circumstances, the accuracy, completeness, and existence of cash and cash equivalents balance of Kshs.50,727 could not be confirmed.

Management Response

The Management was in agreement with the auditor's observations. The variance of Kshs. 1, 458, 425/- was as a result of misreporting, where the amount of Kshs. 50,727/- represented the cashbook balance. (i), which is an extract of the cashbook, and the sum of Kshs.1,509,152/- represented the Kenya Commercial Bank and Co-operative Bank balances a (ii), which are the Certificate of Bank Balances as at the 30th day of June 2025. This did not result in the loss of public funds.

The inaccurate cash and cash equivalents balance shall be corrected in the financial statement for the financial year 2025 - 2026. The Management shall restate the financial statement to correct the variance of Kshs. 1, 458, 425/- in the financial year ending the 30th day of June 2026.

Committee Observation

The Committee observed that the variance was as a report of misreporting.

Committee Recommendations

The Committee recommends that –

- i). **the Governor ensures that the Accounting Officer responsible for the municipality undertakes the necessary amendments in the financial statements of the subsequent financial year as prior year adjustments to reflect the true position of the hospital budget; and**
- ii). **the Governor ensures that, within ninety (90) days of the adoption of this report, the Accounting Officer responsible for the municipality establishes and operationalizes comprehensive internal controls and oversight mechanisms to guarantee that all officers involved in the preparation of financial statements prepare, maintain, and periodically update complete and accurate financial and accounting records in compliance with section 149(2)(b) of the Public Finance Management Act, Cap. 412A and section 47(2) of Public Audit Act, Cap. 412B failure to which the Accounting Officer may be held liable under section 199 of the Public Finance Management Act, Cap. 412A as read together with section 62(2) of the Public the Public Audit Act, Cap. 412B on penalties for offences.**

4. Inaccurate Accumulated Surplus

The statement of financial position reflects comparative accumulated deficit balance of Kshs.1,304,996, while the statement of changes in net assets reflects a corresponding balance of Kshs.1,312,236 resulting to unexplained variance of Kshs.7,240. In addition, the statement of financial position reflects accumulated surplus of Kshs.2,710,809, while the statement of changes in net assets reflects a balance of Kshs.1,398,573 resulting to unexplained variance of Kshs.1,312,236.

In the circumstances, the accuracy and completeness of accumulated surplus of Kshs.1,304,996 could not be confirmed.

Management Response

The Management was in agreement with the auditor's observations. The variance was as a result of misreporting, where the figures were captured erroneously in the statement of changes in net assets. This did not result in the loss of public funds.

The inaccurate accumulated surplus shall be corrected in the financial statement for the financial year 2025 - 2026. The Management shall restate the financial statement to correct the variances of Kshs. 7, 240/- and Kshs. 1, 312, 236/- in the financial statements for the financial year ending on the 30th day of June 2026.

Committee Observation

The Committee observed that the variance was as a report of misreporting.

Committee Recommendations

The Committee recommends that –

- i). **the Governor ensures that the Accounting Officer responsible for the municipality undertakes the necessary amendments in the financial statements of the subsequent financial year as prior year adjustments to reflect the true position of the hospital budget; and**
- ii). **the Governor ensures that, within ninety (90) days of the adoption of this report, the Accounting Officer responsible for the municipality establishes and operationalizes comprehensive internal controls and oversight mechanisms to guarantee that all officers involved in the preparation of financial statements prepare, maintain, and periodically update complete and accurate financial and accounting records in compliance with section 149(2)(b) of the Public Finance Management Act, Cap. 412A and section 47(2) of Public Audit Act, Cap. 412B failure to which the Accounting Officer may be held liable under section 199 of the Public Finance Management Act, Cap. 412A as read together with section 62(2) of the Public the Public Audit Act, Cap. 412B on penalties for offences.**

5. Inaccurate Inventories Balance

The statements of financial position reflect a balance of Kshs.21,962,864 in respect of inventories as disclosed in Note 13 to the financial statements. However, the recomputed Note 13 is Kshs.22,354,189, resulting to unexplained variance of Kshs. 391,325.

In the circumstances, the accuracy, completeness, and existence of inventories balance 21,962,864 could not be confirmed.

Management Response

The Management was in agreement with the auditor's observations. The variance was a result of the erroneous summation of the inventories in Kshs. 21,962,864 instead of the correct inventory total of Kshs. 22,354,189.

The inaccurate inventory balance shall be corrected in the financial statement for the financial year ending on the 30th day of June 2026. The Management shall restate the financial statement to correct the variance of Kshs. 391, 325/- in the financial statements for the financial year ending on the 30th day of June 2026.

Committee Observation

The Committee observed that the variance was as a report of misreporting.

Committee Recommendations

The Committee recommends that –

- i). the Governor ensures that the Accounting Officer responsible for the municipality undertakes the necessary amendments in the financial statements of the subsequent financial year as prior year adjustments to reflect the true position of the hospital budget; and**
- ii). the Governor ensures that, within ninety (90) days of the adoption of this report, the Accounting Officer responsible for the municipality establishes and operationalizes comprehensive internal controls and oversight mechanisms to guarantee that all officers involved in the preparation of financial statements prepare, maintain, and periodically update complete and accurate financial and accounting records in compliance with section 149(2)(b) of the Public Finance Management Act, Cap. 412A and section 47(2) of Public Audit Act, Cap. 412B failure to which the Accounting Officer may be held liable under section 199 of the Public Finance Management Act, Cap. 412A as read together with section 62(2) of the Public the Public Audit Act, Cap. 412B on penalties for offences.**

6. Non-disclosure of Property, Plant and Equipment

The statement of financial position excludes balances in respect to plant, property, and equipment. However, a physical verification of the Hospital compound and offices revealed that the Hospital owns various assets, including land and buildings, medical equipment, computers, furniture, and fittings, which were not disclosed in the financial statements. Further, the ownership document for the hospital parcel of land measuring approximately 1.2 acres was not provided for audit review.

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

Management Response

The Management was in agreement with the auditor's observations. The hospital indeed owns several assets, including buildings, medical equipment, computers, furniture, and fittings, which were not reflected in the financial statements. The management has a comprehensive list of all hospital assets and an up-to-date Fixed Asset Register, which is, which is the Asset Register. The valuation process is currently ongoing and being undertaken by the County Department of Finance, as the designated custodian of county assets and the responsible party mandated to undertake the valuation process of the aforementioned assets. This will allow the management to establish the correct market values, which will be reported once the process has been completed.

Regarding the hospital parcel of land, the management confirms that the process to obtain land ownership is underway and we are actively following up with the Department of Lands through the Chief Officer of the Department of Health and Sanitation.

Committee Observation

Committee recommendations

the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9(1)(e) of the Public Audit Act, Cap.412B failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act in the subsequent audit cycle.

7. Inaccurate Statement of Changes in Net Assets

The statement of financial position reflects a balance of Kshs. 22, 815, 259 in respect of net assets. However, the statement of changes in net assets does not disclose any net assets.

In the circumstances, the accuracy and completeness of the statement of changes in net assets could not be confirmed.

Management Response

The Management was in agreement with the auditor's observation. The inaccurate statement of changes in Net Assets was a result of misreporting. This did not result in the loss of public funds.

The inaccurate statement of changes in Net Assets shall be corrected in the financial statement for the year ending on the 30th day of June 2026. The Management shall restate the financial statement to correct the inaccuracy in the financial statements for the financial year ending on the 30th day of June 2026.

Committee observation

The committee observed that there was a misreporting in the financial statements.

The Committee recommends that-

The Committee recommends that the Governor should ensure that the Accounting Officer enforces proper record-keeping and timely submission of all supporting documents to the Auditor-General, as required under section 62 of the Public Audit Act and the Accountants Act. Continuous capacity building should be provided to finance officers to improve competency in financial management. Compliance with the National Treasury financial reporting template must be ensured. The Board

should strengthen internal controls to improve the accuracy and reliability of financial statements.

8. Unresolved Prior Year Matters

The prior year audit certificate contains financial qualification matters, a report on lawfulness and effectiveness in use of public resources, and a report on internal controls, risk management, and governance. Review of the status during audit of the Hospital in 2024/2025 revealed that the following seven (7) issues remained unresolved:

No.	Financial Year	Audit Issue
1	2023/2024	Inaccurate total net assets and liabilities balance
2	2023/2024	Inaccuracies in the presentation and disclosure in the annual report and financial statements
3	2023/2024	Deficiencies in the implementation of universal health coverage (UHC) for level 4 hospital in terms of staffing, services, and equipment
4	2023/2024	Non-compliance with first expiry first out
5	2023/2024	Information communication Technology (ICT)
6	2023/2024	Weak internal controls
7	2023/2024	Incomplete asset register

8.1 Inaccurate total net assets and liabilities balance.

The statement of financial position reflects the total net assets and liabilities balances of Kshs. 1,825,410, which omits disclosure on property, plant, and equipment and inventories balances. However, physical verification of the hospital's compound and offices revealed that the hospital owned various assets, including land, buildings, medical equipment, computers, furniture, and fittings. As previously reported, the measurement criteria was not disclosed in accordance with IPSAS 17 Paragraph 27, which provides that an asset acquired through non exchange transaction shall be measured at fair value as at the date of acquisition, while the asset movement schedule was not provided. In addition, the valuation method for inventory balance was not disclosed in accordance with the requirement of IPSAS 12, which provides that inventories shall be measured at the lower of cost, net realizable value, or fair value as at the date of acquisition.

Management Response

The Management was in agreement with the auditor's observations. The management, through the inventory committee, has completed the identification and compilation of the Fixed Assets register. The valuation process is currently ongoing and being undertaken by the County Department of Finance, as the designated custodian of county assets and the responsible party mandated to undertake the valuation process of the aforementioned Assets.

Committee Observation

The Committee observed that, whereas the Accounting Officer had put in place some remedial measures, several audit issues remained outstanding.

Committee Recommendations

The Committee recommends that—

- i. the Governor ensures that Accounting Officer responsible for the hospital resolve any issues resulting from an audit that remains outstanding as required by section 149(2)(1) of the Public Finance Management Act, Cap. 412A, failure to which the accounting officer may be held liable under section 199 of the Public Finance Management Act on penalties for offences; and**
- ii. the Governor ensures the accounting officer submits a detailed status report on the mitigation measures taken to resolve prior year matters within 60 days of the adoption of this report.**

8.2 Inaccuracies in the presentation and disclosure in the annual report and financial statements –

Review of the annual report and financial statements revealed that the table of contents paging do not agree with the financial statement page sequence, the notes to the financial statement include guidance information as part of the statement, and the Hospital is repeatedly referred to as the entity. The investment property information on page 12 reflects the financial period XXX instead of the actual period.

Management Response

The Management was in agreement with the auditor's observations. The typing and presentation errors were amended in the financial statements for the year that ended on the 30th day of June 2025 to comply.

Committee Observation

The Committee observed that management acknowledged the audit observation and indicated that it resulted from a typing error. This is indicative of weak internal controls during the preparation of the financial statements.

Committee Recommendation

The Committee recommends that –

- i). **the Governor ensures that the Accounting Officer undertakes the necessary prior-year adjustments to correct the recasting error in the 2025/2026 financial year. The Accounting Officer should also ensure that the supporting ledgers are availed to the Auditor-General to substantiate the adjustments made. The Auditor-General to keep this in view in the subsequent audit cycle; and**
- ii). **the Governor ensures that the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47 of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the Accounting Officer may be held liable under section 199 of the Public Finance Management Act, Cap. 412A as read together with section 62(2) of the Public the Public Audit Act, Cap. 412B on penalties for offences.**

8.3 Deficiencies in the implementation of universal health coverage (UHC) for level 4 hospital in terms of staffing, services, and equipment:

In line with the Kenya Quality Model for Health checklist applicable to Level 4 hospitals, the Hospitals are required to offer surgical, paediatric, gynaecology, radiology, renal dialysis, and tuberculosis management, amongst others. However, Mtwapa Sub-County level 4 hospital - County Government of Kilifi does not offer renal dialysis services, mortuary and autopsy services, ophthalmology services, and pathology services.

Management Response

The Management was in agreement with the auditor's observations. The management, in collaboration with the County Department of Health, has been making efforts to upgrade key service areas, including outpatient services, inpatient services, laboratory capacity, maternity and theatre services, and diagnostic units. We currently, however, since January 2024, do offer ophthalmology services. The Department of Health is progressively improving the services at Mtwapa Sub-County Hospital.

The Kilifi County Government has established and staffed renal dialysis units in Kilifi County Hospital and Malindi Sub-County Hospital. The two are the central referral centres for renal dialysis cases in the County. To support seamless referral services, the County

Government of Kilifi offers free ambulance referral services. This is aimed at increasing access to specialized health care services across the County. Furthermore, the specialized clinics are offered in all the newly upgraded level 4 hospitals through the specialist's referral strategy.

To increase access, the County Government of Kilifi has established Primary Health Care Networks in all the sub-counties. Each Primary Health Care Network has a multi-disciplinary team including Medical Officers and consultants, among other staff skills. The newly upgraded hospitals are hubs that host Multi-disciplinary Teams to provide a wide range of specialized care to the community.

Committee Observation

The Committee observed that the query remains unresolved as the optimal staffing levels have not been achieved as is required under the Kenya Quality Model for Healthcare for a level 4 hospital.

Committee Recommendation

The Committee recommends that within sixty (90) days of the adoption of this report, the Governor submits to the Senate a comprehensive plan outlining the specific measures being taken to address the hospital's staffing shortages. The measures should include both short-term and long-term solutions, focusing on optimizing existing resources, improving employee welfare, and ensuring sustainable staffing levels moving forward. The Auditor-General to monitor progress and keep this matter under review in the subsequent audit cycle.

8.4 Non-compliance with first expiry first out

The statement of financial performance reflects Medical/Clinical Costs expenses amounting to Kshs.1,544,152. However, examination of the stock cards used to issue the medical products to various departments in the hospital did not indicate the batch numbers and the expiry dates. As such, it was not possible to establish whether the issuance of the products followed the principle of First Expiry First Out (FEFO). This was contrary to the Ministry of Health Guidelines on Management of Health Products and Technologies 2020, which require medical commodities to be issued through the principle of First Expiry First Out (FEFO).

Management Response

The Management, through the Medicines and Therapeutics Committee (MTC), have put up strategies to ensure compliance with First Expiry First Out and improve on internal

controls through the use of updated bin cards which is an expiry chart, to ensure compliance to the First Expiry First Out principle.

8.5 Information and communication technology (ICT).

Review of the Information and Communication Technology (ICT) records at the Hospital revealed that the management had not established an IT strategic committee, a Data Recovery Plan (DRP), and an IT security policy. Such policies are vital in the effective and efficient management of the entity's IT resources. In addition, the hospital did not have periodic IT reports, which are supposed to assess the status of implementation of IT systems and suggest corrective measures. In the circumstances, the effectiveness of internal control, risk management, and governance could not be confirmed.

Management Response

The Management has an active ICT Strategic Committee that was established on the 20th day of February, 2025. which are the appointment letters of the ICT Strategic Committee which provides an oversight role in management of ICT resources and formulates important strategies in the hospital including data protection and recovery plans by use of Passwords and PINs on all ICT devices and use of hard drives to enhance data backup and recovery. The ICT committee also keeps an updated ICT asset register.

The County Government of Kilifi, through the Department of ICT, has also developed an ICT policy, which is currently in draft form, awaiting consideration by the County Executive Committee and the County Assembly of Kilifi, which shall be adopted by the hospital upon approval.

Committee observations

- i. The Committee observed that the ICT policy was in draft form awaiting consideration by County Assembly.
- ii. The hospital has an active ICT Strategic Committee.
Committee observation

Committee Recommendations

The Committee recommends that, within 60 days of the adoption of this report, the Auditor-General finalizes the follow-up review and submits a status update on the matters to the Senate.

8.6 Weak internal controls

Review of the Hospital's inventory management system revealed that the Hospital had different stores for each department, manned by the user departments. Further, all processes and procedures for store requisition, issuance, and records updating were carried out by

one person. In addition, keys to the pharmaceutical stores were kept at a place where any staff could access, whereas food store keys were kept by the officer-in-charge and there were no formal handover/takeover of keys in case of change of shift, while no stock take report was provided for audit during the year under review.

Management Response

The Management was in agreement with the auditor's observations. The management currently is using a manual system through S13(Receipts), S11(Counter issue/ receiving to sections), and S3(Bin cards/Control tools). All items received by the facility must be recorded in the S13, and issuance of the same is done through an S11. Stocks are updated regularly on the S3 with expiry dates indicated. The Medicines and Therapeutics Committee (MTC) and Inventory Management Committee have been established to enhance internal controls and compliance with the control measures put in place. The management has also deployed specific store managers to strengthen compliance and to avoid requisition, issuance, and records updating being carried out by one person. Furthermore, keys are kept at a central point with a register to monitor handover/takeover.

Committee observation

The Committee observed that whereas the management had taken steps to address the outstanding matters, the query remains unresolved as a follow-up review by the Auditor-General was underway.

Committee Recommendations

The Committee recommends that, within 60 days of the adoption of this report, the Auditor-General finalizes the follow-up review and submits a status update on the matters to the Senate.

8.7 Incomplete asset register

Records provided for audit indicate that the Hospital Management failed to maintain an accurate and complete fixed asset register, including updating it on a regular basis, during the year under review. In the circumstances, the effectiveness of controls on safety and the use of fixed assets could not be confirmed.

Management Response

The Management, through the Inventory Management Committee, which was constituted on the 16th day of July, 2024, completed the identification of Assets on the 3rd day of March, 2025, and has an updated asset register. The valuation process is currently ongoing and being undertaken by the County Department of Finance, as the designated custodian of county assets and the responsible party mandated to undertake the valuation process of the aforementioned Assets.

Committee Observation

The Committee observed that the query remains unresolved for the following reasons –

- i). whereas valuation of the assets was underway, indications as to when the process would be concluded were not provided; and
- ii). the land had not been valued hence its value was not included in the assets of the hospital hence the hospital's assets were not fairly stated.

Committee Recommendation

The Committee recommends that –

- i). **the Governor ensures that the Accounting Officer Responsible for the hospital complies with section 162(2)(c)(i) of the Public Finance Management Act, Cap. 412A failure to which the Accounting Officer may be held liable under section 199 of the Public Finance Management Act, Cap. 412A on penalties for offenses;**
- ii). **the Governor engages the State Department for Lands and Physical Planning to Fasttrack the demarcation and survey of the hospital land and provide a status update on the progress made to the Senate within 60 days of the adoption of this report. The accounting officer responsible for the State Department for Land and Physical Planning shall ensure full cooperation with the County Government of Taita Taveta in the process;**
- iii). **the Governor ensures that, upon obtaining the ownership documents for the land, a valuation is undertaken and the value of the land is duly recorded in the hospital's asset register and reflected accordingly in its financial statements; and**
- iv). **the Governor, in collaboration with the National Land Commission, immediately investigates and addresses the reported encroachment onto the hospital land and submits a status update to the Senate within sixty (60) days of the adoption of this Report.**

9. Non-Remittance of Statutory Deductions

The statement of financial performance reflects expenditure on employee costs totaling Kshs 13,020,754 as disclosed in Note 7 to the financial statements. However, a review of the documents provided for audit revealed that Kshs.334,508 for National Social Security Fund (NSSF) and Social Health Authority (SHA) deductions from employer and employee were not remitted to respective authorities/funds which was contrary to Section 20(1) of

the National Social Security Fund Act which requires employers to make payments deducted from employees' earnings together with employer amounts to NSSF on the ninth day of each month or on such later date as the Board may, in consultation with the Cabinet Secretary, prescribe.

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

Management Response

The Management was in agreement with the auditor's observations. The non-remittance of statutory deductions was caused by delayed disbursements from the Social Health Authority, which resulted in budget underfunding. Notably, the hospital received its first Social Health Authority disbursement for the financial year 2024/2025 in June 2025, As a critical service provider, and with the limited funds available from user fees due to increased uptake of services through the Social Health Authority, the hospital was compelled to prioritize the provision of essential services and payment of net salary over the payment of statutory deductions to ensure continuity of patient care and the upkeep of the staff. Nevertheless, these deductions have been recorded as payables, and the Management made the payment, settling them as a first priority charge. The payment for NSSF arrears was made on the 3rd day of February 2026.

Committee observation

The Committee observed that the hospitals failed to remit SHA and NSSF, PAYE, WIBA payments which contravenes Section 48(1) of the Social insurance Act 2023, Section 20(1) of the NSSF Act 2023 and Section 7 of the Work injury Benefits Act 2007 respectively

Committee recommendations

The committee recommends that the Governor and the accounting officer should ensure compliance to the National Industrial Training Act, Section 48(1) of the Social insurance Act 2023, Section 20(1) of the NSSF Act 2023 and Section 7 of the Work injury Benefits Act 2007, and remit the statutory deductions to avoid penalties.

10. NON-COMPLIANCE WITH THE KENYA QUALITY MODEL FOR HEALTH FOR LEVEL 4 HOSPITAL REQUIREMENTS

Review of documents revealed that the Hospital had thirty-six (36) medical staff against the minimum requirement of one hundred and one (101), resulting to understaffing by sixty-five (65) members of staff or sixty-four percent (64%), which included the shortage of specialists such as anesthesiologists, internal medicine, and pediatrics. In addition, the Hospital had one hundred and two (102) equipment and machines against the requirement of one hundred and eighty-one (181) for a level 4 hospital resulting to a shortage of seventy-

nine (79) or forty four percent (44%) which included shortage of vital services such as functional Intensive Care Unit (ICU) beds and High Dependency Unit (HDU) which require a minimum of six (6) beds.

This was contrary to Gazette Notice No. 786 Vol. CXXII No. 24 of 4th February, 2020, which provides for the classification of healthcare facilities, including the basic essential primary services each level should carry out. Article 43(1) of the Constitution of Kenya, 2010 provides that every person has the right to the highest attainable standard of health, which includes the right to health care services, including reproductive health care.

Management Response

Mtwapa Sub-County Hospital is a level 4 hospital that provides comprehensive Reproductive, Maternal, Newborn, Child, and Adolescent Health services (RMNCAH). The Department of Health has continuously, over the years, invested in the following pillars. Policy is envisaged to be implemented based on the Kenya Essential Package for Health (KEPHH), which outlines service delivery in the facility based on its level. The Kilifi County Department of Health has been continuously improving on the services at Mtwapa Sub-County Hospital in line with the Health Systems Building Blocks as follows:

(i) Infrastructure: The launch and operationalization of the Mtwapa Medical complex on the 12th day of September, 2023, has enabled the hospital to offer comprehensive inpatient and theater services. The building is physically verifiable on the hospital land. This has gone a long way in improving the quality of care offered at the hospital and the realization of universal health coverage.

(ii) Health Products and Technology: The County Government of Kilifi, in collaboration with Mtwapa Sub-County Hospital, continues to improve the availability and sustainability of essential commodities through continuous supply of health products, pharmaceuticals, non-pharmaceuticals, and medical equipment. The Department of Health has continuously increased the allocation for the hospital. The Department of Health, in collaboration with KEMSA have renovated the Pharmaceutical Drug.

Committee Observation

The Committee observed that the query remains unresolved as the optimal staffing levels have not been achieved as is required under the Kenya Quality Model for Healthcare for a level 4 hospital.

Committee Recommendation

The Committee recommends that within sixty (90) days of the adoption of this report, the Governor submits to the Senate a comprehensive plan outlining the specific measures being taken to address the hospital's staffing shortages. The measures

should include both short-term and long-term solutions, focusing on optimizing existing resources, improving employee welfare, and ensuring sustainable staffing levels moving forward. The Auditor-General to monitor progress and keep this matter under review in the subsequent audit cycle.

REPORT ON AUDITED FINANCIAL STATEMENTS FOR BABA SUB-COUNTY HOSPITAL FOR THE FINACIAL YEAR 2024/2025

The Committee received written management responses to the following queries raised in the report of the Auditor-General on financial statements Baba- Sub-County Hospital for the Financial Year 2024/2025 –

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a qualified opinion on the financial statements of Baba Sub-County Referral Hospital for the period under review.

1. Inaccuracies in the Annual Report and Financial Statements

The financial statements presented for audit contained presentation anomalies and inaccuracies as detailed below:

1.1. Inaccurate Comparative Amounts

The financial statements reflect comparative amounts that differed with the prior year's audited balances as detailed below: -

Particulars	Financial Statement Amount (Kshs)	Prior Year's Audited Financial Statements Amount (Kshs)	Variance (Kshs)
Transfers from the County Government	20,612,049	19,345,937	1,266,112
Cash and Cash Equivalent	843,714	6,155,372	5,311,658
Receivables from non-exchange transactions	9,150,687	4,433,137	4,717,550
Property, plant & equipment	-	2,072,830	(2,072,830)

Management Response

The Management was in agreement with the auditor's observation on inaccurate comparative amounts. In compliance with the statutory reporting timelines under the Public Finance Management Act and the Public Audit Act, the Management notes that the current

submitted statements cannot be retroactively amended, and as such, the same shall be corrected in the financial statements for the financial year ending on the 30th day of June 2026. The Management shall restate the financial statement to correct the inaccurate comparative amounts in the financial statements for the financial year ending on the 30th day of June 2026.

To prevent a recurrence of such document-control errors, the Management has instituted a strict Maker-Checker Policy for all external submissions using our existing personnel. Moving forward, before any statutory report is printed, bound, and dispatched, the physical document shall be independently cross-verified against the signed master audit certificates by both the Accountant and the Medical Superintendent. The Management shall soon deploy two finance officers to the hospital to ensure a strict review process.

Committee Observations

The Committee Observed that-

The errors would be corrected in the next audit cycle.

Committee Recommendations

The Committee recommends that-

- i. the Governor ensures that the Accounting Officer to takes appropriate administrative action on responsible officers within the Accounts and Finance department who fail to keep complete financial records in accordance with section 156(1) of the Public Finance Management Act, Cap.412A and in line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- ii. the Governor ensures that the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- iii. the National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties;**
- iv. the Governor ensures the Accounting Officer strengthens internal audit controls and ensures proper record keeping in line with section 155 of the Public Finance Management Act, Cap.412A and submit a quarterly report**

to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply; and

- v. the Governor ensures that the Accounting Officer enhances the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.

1.2. Variance between Financial Statements and Supporting Schedules

The financial statements reflect amounts that differed with the supporting schedules as detailed below: -

Component		Financial Statements Amount (Kshs)	Supporting Schedules Amount (Kshs)	Variance (Kshs)
Employee Salaries, wages	Costs-	5,696,115	5,388,240	307,875
Cooperative book balance	cash	1,204,899	2,211,449	1,006,550
Inventories		9,905,123	0	9,905,123

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

Management Response

The Management was in agreement with the auditor's observation on the Employee Costs-Salaries, wages variance. The Financial Statement amount of Kshs. 5,696,115/- is the correct gross cost. There was misreporting in the initial supporting schedule of statutory employer contributions and final payroll adjustments.

We have reconciled the figures as follows:

Description	Amount (Kshs)
Contractual Employees (Salaries/Wages)	5,477,032.00
Employer NSSF Statutory Contributions	219,083.00

Description	Amount (Kshs)
Total Employee Costs (Reconciled)	5,696,115.00

Cooperative cash book balance

Management response

The Management was in agreement with the auditor's observation on the cooperative cashbook balance variance of Kshs.1,006,550/-. The initial variance was caused by the misposting of accounts payable as cash outflows in the cashbook. The same shall be corrected in the financial statements for the financial year ending on the 30th day of June 2026. The Management shall restate the financial statement to correct the inaccurate cooperative cashbook balance in the financial statements for the financial year ending on the 30th day of June 2026 to reflect the correct reconciled balance of Kshs 2,211,448.59.

Committee Observation

The Committee observed that management acknowledged the anomaly and undertook to make the necessary adjustments in the financial statements for the subsequent financial year.

Committee recommendation

The Committee recommends that –

- i). the Governor ensures that the Accounting Officer responsible for the hospital undertakes prior year adjustments in the financial statements of the financial year 2025/2026 to correct the anomalies identified in Trade and other payables. The Auditor-General to keep the matter in view and provide a status update in the subsequent audit cycle; and**
- ii). the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47 of the Public Audit Act, Cap.412B in the preparation and management of financial and accounting records for payables to strengthen record-keeping and reporting failure to which the Accounting Officer may be held liable under section 199 of the Public Finance Management Act, Cap. 412A as read together with section 62(2) of the Public the Public Audit Act, Cap. 412B on penalties for offences.**

Inventories Variance

Management response

The Management is in agreement with the auditor's observation on the inventory variance. The supporting inventory schedules were presented to the Auditor General during the initial audit period. We confirm that a comprehensive physical stock take was conducted on the 30th day of June 2025, which verified a total inventory value of Kshs 9,905,123/-.

Committee Observation

The Committee observed that management acknowledged the anomaly and undertook to make the necessary adjustments in the financial statements for the subsequent financial year.

Committee recommendation

The Committee recommends that –

- iii). **the Governor ensures that the Accounting Officer responsible for the hospital undertakes prior year adjustments in the financial statements of the financial year 2025/2026 to correct the anomalies identified in Trade and other payables. The Auditor-General to keep the matter in view and provide a status update in the subsequent audit cycle; and**
- iv). **the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47 of the Public Audit Act, Cap.412B in the preparation and management of financial and accounting records for payables to strengthen record-keeping and reporting failure to which the Accounting Officer may be held liable under section 199 of the Public Finance Management Act, Cap. 412A as read together with section 62(2) of the Public the Public Audit Act, Cap. 412B on penalties for offences.**

2. Unsupported General Expenses

The statement of financial performance reflects the general expenses amount of Kshs.11,021,520 a disclosed in Note 21 to the financial statements. The following observations were made:

2.1 Unsupported Daily Subsistence Allowances

Included in the amount is Kshs.4,885,005 incurred on domestic travel and subsistence allowances, of which the supporting imprest warrants, invitation letters to the meetings, meetings attendance registers, work tickets, programs of work, and results achieved were not provided for audit.

Management Response

The vouchers, together with the supporting documents, were provided to the Auditor General at the time of audit. The required documentation has been well-documented and supported to ensure full compliance with financial regulations. The Management has provided schedules of the expenses and payment vouchers, invitation letters to the meetings, and meeting attendance registers to support the expenses.

The Committee observed that-

1. Supporting documents in Kshs.4,885,005 incurred on domestic travel and subsistence allowances, were not submitted to the auditor during the audit period.
2. Whereas the payment vouchers and all supporting documents were provided and verified by the Auditor-General, the submission was done outside the timelines contemplated under the Public Audit Act, Cap.412B and constitutes an offence under section 62(2) of the Act.

Committee Recommendations

The Committee recommends that the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9(1)I of the Public Audit Act, Cap.412B failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act in the subsequent audit cycle.

2.2 Unsupported Fuel and Lubricants Expenditure

Included in the amount is fuel and lubricants expenditure amount of Kshs.2,155,885, which was not supported by way of bulk fuel register, invoices, utilization statements from the vendors, detail orders, and work tickets.

In the circumstances, the accuracy, completeness, fair statement, and value for money spent on general expenses of Kshs.11,021,520 could not be confirmed.

Management Response

The bulk fuel register, invoices, utilization statements from the vendors, detail orders, and work tickets were provided to the Auditor General at the time of audit. The expenditure on fuel and lubricants was fully supported by valid documentation at the time of the transaction. The documents were filed separately from the payment vouchers during the audit review period.

Committee Observations

The Committee observed that-

3. lubricants expenditure amount of Kshs.2,155,885, were not supported by way of bulk fuel register, invoices, utilization statements from the vendors, detail orders, and work tickets.
4. Whereas the payment vouchers and all supporting documents were provided and verified by the Auditor-General, the submission was done outside the timelines contemplated under the Public Audit Act, Cap.412B and constitutes an offence under section 62(2) of the Act.

Committee Recommendations

The Committee recommends that the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9(1)I of the Public Audit Act, Cap.412B failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act in the subsequent audit cycle.

3. Misstatement of Cash and Cash Equivalents Balance

The statement of financial position reflects a cash and cash equivalents balance of Kshs.1,204,899. However, the total balances in Note 27 to the financial statements yielded Kshs.1,621,401, resulting to an unreconciled variance of Kshs.416,502. Further, the bank reconciliation statement for the cooperative bank account reflects a cash book balance of Kshs. 2,211,449, which varies with Kshs.1,204,899 disclosed in Note 27, resulting to an unreconciled variance of Kshs.1,006,550.

In the circumstances, the accuracy and completeness of the cash and cash equivalent balance of Kshs.1,204,899 could not be confirmed.

Management Response

The Management was in agreement with the auditor's observations regarding the variance in the Cash and Cash Equivalents balance and confirms that there was no loss of public funds. The variances identified were strictly as a result of misrepresentation in reporting templates, and not a failure to account for the actual cash.

The variance arose due to a classification misposting in the cashbook during the financial year under review. We inadvertently posted accounts payables directly into the cashbook as cash outflows. These were accounting accruals, not actual cash payments. This misposting artificially reduced the reported cashbook balance to Kshs. 1,204,899/- in the

initial financial statements. The Management will correct this error in the next cycle of reporting by identifying and reversing these payable entries from the cashbook.

Description	Amount (Kshs)
Bank Statement Balance (Co-operative Bank)	3,386,446.59
(Less) Outstanding Transactions recorded in Cashbook (1,174,998.00)	
Corrected Cashbook Balance	2,211,448.59

The Management shall restate the Financial Statements for the year ending the 30th day of June 2026 to reflect the accurate figures in the Statement of Financial Position. The Cash and Cash Equivalents balance shall be restated to the sum of Kshs. 2,627,950.94

Committee Observations

The Committee observed that there was misstatement of opening balances in the financial statements that resulted into variances of Kshs.416,502.

Committee Recommendations

The Committee recommends that-

- vi. The Governor, through the Accounting Officer, should undertake a reconciliation that pertains to payments for outstanding works for which no certificate had been issued. The Auditor-General to provide a status update in the subsequent audit cycle;**
- vii. The Governor, through the Accounting Officer should ensure compliance with section 149(2) of the Public Finance Management Act, Cap. 412A regarding preparation and management of financial and accounting records failure to which provisions of section 199 of the Public Finance Management Act on penalties for offenses shall apply;**
- viii. The Governor, through the Accounting Officer, should strengthen internal audit controls and ensure proper record keeping;**
- ix. The Governor, through the Accounting Officer, should enhance the capacity of officers preparing financial statements to comply with the accounting standards and should further invest in technology and processes that reduce inaccuracies in the preparation of financial statements; and**
- x. The Governor, through the Accounting Officer, to take administrative action on the officers within the Accounts and Finance department who fails to keep complete financial records in accordance with their terms and**

conditions of appointment or employment and as required by the Accountants Act, Cap. 534.

4. Unsupported Receivables from Non - Exchange Transactions

The statement of financial position reflects receivables from non-exchange transactions balance of Kshs.3,888,906. However, the ageing analysis was not presented, and Management did not explain measures put in place to recover the receivables.

In the circumstances, the accuracy and completeness of receivables from non-exchange transactions balance of Kshs.3,888,906, could not be confirmed.

Management Response

The Management was in agreement with the auditor's observation regarding the receivables balance from non-exchange transactions. Upon detailed review, the Management identified that the receivables balance was understated in the initial financial statements due to the misposting of the financial year under review of the Social Healthcare Authority's claims. The balance shall be restated from Kshs 3,888,906/- to Kshs 4,361,596/- in the financial statements for the financial year ending on the 30th day of June 2026.

Committee Observations

The Committee observed that the management did not have aging analysis.

Committee recommendations

The Committee recommends that-

- i. The Governor ensures that the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47 of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- ii. the Governor ensures that the Accounting Officer enhances the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.**
- iii. the Accounting Officer should, within 60 days of the adoption of this report, submit a debtors' ageing schedule to the Auditor-General for verification;**

- iv. **the Accounting Officer should within 60 days of the adoption of this report, submit an approved copy of the Debt Management Policy to the Auditor-General for verification. The Auditor-General to verify the policy and submit a status update on the same in the subsequent audit cycle**

5. Unsupported Inventory Balance

The statement of financial position reflects an inventory balance of Kshs.9,905,123. However, the movement schedule, supporting schedule, and stock take reports as at 30 June 2025 were not provided for audit.

In the circumstances, the accuracy and completeness of the inventory balance of Kshs.9,905,123 could not be confirmed.

Management Response

While a physical stock take was conducted on the 30th day of June 2025, the primary verification records were not indexed for submission during the initial field audit. The hospital has now compiled the complete documentation set, which is attached herein as Appendix 5 BSCH. These records confirm the accuracy of the sum of Kshs. 9,905,123/- as the inventory balance. The Management commits to formally restating the financial statements to ensure full transparency and sequential alignment in the financial statements for the financial year ending on the 30th day of June 2026.

Item Category	Amount (Kshs)
Pharmacy (Pharmaceuticals)	6,394,235
Main Store (Non-Pharmaceuticals)	2,827,253
Office Supplies	552,135
Sanitary Material	103,500
Maintenance supplies	28,000
TOTAL INVENTORY	9,905,123

Committee Observations

The Committee observed that the management failed to submit documents during the audit.

Committee recommendations

The Committee recommends that-

- v. **The Governor ensures that the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47 of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- vi. **the Governor ensures the Accounting Officer strengthens internal audit controls and ensures proper record keeping in line with section 155 of the Public Finance Management Act, Cap.412A and submit a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply; and**
- vii. **the Governor ensures that the Accounting Officer enhances the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.**

6. Undisclosed Property, Plant and Equipment

The statement of financial position reflects a nil balance in respect to property, plant, and equipment. However, the balance excludes the prior year balance of Kshs.2,072,830, which was not explained. Further, as previously reported, the balance excludes the value of four (4) acres of land, work in progress, and equipment and machinery (X-ray machine and autoclave).

In the circumstances, the accuracy and completeness of the property, plant, and equipment balance of Nil could not be confirmed.

Management Response

The Management was in agreement with the auditor's observations on the undisclosed property, plant, and equipment. The process of land acquisition is ongoing, and the facility has received a letter of confirmation of status from the Ministry of Lands and Physical Planning. Parcel No. 11 was demarcated and surveyed to Bamba Sub-County Hospital, and the same is awaiting registration and issuance of a title deed.

The Management wishes to spell out that the equipment and machinery (X-ray machine and autoclave) are inoperative and unserviceable. The Management has initiated the process of disposal.

Committee Observation

The Committee observed that the process of land acquisition was ongoing.

Committee recommendations

The Committee recommends that-

- i. the Governor to make budgetary provisions for adjudication and valuation of assets to ensure a seamless process in the transfer of assets;**
- ii. the Governor ensures that the management of the hospital undertakes the valuation of all assets of the water company is fast-tracked and submits the valuation report to the Auditor- General for verification. The Auditor general to provide a status update on the matter in the subsequent audit cycle; and**
- iii. upon completion of the transfer and valuation, the Accounting Officer should prepare an updated asset register within 120 days of the adoption of this report and submit to the Senate and a copy to the Auditor General for verification;**

7. Inaccurate Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.1,365,760. However, the payables movement schedule from the prior year's balance of Kshs.2,237,415 was not provided for audit.

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

Management Response

The Management was in agreement with the auditor's observations regarding trade and other payables. During the financial year 2024/2025, the hospital successfully settled the entire opening balance of Kshs 2,237,415/- brought forward from the previous financial year. The closing balance of Kshs 1,365,760/- represents new obligations relating to the supply of tonners, workshop tools, fuel, and per diem, which were incurred during the year under review that remained unpaid as of the 30th day of June 2025.

Summary of Payables Movement

Description	Amount (Kshs)
Opening Balance (as at 1st July 2024)	2,237,415
(Add) New Payables/Bills incurred during FY 2024/2025	1,365,760
Total Payables to be Settled	3,603,175
(Less) Payments made to Creditors during the year	(2,237,415)
Closing Balance (as at 30th June 2025)	1,365,760

The closing balance of Kshs. 1,365,760/- relates to specific outstanding bills for essential supplies and services.

Committee Observations

The Committee observed that the management failed to provide movement schedule during the audit.

Committee recommendations

The Committee recommends that-

- viii. **The Governor ensures that the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47 of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- ix. **the Governor ensures the Accounting Officer strengthens internal audit controls and ensures proper record keeping in line with section 155 of the Public Finance Management Act, Cap.412A and submit a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- x. **the Governor ensures that the Accounting Officer enhances the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.**

8. Unresolved Prior Year Matters

The prior year audit certificate contains financial qualification matters, a report on lawfulness and effectiveness in use of public resources, and a report on internal controls, risk management, and governance. Review of the status during audit of the Hospital in 2024/2025 revealed that the following eleven (11) issues remained unresolved:

No. Matter

- 1 Variance between the financial statement and supporting schedules
- 2 Unsupported Employee Costs
- 3 Cash and Cash Equivalent
- 4 Unsupported Receivables from Non-Exchange Transactions
- 5 Property, Plant, and Equipment
- 6 Unresolved Prior Year Matters
- 7 Role of Hospitals in Universal Health Coverage
- 8 Financial Statement Presentation Errors
- 9 Lack of an Audit Committee and Internal Audit Function
- 10 Lack of Human Resource and Financial Policy and Procedures Manual

Incomplete Fixed Assets Register

The Committee observed that the query remains unresolved as the management of the hospital did not take action to address the queries raised in the report of the Auditor-General for the financial year 2023/2024.

Committee Recommendations

The Committee recommends that—

- iii. **the Accounting Officer should resolve any issues resulting from an audit that remains outstanding as required by section 149(2)(l) of the Public Finance Management Act, Cap. 412A, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences may apply; and**

No. Matter

- iv. the Governor ensures the accounting officer submits a detailed status report on the mitigation measures taken to resolve prior year matters within 60 days of the adoption of this report.

Variance between the financial statement and supporting documents

Review of the statement of receipts and payments revealed unexplained variances in four (4) items with the corresponding schedules as indicated below:

Particulars	Financial Statement Amount (Kshs)	Supporting Schedule Amount (Kshs)	Variance (Kshs)
Transfers from county government	19,345,937	11,461,362	7,884,575
Medical/clinical costs	737,997	-	737,997
Board of Management Expenses	87,000	181,200	-
Repair and Maintenance	914,430	-	914,430
General Expenses	6,785,978	-	6,785,978
Cash & Cash Equivalent	6,155,372	-	6,155,372
Property, Plant & Equipment	2,072,830	-	2,072,830
Receivables from non-exchange transactions	4,433,137	-	4,433,137
Trade and other Payables	2,237,415	-	2,237,415

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

Management Response

The unreconciled variances were restated in the financial statement for the financial year 2024-2025. The Management fully reconciled these figures and provided the corrected. To ensure full compliance and sequential accuracy, the Management commits to formally

restate these balances in the financial statements for the financial year ending on the 30th day of June 2026.

Committee Observations

The Committee observed that-

1. there was a variance of Kshs. 2,237,415 and incorrect basis of reconciliation.
2. Management has committed that the anomaly will be corrected in the subsequent reporting.

Committee Recommendations

The Committee recommends that—

- xi. The Governor ensures that the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- xii. the National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties;**
- xiii. the Governor ensures the Accounting Officer strengthens internal audit controls and ensures proper record keeping in line with section 155 of the Public Finance Management Act, Cap.412A and submit a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- xiv. the Governor ensures that the Accounting Officer enhances the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements; and**
- xv. the Accounting Officer ensures that prior year adjustments are carried out in the company's financial statements of the subsequent year to correct the errors to reflect the true financial position of the company.**

2 Unsupported Employee cost

The statement of financial performance and Note 8 to the financial statements reflects employee cost of Kshs.3,815,622. However, the payroll indicating employee name, personal or identity number, gross salaries, and statutory deductions, including affordable housing levy by both the employee and employer, were not provided for audit. Further, the amount includes casual labor expenses of Kshs. 238,700 not supported by muster rolls and the daily attendance register.

In the circumstances, the accuracy and completeness of the employee costs could not be confirmed.

Management Response

The Management provided for audit, the detailed payroll for the period, which included employee names, ID numbers, gross salaries, and all statutory deductions.

The original, signed muster roll and the daily attendance registers were maintained at the hospital during the period under review. These documents verify the days worked and the corresponding payments made to each individual. The complete set of documentation supporting the total employee cost of Kshs. 3,815,622/- is attached herein as Appendix 8.2. The Management remains committed to ensuring these records are indexed sequentially in the restated financial statements for the financial year ending on the 30th day of June 2026.

Committee Observation

The Committee Observed that the management failed to provide documents during the audit period.

Committee recommendations

The Committee recommends that the Governor should ensure that the Municipal Manager and the head of finance are directed to ensure that all supporting documents requested by the Auditor-General are submitted within the timelines stipulated in Section 62 of the Public Audit Act, Cap. 412B. The Municipal Board shall institute an internal tracking mechanism to monitor compliance, and any officer found to have caused undue delay shall be subject to disciplinary action.

3 Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalent balance of Kshs.6,155,372. However, the cash book reflects a balance of Kshs.842,718 resulting to unreconciled variance of Kshs.5,312,654 as detailed below:

Particulars	Financial Statement Amount (Kshs)	Cash Book Amount (Kshs)	Variance (Kshs)
Co-op Bank Balance	3,386,447	843,714	2,542,733
NBK Balance	2,768,925	(996)	2,769,921
Total	6,155,372	842,718	5,312,654

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.6,155,372 as at 30 June 2024 could not be confirmed.

Management Response

This discrepancy arose from prior-period adjustments and reconciliation differences that were not fully synchronized in the primary books of account at the time of reporting. In accordance with IPSAS 3, the Management treated these as prior-period misreporting and initiated a progressive reconciliation exercise.

Committee Observations

The Committee observed that management attached the journal entries supporting the amendments to the Financial Statements.

Committee Recommendations

The Committee recommends that-

- i. the Governor ensures that the Accounting Officer to takes appropriate administrative action on responsible officers within the Accounts and Finance department who fail to keep complete financial records in accordance with section 156(1) of the Public Finance Management Act, Cap.412A and in line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- ii. the Governor ensures that the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**

- iii. **the National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties;**
- iv. **the Governor ensures the Accounting Officer strengthens internal audit controls and ensures proper record keeping in line with section 155 of the Public Finance Management Act, Cap.412A and submit a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- v. **the Governor ensures that the Accounting Officer enhances the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.**



13TH PARLIAMENT 5TH SESSION

MINUTES OF THE FIFTY THIRD SITTING OF THE COUNTY PUBLIC INVESTMENTS AND SPECIAL FUNDS COMMITTEE HELD ON MONDAY, 30TH MARCH 2026 HELD ON ZOOM PLATFORM AT 10.00 A.M.

PRESENT

- | | |
|--|--------------------|
| 1. Sen. Godfrey Atieno Osotsi, CBS, MP | - Chairperson |
| 2. Sen. Eddy Gicheru Oketch, MP | - Vice-Chairperson |
| 3. Sen. Agnes Kavindu Muthama, MP | - Member |
| 4. Sen. Peris Pesi Tobiko, CBS, MP | - Member |
| 5. Sen. Hamida Ali Kibwana, MP | - Member |

ABSENT WITH APOLOGY

- | | |
|--------------------------------------|----------|
| 6. Sen. William Kisang' Kipkemoi, MP | - Member |
| 7. Sen. Beth Kalunda Syengo, MP | - Member |
| 8. Sen. Raphael Chimera Mwinzagu, MP | - Member |
| 9. Sen. George Mungai Mbugua, MP | - Member |

SECRETARIAT

- | | |
|-----------------------|------------------------|
| 1. Mr. Yussuf Shimoy | - Clerk Assistant I |
| 2. Mr. Erick Kimani | - Clerk Assistant II |
| 3. Mr. Godfrey Nyaga | - Clerk Assistant III |
| 4. Mr. Jeremy Chabari | - Senior Legal Counsel |
| 5. Mr. Peter Katana | - Research Officer |
| 6. Ms. Hamun Mohamud | - Research Officer |
| 7. CPA Keneddy Owuoth | - Fiscal Analyst |
| 8. Mr. Victor Kimani | - Audio officer |

MIN. NO. SEN/CPICSF/382/2026 PRAYER

The meeting was called to order by the Chairperson at twenty-five minutes past ten O'clock in the morning followed by a word of prayer.

MIN. NO. SEN/CPICSF/383/2026 ADOPTION OF THE AGENDA

The agenda of the meeting was adopted having been proposed Sen. Eddy Gicheru Oketch, MP and seconded by Sen. Hamida Ali Kibwana, MP as follows –

1. Prayer;
2. Adoption of the Agenda;
3. Consideration and Adoption of Reports
4. Any Other Business; and
5. Date of the Next Meeting and Adjournment.

MIN. NO. SEN/CPICSF/384/2026 CONSIDERATION AND ADOPTION OF REPORTS

The Committee considered the reports on the consideration of the audit reports of the following counties and their respective entities for the Financial Year 2024/2025 (1st July-, 2024 to 30th June, 2025)-

1. Kajido County

- I. Oololaiser Water and Sewerage Company Limited
- II. Nol-Turesh Loitokiok Water and Sanitation Company Limited
- III. Olkejuado Water and Sewerage Company Limited
- IV. Kajido County Referral Hospital
- V. Imbirikani Level 4 Hospital
- VI. Ngong Level 4 Hospital
- VII. Kitengela Sub-County Hospital
- VIII. Ongata Rongai Sub-County Hospital
- IX. Kajido County Emergency Fund
- X. Kajido County Alcoholic Drinks Control Fund
- XI. Kajido County Climate Change Fund
- XII. Kajido County Disability Mainstreaming Fund
- XIII. Kajido County Education Bursary Grants and Scholarship Fund
- XIV. Kajido County Youth and Women Enterprise Fund
- XV. Kajido County Emergency Fund

2. Kiambu County

- I. Gatundu Water and Sewerage Company
- II. Githunguri Water and Sanitation Company
- III. Karuri Water and Sanitation Company
- IV. Kiambu Water & Sanitation Company
- V. Limuru Water and Sewerage Company
- VI. Ruiru-Juja Water & Sewerage Company
- VII. Thika Water and Sewerage Company
- VIII. Karuri Municipality
- IX. Kiambu Municipality
- X. Kikuyu Municipality

- XI. Limuru Municipality
- XII. Ruiru Municipality
- XIII. Thika Municipality
- XIV. Gatundu Level 5 Hospital
- XV. Igegania Sub-County Hospital
- XVI. Karuri Level 4 Hospital
- XVII. Kigumo Level 4 Hospital
- XVIII. Kihara Sub County Hospital
- XIX. Lari Hospital
- XX. Lusigetti Sub- County Hospital
- XXI. Nyathuna Level 4 Hospital
- XXII. Ruiru Sub-County Hospital
- XXIII. Tigoni Sub County Hospital
- XXIV. Wangige Sub County Hospital
- XXV. Kiambu County Referral Hospital
- XXVI. Thika Level 5 Hospital
- XXVII. Kiambu County Executive Emergency Fund
- XXVIII. Kiambu County Alcoholic Drinks Control Fund
- XXIX. Kiambu County Climate Change Fund,
- XXX. Kiambu County Executive Bursary Fund
- XXXI. Kiambu County Fif Fund
- XXXII. Kiambu County Jiinue Fund

3. Homabay

- I. Homa Bay County Water and Sanitation Company Ltd (Homawasco)
- II. Municipality Of Homa Bay
- III. Municipality Of Kendu Bay
- IV. Municipality Of Mbita
- V. Municipality Of Ndhiwa
- VI. Municipality Of Oyugis
- VII. Homa Bay County Teaching and Referral Hospital
- VIII. Kabondo Sub-County Hospital
- IX. Kandiego Sub-District Hospital
- X. Kendu Sub-District Hospital
- XI. Kisegi Sub-District Hospital
- XII. Magunga Level Iv Hospital
- XIII. Makongeni L4
- XIV. Malela Level 4 Hospital
- XV. Marindi Sub County Referral Hospital
- XVI. Ndhiwa Sub County Hospital
- XVII. Nyandiwa Level Iv Hospital
- XVIII. Nyangiela Sub District
- XIX. Ogongo Level 4 Hospital
- XX. Pala Level 4 Hospital

- XXI. Rachuonyo District Hospital
- XXII. Rangwe Sub-District Hospital
- XXIII. Sena Level 4 Hospital
- XXIV. Suba North Sub-County Hospital
- XXV. Suba Sub-County Hospital
- XXVI. Tom Mboya Memorial Level 4 Hospital
- XXVII. Homa Bay County Mortgage & Car Loan Executive Fund
- XXVIII. Homa Bay County Alcoholic Drink Control Board
- XXIX. Homa Bay County Bursary Fund

4. Migori

- I. Migori Water and Sewerage Company
- II. Awendo Municipality
- III. Kehancha Municipality
- IV. Migori Municipality
- V. Rongo Municipality
- VI. Awendo Sub-County Hospital
- VII. Isibania Sub-District Hospital
- VIII. Karungu Sub-County Hospital
- IX. Kegonga Sub County Hospital
- X. Macalder Sub-County Hospital
- XI. Migori County Referral Hospital
- XII. Muhuru Sub-County Hospital
- XIII. Ntimaru Sub County Hospital
- XIV. Nyamaraga Sub County Hospital
- XV. Othoro Sub County Hospital
- XVI. Oyani Sub County Hospital
- XVII. Rongo Sub County Hospital
- XVIII. Uriki Sub County Hospital
- XIX. Migori County Ward Development Fund.
- XX. Migori County Executive Car Loan and Mortgage Fund
- XXI. Migori County Climate Change Fund.
- XXII. Migori County Alcoholic Drinks Control Fund
- XXIII. Migori County Ward Development Fund.

5. Kisii

- I. Gusii Water and Sanitation Company Limited (Gwasco/Kwasco)
- II. Kisii Municipality
- III. Etago Sub-County Hospital
- IV. Gesusu Sub-County Referral Hospital
- V. Gucha Sub County Referral Hospital
- VI. Ibacho Sub-County Hospital
- VII. Ibeno Sub-County Referral Hospital
- VIII. Iranda Sub County Referral Hospital

- IX. Kisii County Health Facilities Improvement Fund
- X. Fund, Kisii Demonstration Farms Fund
- XI. Kisii County Emergency Fund
- XII. Kisii Mortgage & Car Loan (Executive) Fund
- XIII. Kisii County Climate Change Fund
- XIV. Kisii County Bursary Fund
- XV. Kisii County Covid-19 Emergency Fund
- XVI. Kisii County Veterinary Services Development

6. Machakos

- I. Mavoko Water and Sanitation Company Limited (Mavwasco)
- II. Machakos Municipal Water and Sewerage Company Limited (Macwasco)
- III. Mwala Water and Sanitation Company Limited
- IV. Matungulu Water and Sewerage Company (Makawasco)
- V. Kathiani Water and Sanitation Company Limited
- VI. Yatta Water Services Company Limited (Yawasco)
- VII. Mavoko Municipality
- VIII. Machakos Municipality
- IX. Kangundo/Tala Municipality
- X. Kalama Level 4 Level 4 Hospital
- XI. Kangundo Sub-County Hospital Level 4 Hospital
- XII. Kathiani Sub-County Hospital Level 4 Hospital
- XIII. Kimiti Level 4 Hospital Level 4 Hospital
- XIV. Masinga Sub-County Hospital Level 4 Hospital
- XV. Matuu District Hospital Level 4 Hospital
- XVI. Mavoko Level 4 Hospital Level 4 Hospital
- XVII. Mutituni Level 4 Hospital Level 4 Hospital
- XVIII. Mwala Subcounty Hospital Level 4 Hospital
- XIX. Ndithini Level 4 Hospital Level 4 Hospital
- XX. Machakos County Referral Hospital Level 5 Hospital
- XXI. Machakos County Bursary Fund
- XXII. Machakos County Emergency Fund
- XXIII. Machakos County Executive and Chief Officers Car Loan and Mortgage Scheme

7. Baringo

- I. Kirandich Water and Sanitation Company Limited
- II. Eldama Ravine Water and Sewerage Company Limited (Erawasco)
- III. Chemususu Water Company Limited
- IV. Municipality Of Kabarnet
- V. Marigat Sub-County Level 4 Hospital
- VI. Kabartonjo Level 4 Hospital

- VII. Baringo County Referral Hospital
- VIII. Eldama Ravine Level 4 Hospital
- IX. Chemolingot Level 4 Hospital
- X. Baringo County Executive Car Loan Scheme Fund
- XI. Baringo County Executive Mortgage Scheme Fund
- XII. Baringo County Emergency Fund
- XIII. Baringo Cooperative Development Fund
- XIV. Baringo County Bursary and Scholarship Fund,
- XV. Baringo County Climate Change Fund,
- XVI. Baringo County Micro and Small Enterprises Fund And
- XVII. Baringo County Community Conservation Fund

8. Isiolo

- I. Isiolo Municipality
- II. Isiolo County Referral Hospital
- III. Financing Locally-Led Climate Action Programme (Flloca)
- IV. Isiolo County Education Bursary Fund

9. Busia

- I. Busia Water and Sewerage Services Company Limited
- II. Busia Municipality
- III. Malaba Municipality
- IV. Alupe Sub County Hospital
- V. Busia County Referral Hospital
- VI. Teso North Sub County Hospital
- VII. Nambale Sub County Hospital
- VIII. Busia Agricultural Development Fund
- IX. Busia County Alcoholic Drinks Control Fund
- X. Busia County Climate Change Fund
- XI. Busia County Cooperative Enterprise Development Fund
- XII. Busia County Public (Officers) Revolving Fund

10. Kakamega

- 1. Kakamega County Water and Sewerage Company Limited
- 2. Kakamega County Rural Water and Sewerage Company Limited
- 3. Mumias Municipality
- 4. Kakamega Municipality
- 5. Navakholo Sub- County Hospital
- 6. Malava Sub- County Hospital
- 7. Matungu Sub- County Hospital
- 8. Butere County Hospital
- 9. Kakamega County Referral Hospital
- 10. Manyala Sub- County Hospital
- 11. Kakamega County Climate Change Fund

12. Kakamega County Alcoholic Drinks Control Fund
13. Kakamega County Emergency Fund
14. Kakamega County Investment and Development Agency

11. Bungoma

- I. Bungoma Water and Sewerage Company Limited.
- II. Bungoma Municipality
- III. Kimilili Municipality
- IV. Bungoma County Referral Hospital
- V. Bumula Sub-County hospital
- VI. Kimilili Sub-County Hospital
- VII. Mt. Elgon Sub-County Hospital
- VIII. Bursary Fund
- IX. Climate Change Fund
- X. Disaster And Emergency Management Fund
- XI. Persons With Disabilities Empowerment Fund
- XII. Trade Development Loan Fund
- XIII. Youth And Women Empowerment Fund

12. Kitui

- I. Kitui Water and Sanitation Company
- II. Kiambemwingi Water and Sanitation Company
- III. Kitui County Referral Hospital
- IV. Mutomo Sub-County Hospital
- V. Mwingi Level 4 Hospital
- VI. Ikanga Sub-County Hospital
- VII. Tseikuru Sub-County Hospital
- VIII. Kitui County Textile Center
- IX. Kitui County Empowerment Fund

13. Siaya

- I. Sibo Water and Sanitation Company Ltd
- II. Bondo Municipality
- III. Siaya Municipality
- IV. Ugunja Municipal Board
- V. Ambira Level 4 Hospital
- VI. Bondo Level 4 Hospital
- VII. Got Agulu Sub County Level Hospital
- VIII. Siaya County Referral Hospital
- IX. Siaya County Bursary Fund
- X. Siaya County Climate Change Fund

14. Laikipia

- I. Nyahururu Water and Sanitation Company Limited
- II. Nanyuki Water and Sanitation Company
- III. Municipality Of Nanyuki
- IV. Municipality Of Rumuruti
- V. Nanyuki Teaching and Referral Hospital
- VI. Doldol Level 4 Hospital
- VII. Rumuruti Sub-County Hospital
- VIII. Nyahururu County Referral Hospital
- IX. Emergency Fund
- X. Bursary Fund
- XI. Assets Leasing Fund
- XII. Business Stimulus Fund
- XIII. Climate Change Fund - Flloca
- XIV. Laikipia County Cooperative Fund.
- XV. County Revenue Board
- XVI. County Development Authority

15. Turkana

- I. Lodwar Water and Sanitation Company Limited
- II. Kakuma Municipality
- III. Lodwar Municipality
- IV. Lodwar County Referral Hospital
- V. Lokiatung Sub-County Level 4 Hospital
- VI. Lopiding Sub-County Level 4 Hospital
- VII. Turkana County Executive Car Loan and Mortgage Fund
- VIII. Turkana County Climate Change Fund
- IX. Turkana County Co-Operative Development Enterprise Fund
- X. Turkana County Education Fund
- XI. Turkana County Emergency Fund

16. Narok

- I. Narok Water and Sewerage Services Company Limited (Narwassco)
- II. Kilgoris Municipality
- III. Narok Municipality
- IV. Narok County Referral Hospital
- V. Maasai Mara Community Support Fund
- VI. Alcoholics Drinks Regulation and Control Fund
- VII. Bursary Management Fund

17. Uasin Giishu

- I. Eldoret Water and Sanitation Company Limited (Eldowas)
- II. Municipality Of Eldoret (Now City of Eldoret)

- III. Huruma Level 4 Hospital
- IV. Turbo Level 4 Hospital
- V. Uasin Gishu District Hospital
- VI. Mortgage And Car Loans Scheme Fund
- VII. Alcoholic Drinks Control Fund
- VIII. Cooperative Enterprise Development Fund
- IX. Education Revolving Fund
- X. Bursary And Skills Development Support Fund

18. Nairobi

- I. Nairobi City Water and Sewerage Company Limited
- II. Bahati Level 4 Hospital
- III. Mutuini Dagoretti Level 4 Hospital
- IV. Mama Margaret Uhuru Level 5 Hospital
- V. Mbagathi County Referral Hospital
- VI. Mama Lucy Kibaki-Level 5 Hospital
- VII. Nairobi City County Alcoholic Drinks Control and Licensing Board

19. Meru

- I. Meru Water and Sewerage Services Company (Mewass)
- II. Meru County Rural Water and Sanitation Company (Mewsc)
- III. Meru Municipality
- IV. Maua Municipality
- V. Meru Teaching and Referral Hospital (Mtrh)
- VI. Miathene Sub-County Hospital
- VII. Nyambene Sub-County Hospital
- VIII. Meru County Revenue Board (Mcrb)

20. Trans-Nzoia

- I. Trans Nzoia Water and Sewerage Company Limited.
- II. Kitale Municipality
- III. Kitale County Referral Level 4 Hospital
- IV. Wamalwa Kijana Teaching and Referral Hospital
- V. Trans Nzoia County Climate Change Fund
- VI. Trans Nzoia County Nawiri Fund
- VII. Trans Nzoia County Youth and Women Development Fund
- VIII. Trans Nzoia County Elimu Bursary Fund
- IX. Trans Nzoia County Executive Car Loan and Mortgage Scheme Fund

21. Nakuru

- I. Nakuru Water and Sanitation Company Limited
- II. Nakuru Rural Water and Sanitation Company Limited
- III. Naivasha Water and Sanitation Company Limited

- IV. Gilgil Municipality
- V. Molo Municipality
- VI. Nakuru City
- VII. Naivasha Municipality
- VIII. Nakuru County Referral And
- IX. Teaching Hospital
- X. Naivasha Sub-County Level 4 Hospital
- XI. Gilgil Sub-County Level 4 Hospital
- XII. Nakuru County Bursary Fund
- XIII. Nakuru County Climate Change Fund
- XIV. Nakuru County Emergency Fund

22. Kilifi

- I. Kilifi Municipality
- II. Malindi Municipality
- III. Mariakani Municipality
- IV. Mtwapa Municipality
- V. Watamu Municipality
- VI. Kilifi County Climate Change Fund
- VII. Kilifi County Emergency Fund
- VIII. Kilifi County Health Services Improvement Fund
- IX. Kilifi County Microfinance (Wezesha) Fund/board
- X. Kilifi County Ward Scholarship Fund
- XI. Bamba Sub-County Hospital
- XII. Gede Sub County Hospital
- XIII. Jibana Sub District Hospital
- XIV. Kilifi County Hospital
- XV. Malindi District Hospital
- XVI. Marafa Sub County Hospital
- XVII. Mariakani District Hospital
- XVIII. Mtwapa Sub County Hospital
- XIX. Rabai Sub County Hospital
- XX. Kilifi Mariakani Water and Sewerage Co.
- XXI. Malindi Water and Sewerage Co.
- XXII. Kilifi County Assembly Members Mortgage and Car Loan Scheme Fund
- XXIII. Kilifi County Car Loan and Mortgage Scheme Fund

23. Kericho

- I. Kericho County Executive Staff Car Loan Fund
- II. Kericho County Executive Staff Mortgage Fund
- III. Kericho County Emergency Fund
- IV. Kericho County Executive
- V. Financing Locally Led Climate Change Action (FLLoCA) - Kericho
- VI. Kericho County Agricultural Development
- VII. Kericho County Alcoholic Drinks Fund

- VIII. Kericho County Bursary Fund
- IX. Kericho County Enterprise Fund
- X. Forttenan Sub District Hospital
- XI. Kapkatet District Hospital
- XII. Kericho District Hospital
- XIII. Kipkelion Sub District Hospital
- XIV. Londiani District Hospital
- XV. Roret Sub-District Hospital
- XVI. Sigowet Sub-District Hospital
- XVII. Kericho Water and Sanitation Co. Ltd

24. The Committee considered and adopted the Report on the summary of key audit findings in the Auditor-General Reports for Water Companies, Municipalities, Hospitals and funds for the financial year 2024/2025

Committee resolution

The Committee unanimously adopted the aforementioned reports and directed the secretariat to process for tabling of the same.

MIN. NO. SEN/CPICSF/385/2026 ANY OTHER BUSINESS

There was no any other business.

MIN. NO. SEN/CPICSF/386/2026 DATE OF NEXT MEETING & ADJOURNMENT

The Chairperson adjourned the meeting at nineteen minutes to eleven o'clock in the morning. The next meeting would be called on notice.



SIGNED: DATE:31.03.2026.....

(CHAIRPERSON: SEN. GODFREY ATIENO OSOTSI, CBS, MP.)