

PARLIAMENT  
OF KENYA  
LIBRARY

REPUBLIC OF KENYA



Rt. Hon. Speaker  
You may approve for tabling  
J. M. Nyegenye, C.B.S.,  
Clerk of the Senate/Secretary, PSC  
Date: 25/03/26  
*[Signature]*

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 LAMU COUNTY WATER COMPANY, MUNICIPALITY, HOSPITALS AND FUNDS FOR THE FINANCIAL YEAR 2024/2025.

SECTOR	NO	ENTITY
WATER COMPANY	1	LAMU WATER AND SEWERAGE COMPANY LIMITED.
MUNICIPALITY	1	LAMU MUNICIPALITY
HOSPITALS	3	LAMU COUNTY REFERRAL HOSPITAL
		FAZA SUB-COUNTY HOSPITAL
		MPEKETONI SUB-COUNTY HOSPITAL
FUNDS	4	LAMU COUNTY BURSARY AND SCHOLARSHIP FUND
		LAMU COUNTY CLIMATE CHANGE FUND
		LAMU COUNTY EMERGENCY FUND
		LAMU COUNTY EXECUTIVE STAFF HOUSING FUND.

MARCH, 2026

*[Signature]*  
26/3/26  
APPROVED  
RT. HON. SEN  
AMASON J. KINGI

PAPERS LAID	
DATE	26/3/2026
TABLED BY	Sen cheranney
COMMITTEE	CPI & S.F
CLERK AT THE TABLE	Belindal

## TABLE OF CONTENTS

ACRONYMS/ABBREVIATIONS.....	3
DEFINITION OF TERMS.....	4
PREFACE.....	5
COMMITTEE MEMBERSHIP.....	6
ESTABLISHMENT OF THE COMMITTEE.....	7
EXECUTIVE SUMMARY.....	8
REPORT STRUCTURE.....	9
GENERAL OBSERVATIONS FOR THE WATER COMPANY.....	10
GENERAL RECOMMENDATIONS FOR THE WATER COMPANY.....	10
GENERAL OBSERVATIONS FOR THE MUNICIPALITY.....	12
GENERAL OBSERVATIONS FOR HOSPITALS.....	14
GENERAL RECOMMENDATIONS FOR HOSPITALS.....	15
ACKNOWLEDGEMENTS.....	19
CHAPTER ONE: WATER COMPANY.....	22
1.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR LAMU WATER AND SEWERAGE COMPANY LIMITED FOR THE FINANCIAL YEAR 2024/2025.....	22
CHAPTER TWO: MUNICIPALITY.....	40
1.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS MUNICIPALITY OF LAMU FOR THE FINANCIAL YEAR 2024/2025.....	40
CHAPTER THREE: HOSPITALS.....	46
3.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR LAMU COUNTY REFERRAL LEVEL 4 HOSPITAL FOR THE FINANCIAL YEAR 2024/2025.....	46
1.2. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR FAZA SUBCOUNTY HOSPITAL FOR THE FINANCIAL YEAR 2024/2025.....	61
3.3 REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR MPEKETONI SUB- COUNTY LEVEL 4 HOSPITAL FOR THE FINANCIAL YEAR 2024/2025.....	70
CHAPTER FOUR: FUNDS.....	82
4.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR LAMU COUNTY BURSARY AND SCHOLARSHIP FUND FOR THE FINANCIAL YEAR 2024/2025.....	82
4.2. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR LAMU COUNTY CLIMATE CHANGE FUND FOR THE FINANCIAL YEAR 2024/2025.....	88
4.3. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR LAMU COUNTY EMERGENCY FUND FOR THE FINANCIAL YEAR 2024/2025.....	91
4.4 REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR LAMU COUNTY EXECUTIVE HOUSING FUND FOR THE FINANCIAL YEAR 2024/2025.....	98

## **ACRONYMS/ABBREVIATIONS**

<b>CCO</b>	Chief County Officer
<b>CECM</b>	County Executive Committee Member
<b>CEO</b>	Chief Executive Officer
<b>EACC</b>	Ethics and Anti-Corruption Commission
<b>EGH</b>	Elder of the Golden Heart
<b>FCPA</b>	Fellow Certified Public Accountant
<b>FEFO</b>	First Expiry, First Out
<b>FSTP</b>	Faecal Sludge Treatment Plant
<b>FY</b>	Financial Year
<b>HDU</b>	High Dependency Unit
<b>HR</b>	Human Resources
<b>ICU</b>	Intensive Care Unit
<b>IGRTC</b>	Intergovernmental Relations Technical Committee
<b>IPSAS</b>	International Public Sector Accounting Standards
<b>IT</b>	Information Technology
<b>KQMH</b>	Kenya Quality Model for Health
<b>LR No.</b>	Land Registration Number
<b>NLC</b>	National Land Commission
<b>NRW</b>	Non-Revenue Water
<b>PFM Act</b>	Public Finance Management Act
<b>PSASB</b>	Public Sector Accounting Standards Board
<b>SHA</b>	Social Health Authority
<b>SLA</b>	Service-Level Agreement
<b>UHC</b>	Universal Health Coverage
<b>WASREB</b>	Water Services Regulatory Board
<b>TRANSWASCO</b>	Trans Nzoia Water and Sewerage Company Limited
<b>WSDP</b>	Water and Sanitation Development Project

## 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**

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

Pursuant to the provisions of Article 229(4) of the Constitution of Kenya, 2010, the Auditor-General is required to audit and report on the accounts of all national and county government entities, including water companies, municipalities, Hospitals and county funds, within six months after the end of each financial year.

This report covers the consideration by the Committee of the Auditor-General's reports on the financial statements of Lamu County water company, municipality, hospitals and funds for the Financial Year 2024/2025. The entities considered include Lamu Water and Sewerage Company Limited, Lamu Municipality, Lamu County Referral Hospital, Mpeketoni Sub-County Hospital, Faza Sub-County Hospital, Lamu County Climate Change Fund, Lamu County Executive Staff Housing Fund, Lamu County Emergency Fund and Lamu County Bursary and Scholarship Fund.

The Governor of Lamu County, accompanied by relevant officials, appeared before the Committee to respond under oath to audit queries raised by the Auditor-General in the respective reports.

## COMMITTEE MEMBERSHIP

The membership of the Committee comprises of the following Senators-

- |   |                           |
|---|---------------------------|
| 1. Sen. Godfrey Atieno Osotsi, CBS, MP.   | - <b>Chairperson</b>      |
| 2. Sen. Eddy Gicheru Oketch, MP.          | - <b>Vice-Chairperson</b> |
| 3. Sen. Agnes Kavindu Muthama, MP         | - Member                  |
| 4. Sen. William Kipkemoi Kisang, CBS, 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. Mr. Erick Ososi           | - Research Officer I       |
| 8. Ms. Linet Aseka           | - 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'eno       | - Media Relations officer. |
| 15. Mr. Victor Kimani        | - Audio officer            |
| 16. Mr. Fredick Okola        | - Serjeant-At-Arms         |

## **ESTABLISHMENT OF THE COMMITTEE**

The Committee was first constituted on 19<sup>th</sup> 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 12<sup>th</sup> 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.

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 the Lamu Water and Sewerage Company Limited, Lamu Municipality, Lamu County Referral Hospital, Mpeketoni Sub-County Hospital, Faza Sub-County Hospital, Lamu County Climate Change Fund, Lamu County Executive Staff Housing Fund, Lamu County Emergency Fund and Lamu County Bursary and Scholarship Fund, for the Financial year 2024/2025 (1<sup>st</sup> July, 2024 to 30<sup>th</sup> June 2025) as the primary documents for the interrogation. The Committee invited the Governor, as the Chief Executive Officer of Lamu County, pursuant to Article 179(4) as witness to respond to the audit queries raised in the reports under consideration on Thursday, 19<sup>th</sup> January, 2026 for the water company, municipality and hospitals, and on Monday 16<sup>th</sup> March, 2026 for the funds.

The Committee received both written and oral evidence from the Governor in response to the various audit queries raised by the Auditor-General in the reports under consideration. The Committee considered and concluded its inquiry onto the reports of the Auditor-General on the Financial Operations of the water companies and municipalities for the Financial Year 2024/2025.

Seven entities received a qualified opinion from the Auditor-General, indicating material discrepancies and insufficient documentation preventing the issuance of an unqualified audit report. The other two (Lamu County Bursary and Scholarship Fund and Lamu County Emergency Fund) received an unqualified opinion.

Some of the key findings across the entities include: unsupported property, plant and equipment balance, non-revenue water at levels exceeding regulatory benchmarks; long outstanding receivables, budgetary control issues, inaccuracies in financial statements, failure to settle pending bills, unresolved prior year matters, lack of operational independence of the municipality and late submission of documentation.

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 Lamu Water Company for the Financial Year 2024/2025, 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 on Lamu municipality in for the Financial Year 2024/2025, 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 the hospitals in Lamu County (Lamu County Referral Hospital, Mpeketoni Sub-County Hospital, and Faza Sub-County Hospital) for the Financial Year 2024/2025, along with the Committee's observations and recommendations for each audit query.

**CHAPTER FOUR** is a record of the audit queries raised in the report of the Auditor-General for the funds in Lamu County (Lamu County Climate Change Fund, Lamu County Executive Staff Housing Fund, Lamu County Emergency Fund and Lamu County Bursary and Scholarship Fund) for the Financial Year 2024/2025, 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 the Water Company under review: -

1. **Late submission of documents and inaccuracies in Financial Statements** – The Committee observed a pattern of late submission of audit documents and financial statements that contained numerous inaccuracies. The delays hinder the audit process and may indicate an attempt to falsify records, while the prevalence of errors suggests a lack of competence that could potentially facilitate fraudulent activities.
2. **Non-Revenue Water (NRW)** – The Committee observed that the Water Company recorded NRW levels 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. Tana River Water and Sanitation Company Limited had non-revenue water of 61% or 428,230 cubic meters (M<sup>3</sup>).
3. **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.
4. **Non-Adherence to Accounting Standards** – The committee observed that accountants across several Water Companies faced challenges in fully adopting the International Public Sector Accounting Standards (IPSAS) framework. The Committee noted that while the Public Sector Accounting Standards Board (PSASB) periodically updates these standards to reflect emerging issues and best practices, many water companies struggle with their application, as evidenced by recurring audit queries.

## **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 the Water Company: -

1. **Enhancement of Record Keeping and Audit Compliance** –The Governor ensures that the Board and Accounting Officer have 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.
2. **Mitigation of Non-Revenue Water** – The Governor to ensure that the Board of Directors and Accounting Officer 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.
3. **Capacity Building on Financial Reporting Standards** – The Governor ensures that the Board of Directors, in consultation with the Public Sector Accounting Standards Board (PSASB), facilitate continuous capacity building for finance officers and management on International Public Sector Accounting Standards (IPSAS) to improve the quality of financial reporting and enhance compliance. The Governor ensures that the Board ensure that all accounting personnel possess the requisite competency and experience as mandated by the Accountants Act. Additionally, the Governor ensures the Accounting Officer enforce strict adherence to the financial reporting template prescribed by the National Treasury. These measures will strengthen the maintenance of books of account, improve the accuracy of financial statements, and ensure their timely submission to the Auditor-General.

<b>PAPERS LAID</b>	
<b>DATE</b>	
<b>TABLED BY</b>	
<b>COMMITTEE</b>	
<b>CLERK AT THE TABLE</b>	

## **GENERAL OBSERVATIONS FOR THE MUNICIPALITY**

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

1. **Late Submission of Audit Documents**– The Committee noted that the Auditor-General encountered significant challenges due to the late submission of supporting documents 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.
2. **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.
3. **Deficiencies in Financial Reporting and Standards Compliance** – The Committee observed that there were numerous inaccuracies and errors in the financial statements of the municipality, raising concerns about the capacity of the officers responsible for their preparation. Furthermore, the municipality faces persistent challenges in adapting to the International Public Sector Accounting Standards (IPSAS) framework required for the preparation of their financial statements.
4. **Challenges in Applying Updated Accounting Standards**- The Committee observed that the Public Sector Accounting Standards Board (PSASB) periodically reviews IPSAS to address emerging issues and align with best practices. The Municipality struggled to apply the updated standards, as evidenced by the audit queries.

## **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 the Municipality: -

1. **Timely Submission of Audit Documents** – The Governor ensures that the Municipal Manager and the head of finance 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.

2. **Enforcement of Municipal Autonomy** – The Governor ensures that 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 operational (management, functional, and financial) powers to the Municipal Board and Manager, as delegated in the gazzeted Municipal charter. The Municipal Board shall thereafter provide a compliance report to the County Assembly and the Senate Committee on County Public Investments and Special Funds.
3. **Strengthening Financial Reporting Capacity**- the Governor ensures that the Municipal Manager and the head of finance shall, in consultation with the County Treasury and the Public Sector Accounting Standards Board (PSASB), develop and implement a continuous capacity-building program for all finance officers on the application of International Public Sector Accounting Standards (IPSAS). This program shall commence within sixty (60) days of the adoption of this report and shall be repeated quarterly to ensure updated knowledge of revised standards. Further, the Governor ensures that the Municipal Manager shall ensure that all financial statements prepared from the financial year 2024/25 onwards fully comply with the most current IPSAS framework as issued by the PSASB. Any deviation shall be explicitly explained and justified in the notes to the financial statements.

## 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. **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.
3. **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.
4. **Weak Budgetary Control and Performance**— The Committee observed that hospitals exhibit weaknesses in budget execution and did not 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 management board. Additionally, hospitals experience high revenue shortfalls attributable to unrealistic budgeting and poor revenue forecasting.
5. **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 submits to the Senate a comprehensive plan outlining the specific measures being taken to address the hospital's staffing shortages. Further ensures the hospital develops and implements a comprehensive plan with appropriate budgetary provision to acquire the necessary equipment and encourage the ongoing training and prioritize new recruitments to fill gaps in medical personnel, ensuring specialized services can be offered in-house.
2. **Capacity Building on Financial Reporting Standards** - The Governor ensures the hospital management team, in consultation with the Public Sector Accounting Standards Board (PSASB), facilitates continuous capacity building on financial reporting standards for finance officers and management in hospitals to improve the quality of reporting and enhance compliance. The hospital management team 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.
3. **Compliance with Ethnic Inclusivity Requirements** - The hospital management team 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.
4. **Preparation of Realistic Budgets and Revenue Projections** - The Governor ensures the hospital management team and Accounting Officers prepare realistic budgets and revenue projections to avert revenue shortfalls that negatively impact hospitals' service delivery. Additionally, the hospital management team 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.

5. **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 hospital management team 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 Senate and a copy to the Auditor-General within sixty (60) days of the adoption of this report.

## GENERAL OBSERVATIONS FOR THE FUNDS

1. **Systemic Underfunding and Under-utilization-** Most funds, including the Climate Change Fund, Elimu Bursary Fund, and Nawiri Fund, experienced significant underfunding and under-utilization of resources. This was primarily attributed to the under-collection of Own Source Revenue (OSR) and delays in exchequer releases.
2. **Compliance Breaches regarding Statutory Deductions-** There was a consistent failure to deduct and remit the 0.03% Public Procurement Capacity Building Levy. Management across multiple funds cited a lack of automated "logic" or configuration within the IFMIS system to trigger these deductions.
3. **Legal Lapses in Fund Continuity:** Several funds, such as the Nawiri Fund , Youth and Women Development Fund , and Elimu Bursary Fund , have continued to operate beyond their initial 10-year approval period without formal renewal from the County Executive Committee and County Assembly, in breach of PFM Regulations.
4. **Weak Debt and Imprest Recovery:** Management struggled to recover long-outstanding loans and imprests, some dating back over a decade (e.g., 2013/2014 and 2015). In some instances, loans were disbursed without sufficient insurance cover or registered securities.
5. **Poor Record Keeping and Documentation:** Auditors initially rendered qualified opinions for certain funds due to unsupported receivables and missing committee minutes, though some documents were later provided during exit meetings.

## GENERAL RECOMMENDATIONS FOR THE FUNDS.

1. **Enhance Revenue and Budget Planning-** Fund management must institute realistic budget planning and implement aggressive measures to enhance Own Source Revenue to ensure planned activities are fully funded and service delivery is not compromised.
2. **Automate Statutory Deductions-** The Governor should ensure Accounting Officers work with IFMIS administrators to configure the system for automatic deduction and remittance of the Procurement Capacity Building Levy. Until then, manual controls and registers must be established to ensure compliance.
3. **Regularize Fund Operations-** Management must prioritize and hasten the approval of reviewed bills and acts at the County Assembly to ensure all public

funds are operating under valid legal frameworks and within the authorized timeframes.

4. **Strengthen Recovery Mechanism-** Accounting Officers are required to put in place robust recovery measures with clear timelines for all outstanding loans and imprests. Irrecoverable debts should be formally analyzed and processed for write-off following Board approval and PFM Regulations.


5. **Strict Adherence to Audit Timeline-** To avoid qualified audit opinions, Accounting Officers must ensure the timely submission of all supporting documents, ledgers, and schedules during the actual audit process rather than waiting for exit meetings or subsequent cycles.

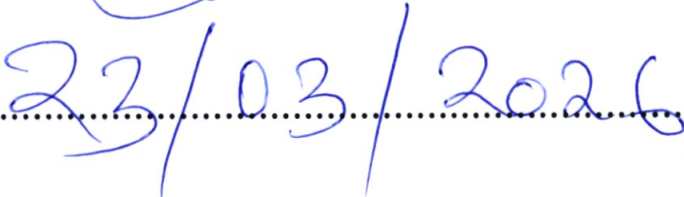
6. **Compliance with Disbursement Guideline-** Specifically for the Elimu Bursary Fund, management must strictly adhere to statutory requirements to set aside specific percentages of funds (e.g., 5% for physically challenged students) to ensure equitable distribution.

**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 the consideration of the audit reports.

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: ..... 

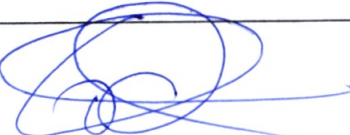
DATE: ..... 


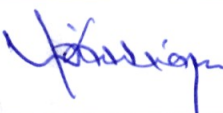
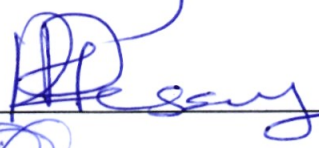

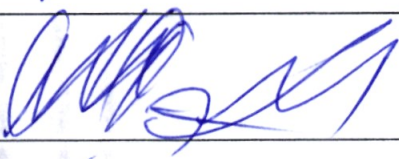

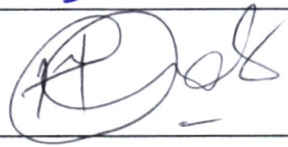
**HON. SEN. GODFREY ATIENO OSOTSI, CBS, MP**  
**CHAIRPERSON**

**ADOPTION OF THE REPORT OF THE SENATE SELECT COMMITTEE ON COUNTY PUBLIC INVESTMENTS AND SPECIAL FUNDS ON THE CONSIDERATION OF THE AUDIT REPORTS OF NINE COUNTY ENTITIES FOR THE LAMU COUNTY FOR FINANCIAL YEAR 2024/2025**

<b>SECTOR</b>	<b>NO</b>	<b>ENTITY</b>
<b>WATER COMPANY</b>	<b>1</b>	<b>LAMU WATER AND SEWERAGE COMPANY LIMITED.</b>
<b>MUNICIPALITIES</b>	<b>1</b>	<b>LAMU MUNICIPALITY</b>
<b>HOSPITALS</b>	<b>3</b>	<b>LAMU COUNTY REFERRAL HOSPITAL</b>
		<b>FAZA SUB-COUNTY HOSPITAL</b>
		<b>MPEKETONI SUB-COUNTY HOSPITAL</b>
<b>FUNDS</b>	<b>4</b>	<b>LAMU COUNTY BURSARY AND SCHOLARSHIP FUND</b>
		<b>LAMU COUNTY CLIMATE CHANGE FUND</b>
		<b>LAMU COUNTY EMERGENCY FUND</b>
		<b>LAMU COUNTY EXECUTIVE STAFF HOUSING FUND.</b>

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

<b>No.</b>	<b>Name</b>	<b>Signature</b>
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	

PAPERS LAID	
DATE	
TABLED BY	
COMMITTEE	
CLERK AT THE TABLE	

## CHAPTER ONE: WATER COMPANY

### 1.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR LAMU WATER AND SEWERAGE COMPANY LIMITED FOR THE FINANCIAL YEAR 2024/2025.

The Governor of Lamu County, Hon. Issa Timamy, EGH, appeared before the Committee on Thursday, 19th January, 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Lamu Water and Sewerage Company for financial year 2024/2025.

The Governor was accompanied by –

1. Amb. Ali Abbas- County Secretary
2. Mr. Mohamed Ali- CECM Finance and Economic Planning
3. Mrs. Salma Osman- Chief Officer Finance
4. Mr. Mohamed Abbas- Director Accounting Service
5. Mr. Mohamed Kubwa Mohamed- Chairman, Lamu Water and Sewerage Company Limited.
6. Ms. Agnes Mbele Mulingulu -Accountant, Lamu Water and Sewerage Company Limited.

### REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified Opinion** on the financial statements of the Lamu Water and Sewerage Company Limited on the following basis:-

#### **Inaccuracies in the Financial Statements**

Review of the annual reports and financial statements revealed the following inaccuracies;

The statement of cash flows reflects prior year cash and cash equivalents balance of Kshs.14,040,149. However, re-computation yielded a balance of Kshs.27,345,353, resulting in an unreconciled variance of Kshs.13,305,204 Further, the statement reflects current year's cash and cash equivalents balance of Kshs.8,512,253, which varies with the re-computed balance of Kshs.19,568,045, resulting in an unreconciled variance of Kshs.11,055,792;

- i. The statement of cash flows reflects net cash from operating activities balance of Kshs.6,502,364 which varies with the negative balance of Kshs.1,142,345 disclosed in the reconciliation of operating profit/loss to cash generated from operations in Note 48 to the financial statements, resulting in an unreconciled variance of Kshs.7,644,709;

- ii. The statement of cashflows reflects general and operation expenses of Kshs.27,563,773 while the corresponding expenditure in the statement of comparison of budget and actual amounts is Kshs.26,946,729, resulting in an unreconciled variance of Kshs.617,044;
- iii. The statement of financial position reflects comparative balance for trade and other payables of Kshs.42,839,890 while Note 43 to the financial statements reflects a balance of Kshs.40,855,231, resulting in an unreconciled variance of Ksh. 1,984,659;
- iv. The statement of budget and actual amount reflects actual recurrent expenditure of Kshs.55,199,506 while recomputed amount is Kshs.55,551,190, resulting in an unreconciled variance of Kshs.351,684;
- v. The statement of changes in equity reflects a total of Kshs.39,220,846 which varies with the re-computed balance of Kshs.36,822,260, resulting in an unreconciled variance of Kshs.2,398,586.

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

### Management Responses

The unreconciled variance of Ksh.13,305,204 will be adjusted in the coming financial year 2025/2026 as explained in the table below:

<i>Adjustment on cash and cash equivalents for the year ended 2023/2024</i>		
<b>Description</b>	<b>Amount</b>	<b>Amount</b>
Variance balance b/d		13,305,204
recomputed error		203,419
adjusted cash and cash equivalents		13,508,623
adjusted cash and cash equivalents		
<b>Less</b>		
Employee Payables	1,883,456	
Changes in other payables	4,682,688	
Wrongly recorded capital grants	6,975,621	
Accrued electricity is no included in the balance sheet	472,736	
Casing error	18,617	
<b>Add</b>		
Overstated PPE (5686128-5336128)	<b>350,000</b>	
Wrongly recorded finance cost	174,495	
<b>Grand Total</b>	<b>13,508,623</b>	<b>13,508,623</b>
<b>cleared</b>		<b>0</b>

In addition, the unreconciled variance of Ksh 11,055,792 will be adjusted in the coming financial year 2025/2026 as explained in the table below;-

<i>Adjustment on cash and cash equivalents for the year ended 2024/2025</i>		
<b>Description</b>	<b>Amount</b>	<b>Amount</b>
Variance balance b/d		11,055,792
recomputed error		0
adjusted cash and cash equivalents		11,055,792
adjusted cash and cash equivalents		
<b>Less</b>		
Employee Payables	403,779	
Changes in other payables	3,791,841	
Wrongly recorded capital grants	3,677,676	
Over stated customer deposit	2,912,931	
Understated Refund on Customer Deposit	261,080	
Casting error	8,485	
<b>Total</b>	<b>11,055,792</b>	<b>11,055,792</b>

Management remains committed to ensuring accuracy and compliance in financial reporting, and corrective measures will be implemented to prevent reoccurrence of such discrepancies in future reporting periods.

Management acknowledges the above audit findings, however, with the adjustments to the cashflows reflected as prior year adjustments for the query number (i) above, the net cash from operating activities balance will change as the changes will be linked to the notes to the cashflows-Note 48. Management remains committed to ensuring accuracy and compliance in financial reporting, and corrective measures will be implemented to prevent recurrence of such discrepancies in future reporting periods.

The figure of Kshs.27,563,773 presented under general and operating expenses in this query was misrepresented, as it actually represents staff costs. The correct amount for general and operating expenses in the statement of cashflows is Kshs.26,946,729, which

aligns with the expenditure reported in the statement of comparison of budget and actual amounts. Accordingly, there is no variance between the two statements. Extracts from the Audited financial statements were attached for the Committee verification.

This variance arose from a duplication error during the updating of the notes to the financial statements which does not affect the face of the financial statements. The employee payables of Ksh. 1,883,456 and Retention/Contract Deposits of Ksh.678,173 were duplicated in the amount for other payables. See Appendix 2 (Extract of movement schedule for the trade and other payables and Refundable deposits and prepayments

The variance arose due to a typographical error in the computation of the totals. The discrepancy does not represent an additional expenditure but rather a clerical error in the re-computation process. The corrected figure is therefore Ksh. 55,199,506.

The unreconciled variance of Ksh. 2,398,586 arose from a typographical error in the total's column of the Statement of Changes in Equity. The profit for the year was incorrectly reflected in that column, although it was correctly recorded under Retained Earnings, consistent with the profit balance in the Statement of Profit or Loss and Other Comprehensive Income. This error, will be adjusted in the next financial statement ending 2025/2026.

### **Committee Observation**

The Committee observed that :-

- i) the issue is partially addressed as management indicated clear accuracy and compliance issues in its financial reporting. However, the management is progressively committed to implementing corrective measures to prevent recurrence of such discrepancies in future reporting periods.
- ii) The management provided documentary evidence to satisfactorily explain and support the reconciliation of the variance of Kshs.1,984,659.

### **Committee Recommendation**

**The Committee recommends that-**

- i. the Governor ensures that the Accounting Officer performs the necessary prior year adjustments in the financial statements during the FY 2025/2026 audit cycle;**
- ii. the Governor ensures that the Accounting Officer 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 ensures that the Accounting Officer strengthens internal audit controls and ensure proper record keeping;**
- iv. the Governor ensures 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**
- v. the Governor ensures the Accounting Officer takes 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.**

## **2. Unsupported Property, Plant and Equipment Balance**

The statement of financial position reflects property, plant and equipment balance c Kshs.47,465,444 as disclosed in Note 20 to the financial statements. However, the recompute figure amounts to Kshs.47,256,169 resulting to an unreconciled variance of Kshs.209,275. Further Note 20 to the financial statements reflects Kshs.189,099 in respect of accumulated depreciation for computers and related equipment which varies with the re-computed balance of Kshs.2,686,999, resulting in an unreconciled variance of Kshs.2,497,900.

In addition, detailed schedule indicating description of each asset, location of use and value was not provided for audit. The ownership documents for the land parcel on which the Company sits and other facilities including boreholes and treatment plants were also not provided for audit review.

In the circumstances, the accuracy, completeness, valuation and ownership of property, plant and equipment balance of Kshs.47,465,444 could not be confirmed.

### **Management Response**

The property, plant and equipment was overstated by Ksh.209,275 and, Ksh. 2,497,900 in respect of accumulated depreciation was understated. An adjustment of the same will be

undertaken in the next financial statement ending 2025/2026. Copies of the amended Property Plant and Equipment Schedule were provided for the Committee verification.

A detailed schedule indicating a description of each asset, location of use and value as per the LAWASCO Consolidated Asset Register has been provided for your review.

The land parcel on which the Company sits and other facilities including boreholes and treatment plants are waiting for titles though they are fall under allocated public lands belonging to the County Government of Lamu. A copy of the Land Status Report was provided for the committee verification.

### **Committee Observation**

The Committee observed that; -

- i. The adjustments of the unreconciled variance of Kshs.209,275 between the amount reflected in Note 20 to the financial statements and the recomputed balance will be undertaken in 2025/2026.
- ii. The management provided an updated schedule of assets and was confirmed by the auditor. The transfer of the title deed of the land parcel on which the Company sits and other facilities including boreholes and treatment plants is underway. Due to lack of formal handover and ownership documents from the County Government and the Coast Water Works Development Agency, the accuracy and completeness of the Company's entire asset base remains unconfirmed.

### **Committee Recommendation**

**The Committee recommends that—**

- i. **within sixty (60) days of the adoption of this report, the Governor, through the CECM responsible for matters of water, engages the Coast Water Works Development Agency to ensure that ownership documents are processed and the assets are officially recognized in the Company's books. A progress report on the status of these transfers should be submitted to the Senate within 90 days of the adoption of this report;**
- ii. **the Governor ensures that the management of the water company ensures that 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;**

- iii. upon completion of the transfer and valuation, the Accounting Officer should prepare an updated asset register within 60 days of the adoption of this report and submit to the Senate and a copy to the Auditor General for verification;
- iv. the governor should ensure that the accounting officer undertakes adjustments to the financial statements so as to reflect the true value of the assets and auditor general should keep the matter in view in the subsequent audit cycle; and
- v. the Accounting Officer ensures that the water company maintains an up-to-date asset register in accordance with section 149(2)(o) of the Public Finance Management Act Cap 412A and in the format prescribed by the Public Sector Accounting Standards Board (PSASB), failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply.

## **Other Matter**

### **Unresolved Prior Year Audit Matters**

In the prior year's audit report, 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 respectively. Review of the status during audit of the Company in 2024/2025 revealed that the following eight (8) matters remained unresolved;

<b>No.</b>	<b>Audit Issue</b>
1	Inaccuracies in the Financial Statements
2	Unsupported Operating Revenue
3	Unvalued Property, Plant and Equipment and Delayed Civil Works
4	Budgetary control and performance
5	Unresolved prior year audit matters
6	Non-Compliance With the Public Sector Accounting Standards Board (PSASB) Reporting Requirement.
7	Non-Revenue Water Management
8	Expired Water Sales Tariff

### **Management Response**

### ***1. Inaccuracies in the Financial Statements***

The issues highlighted remain unresolved. All our accounting procedures and records are currently manual due to lack of an integrated financial management information system.

### ***2. Unsupported Operating Revenue***

Management agrees that robust documentation is critical for transparency and accountability in financial reporting.

Presently, all customer billing records are maintained in Excel worksheets; however, Management is in the process of upgrading the Financial Management Information system, including the integrated billing system, to cure the problem. An Excel worksheet that shows the customer's name, meter number, and billed record was submitted in soft copy for the Committee verification.

### ***3. Unvalued Property, Plant and Equipment and Delayed Civil Works***

Land and Buildings of unknown values. The Following is a list of the lands and buildings owned by LAWASCO.

<b>No.</b>	<b>LR NO</b>	<b>LOCATIO N/SITE</b>	<b>SIZE/Q UANTI TY</b>	<b>STATUS</b>	<b>VAL UE</b>	<b>REMARKS</b>
<b>LANDS</b>						
1	LAMU BLOCK 11/1254	LAMU ISLAND	0.470 ha	NO DEED TITTLE	1	AWAITING VALUATION
2	LAMU BLOCK II/126	LAMU ISLAND	0.025 ha	NO DEED TITTLE	1	AWAITING VALUATION
3	SHELLA BLOCK III/9	LAMU ISLAND	958 ha	NO DEED TITTLE	1	AWAITING VALUATION
4	MOKOWE	MOKOWE	0.397 ha	TITTLE ISSUED	1	AWAITING VALUATION
5	BELEBEL E	HINDI	0.5 ha	NO DEED TITTLE	1	AWAITING VALUATION
<b>BUILDINGS</b>						

1	LAMU BLOCK 1/1254 G.L	LAMU	4.67m * 4.17m	NOT DEMARCAT ED	1	AWAITING VALUATION
2	LAMU BLOCKII/ 1254	LAMU	14.79m * 5.59m	NOT DEMARCAT ED	1	AWAITING VALUATION
3	LAMU BLOCK 1/1254 G.L	LAMU	9m * 4.9m	NOT DEMARCAT ED	1	AWAITING VALUATION
4	LAMU BLOCK 1/1254G.L	LAMU	9.5m*5 m	NOT DEMARCAT ED	1	AWAITING VALUATION
5	LAMU BLOCK IV/9 G.L B/NO MWD/LM U/5	SHELLA	9.1m * 4.55m	NOT DEMARCAT ED	1	AWAITING VALUATION
6	LAMU BLOCK IV/9 G.L B/NO MWD/LM U/4	SHELLA	15.3m* 5.2m	NOT DEMARCAT ED	1	AWAITING VALUATION
7	LAMU BLOCK IV/9 G.L B/NO MWD/LM U/5	SHELLA	8.25m *4m	NOT DEMARCAT ED	1	AWAITING VALUATION
8	LAMU BLOCK 1/1254 G.L	LAMU	10.6m * 7.6m	NOT DEMARCAT ED	1	AWAITING VALUATION
9	MWD/LM U/1 (NOT SURVEYE D)	MOKOWE	15.71m * 12.53m	NOT DEMARCAT ED	1	AWAITING VALUATION

PAPERS LAID	
DATE	
TABLED BY	
COMMITTEE	
CLERK AT THE TABLE	

The company owns 5 parcels of land on which nine buildings reside on out of which one is titled, namely Mokowe water station, which is registered under the county Government of Lamu. The Land is reserved for Mokowe water offices. Copies of Land Status Report the Mokowe Title Deed were availed for the Committee verification.

- ***Delayed Civil Works***

Project implementation experienced delays due to:

- Floods that made the site inaccessible
- Insecurity during the August 2022 General Election
- Late disbursement of funds by the Water Sector Trust Fund

Despite these challenges, the project has now been completed. All Interim Payment Certificates have been settled, with only 50% of the retention fee outstanding. This balance will be released upon expiry of the liability period as stipulated in the contract. Copies of the DTF IPC Payment Documents were availed for the Committee verification.

#### ***4. Budgetary control and performance***

##### *i. Budget underfunding*

The underfunding of was primarily due to under collection- low revenue collection caused by low production, interrupted water supply due to regular power outages and vandalism at the wells, and high levels of non-revenue water. To mitigate this, the company has undertaken the following measures:-

- Improved billing efficiency including: monthly meter reading and serving or replacement of stalled water meters
- Solar power backup system for the pumping station

##### *ii. Under-utilization of Receipts*

The under-utilization of Ksh. 8,775,144 (13% of actual receipts) is a result of an error of omission of depreciation and amortization expenses from the in-kind contribution (Conditional grant) from the county government to support the SWASAP program under Water Trust Fund projects. This amount was utilized as captured in the table below-;

<b>SUMMARY OF COST ESTIMATES FOR PROJECT COMPONENTS</b>		
<b>Item</b>	<b>Description</b>	<b>Budget (Ksh)</b>

1	Supply and delivery of pumps and accessories	1,276,696.00
<b>LAMU COUNTY GOVERNMENT CONTRIBUTION FOR SWAWAP PROJECTS FUNDED BY WSTF</b>		
2	Construction of Mpeketoni Public Sanitation Facility	1,024,000.00
3	County contribution for the Kiunga community conservancy project	3,124,541.00
4	County contribution for the Pate Marine Community Conservancy	3,349,907.00
	<b>TOTAL</b>	<b>8,775,144.00</b>

### *Impact on Service Delivery*

While the underfunding and under-utilization posed challenges, the company remains committed to minimizing disruptions to service delivery. We are working on streamlining operations and securing alternative funding.

### **5. Unresolved prior year audit matters**

The audit report for the previous year highlighted several issues in respect of the financial statements, lawfulness and effectiveness of public resources. Management's report on the progress made in resolving the issues as at 30th June, 2024.

## **Management Response**

### *a. Unsupported Revenue Collection*

LAWASCO operates a fully cashless payment system, with customers remitting payments via M-Pesa pay-bill or through LAWASCO collection accounts at Equity Bank and KCB. Payment tracking is currently done using daily M-Pesa and bank statements, and no physical receipts are issued, which creates a reconciliation gap.

Management through the planned automation of the billing system, will engage the system vendor to implement automated receipting integrating all payment platforms, ensuring accurate and timely revenue reconciliation for both clients and LAWASCO.

### *b. Non-Remittance of mandatory fees*

LAWASCO was experiencing financial challenges in the past years. However, currently, the management is settling the mandatory statutory deductions. Appendix be (payment vouchers)

*c. Inconsistency in property. Plant and equipment*

The land valuation issue has been addressed in the valuation roll for the registered land and for the unregistered land, the valuation will be done by the government valuer who has recently been posted to Lamu County. (Refer to Appendix 6b Lands Status Report)

*d. Expired water sale tariff*

Management has completed all necessary steps for tariff renewal, including stakeholder engagement and public consultations in accordance with WASREB guidelines. The new tariff is now awaiting gazettement before implementation. Once gazetted, the tariff will align with current economic conditions, ensuring adequate revenue generation to support operational costs and service delivery. A copy of the Public consultation for tariff review notice and minutes were attached for the Committee verification.

*e. Lack of ownership documents for assets.*

Mokowe water station sits on a parcel of Land that is registered under the County Government of Lamu. The Land is reserved for the Mokowe water Offices. The management is following up on the final processing of the Title Deeds for the remaining parcels of land.

The land valuation issues will be addressed in the valuation roll that is ongoing by the Department of Lands and Physical Planning - County Government of Lamu.

*f. Non-Revenue Water*

This was because of the dilapidated infrastructure and the old town reticulation design that made it difficult to install the district metering area to monitor zonal consumption. The company operates on a combined system in the distribution network both pumping and gravity, some customers are connected directly to the mainline from the production point this contributed to difficulty in establishing our water balance and pressure management in our water supply.

The Management came up with a Non-Revenue Water reduction plan by doing thorough surveillance in all the zones to capture all illegal connections and penalize whoever is connected illegally. The Management has also ensured that all bursts and leakages are repaired in good time to avoid further losses and meters have been procured to deal with stalled and damaged meters which also contribute to the high levels of non-revenue water.

The above measures have successfully reduced NRW from 53% to 45%. The above measures have successfully reduced NRW from 53% to 45%, as evidenced in the Non-Revenue Water Plan.

#### ***6. Non-Compliance with Public Sector Accounting Standards Board Guidelines***

The table of contents page numbering issues, foot notes to the statement of budget and actual amounts providing explanations for variations in excess of ten percent (10%) and Note 20 to the financial statement reflecting property, plant and equipment schedule with the total column was not visible have been resolved.

#### ***7. Non-Revenue Water Management***

The implementation of the Non-Revenue Water reduction plan has lowered the non-revenue water levels from 53% in the last financial year 2023/2024 to 45% in the year under review.

#### ***8. Expired Water Sales Tariff***

Management has completed all necessary steps for tariff renewal, including stakeholder engagement and public consultations in accordance with WASREB guidelines. The new tariff is now awaiting gazettment before implementation. Once gazetted, the tariff will align with current economic conditions, ensuring adequate revenue generation to support operational costs and service delivery. Copies of the Public consultation for tariff review notice and minutes were attached for verification.

### **Committee Observation**

The Committee observed that the management of the water company is progressively implementing the recommendations of the auditor general and the committee on the prior year issues.

### **Committee Recommendation**

**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)(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 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.**

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

#### **1. Ineffective Non-Revenue Water Management**

The statement of profit or loss and other comprehensive income reflects operating revenue totalling Kshs.23,680,490 and as disclosed in Note 6 to the financial statements, which includes Kshs.21,649,800 in respect to water sales. Review of water production records revealed that the Company produced four hundred and eighty-five thousand two hundred and forty-three (485,243) cubic meters of water during the year under review, out of which two hundred and sixty-eight thousand three hundred and eighty-four (268,384) cubic meters (or about 55%) were sold to consumers.

The variance of two hundred and sixteen thousand eight hundred and fifty-nine (216,859) cubic meters of water (or 45%) which translates to Kshs.17,493,420 represents non-revenue water, which is above the acceptable threshold of 12% set by the Water Service Regulatory Board (WASREB) by 33% or Kshs.12,828,508.

In the circumstances, the non-revenue water reduction measures were not effective during the year under review and Management was in breach of WASREB guidelines.

#### **Management Response and Action Plan**

The dilapidated infrastructure and the old town reticulation design make it difficult to install the district metering areas to monitor zonal consumption. The company operates on a combined system in the distribution network both pumping and gravity, some customers are connected directly to the mainline from the production point this contributed to difficulty in establishing our water balance and pressure management in our water supply. The Management has also ensured that all bursts and leakages are repaired in good time to avoid further losses and meters have been procured to deal with stalled and damaged meters which also contribute to the high levels of non-revenue water. The above measures have successfully reduced NRW from 53% to 45%.

#### **Committee Observations**

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

- i. the water company register high Non-Revenue Water of 45%, that is, 20 percentage points above the sector benchmark of 25% as per Water Services and Regulatory Board (WASREB) Guidelines;
- ii. Non-Revenue Water may arise from either commercial losses or physical losses. However, the water company did not provide a detailed breakdown to illustrate the contribution of each category to the overall Non-Revenue Water;
- iii. There was notable improvement on the NRW levels attributed to measures put in place by the water company to address the Non-Revenue Water which have successfully reduced from 53% to 45% thereby improving service delivery and revenue collection.; and
- iv. this high level of Non-Revenue Water largely contributed to the Company's revenue shortfall and budgetary underperformance, as well as the material uncertainty relating to a going concern.

### **Committee Recommendations**

**The Committee recommends that—**

- i. **the Governor should ensure that the Accounting Officer puts 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;**
- ii. **the Governor ensures that the Accounting Officer segregates NRW to both Physical or Commercial so that the water company can ascertain and identify specific mitigating measures to effectively address and reduce the NRW levels; and**
- iii. **the County Government 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.**
- iv. **the Auditor-General to monitor implementation and effectiveness of the measures put in place to mitigate on the Non-Revenue Water and report in the subsequent audit cycle.**

### **2. Expired Water Sales Tariff**

The statement of profit or loss and other comprehensive income reflects operating revenue of Kshs.23,680,490 as disclosed in Note 6 to the financial statements. However, the water tariff used in billing customers has been in use since 31 July, 2017 and expired on 31 July,

2020. Although Management had commenced the tariff renewal process, the same had not been completed as at the time of audit in October, 2025.

In the circumstances, the expired tariff does not align with the current economic reality and has suppressed sales revenue. Further, Management was in breach of the law and the Company may not recover its operational and maintenance costs.

### **Management's Response**

Management has completed all necessary steps for tariff renewal, including stakeholder engagement and public consultations in accordance with WASREB guidelines. The new tariff is now awaiting gazettelement, by WASREB, before implementation. Once gazetted, the tariff will align with current economic conditions, ensuring adequate revenue collection to support operational costs and service delivery. A copy of the Public participation for tariff review notice and minutes for public participation was availed for the Committee verification.

### **Committee Observation**

The Committee observed that the management had completed all necessary steps for tariff renewal, and the tariff is now awaiting gazettelement, by WASREB, before implementation.

### **Committee Recommendation**

**The Committee recommends that the matter be marked as resolved.**

### **3. Non-Compliance with Public Sector Accounting Standards Board Guidelines**

Review of the annual report and financial statements revealed the following non-compliance issues with the Public Sector Accounting Standards Board (PSASB) financial reporting template;

- i. The Head of Finance's ICPAK Membership Number is not indicated;
- ii. The financial statements contain information indicated as xxxx instead of the actual data, numbers or information. The incomplete information is inconsistent with the reporting template.

In the circumstances, the financial statements do not comply with the PSASB requirements.

### **Management Response**

The management is committed to complying with the Kenya Public Sector Accounting Standards Board requirements.

### **Committee Observations**

The Committee observed that the management is committed to complying with the PSASB guidelines in preparation of financial statements.

### **Committee Recommendation.**

**The Committee recommends that :-**

- i) the Governor ensures that the Accounting Officer puts in place measures to ensure that the the financial statements are prepared in accordance with the prescribed reporting template as required by the PSASB guidelines; and**
- ii) The Auditor-General to keep this matter in view in the subsequent financial year audit process, to confirm compliance to the prescribed PSASB guidelines in preparation of financial statements.**

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

### **Basis for Conclusion**

#### **Inability to Bill all Water Customers**

The Company had a total customer population of five thousand one hundred forty (5,140) as at 30 June, 2025, which includes two thousand three hundred and eight-five (2,385) and two thousand seven hundred and fifty-five (2,755) active and dormant customers respectively. Further, of the active customers, only one thousand nine hundred thirty-one (1,931 or 81%) were billed on a monthly basis. In addition, the billing process was manual as it involved meter readers who had to record physical confirm water consumption, record in data sheets and update the billing system.

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

### **Management Response**

The billing system is currently manual, which limits the ability to generate fully verifiable supporting documentation for all billed amounts. Management is planning to automate the billing system. A copy of the Cut-On Request- (C.O.R) Report was attached for the Committee verification.

### **Committee Observations**

The Committee noted that the management provided a satisfactory explanation to the query, and provided Cut-On-Request report to support its plan to automate its billing system.

**Committee Recommendation.**

**The Committee recommends that the matter be marked as resolved.**

## **CHAPTER TWO: MUNICIPALITY**

### **2.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS MUNICIPALITY OF LAMU FOR THE FINANCIAL YEAR 2024/2025**

The Governor of Lamu County, Hon. Issa Timamy, EGH, appeared before the Committee on Thursday, 19th January, 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Municipality of Lamu for financial year 2024/2025.

The Governor was accompanied by the following officers;-

1. Amb. Ali Abbas- County Secretary
2. Mohamed Ali- CECM Finance and Economic Planning
3. Salma Osman- Chief Officer Finance
4. Mohamed Abbas- Director Accounting Services
5. Abdulswamadu A. Ali- Municipal Manager
6. Ali Sheyumbe- Municipal Accountant

### **REPORT ON THE FINANCIAL STATEMENTS**

The Auditor-General rendered Qualified opinion on the financial statements of Municipality of Lamu for the period under review on the following basis –

#### **Inaccurate Expenditure**

The statement of financial performance reflects expenditure totaling Ksh. 5,606,514. Review of records revealed that municipality payments totaling Ksh. 79,362,954 were processed through the Integrated Financial Management System (IFMIS) under vote 3229-3229000101-00001001-0101013210. However, the expenditure was not included in the expenditure of the Municipality, and Management avers that the Municipality was not operating as an independent reporting entity and functioned as a department within the County Executive.

In the circumstances, the accuracy and completeness of expenditure totaling Ksh. 5,606,514 could not be confirmed.

#### **Management Response**

During the financial year under review, the Municipality of Lamu was not operating as an independent reporting entity, but functioned as a department within the County Executive. All expenditures processed through IFMIS amounting to Ksh. 79,362,954 were recognized and disclosed in the County Executive Statement of Financial Performance. The expenditures amounting to Ksh. 5,606,514 disclosed in the Municipality of Lamu Financial Statements relate to Kenya Urban Support Programme (KUSP) funded activities which are

accounted for and reported separately. In the current financial year, the Municipality has initiated the process of onboarding onto the IFMIS platform to enable independent budget execution and financial reporting.

**Committee Observations**

The Committee observed that the query remains unresolved as the Municipality's expenditure was not fully and independently captured in its own financial statements, leading to significant variances and a lack of transparency in independent reporting.

**Committee Recommendations**

The Committee recommends that-

- i. within sixty (60) days of the adoption of this report, the Governor of Lamu County, through the Board of the Municipality ensures the Integrated Development and Economic Plan and the Integrated Strategic Urban Development Plan (ISUDP) for the Municipality is put in place in line with section 20(1)(c) of the Urban Areas and cities Act, Cap.275;
- ii. the Governor of Lamu County takes all the necessary steps to ensure the Municipality achieves full operational independence in accordance with sections 12 (management independence), 20 (functional independence), 45 and 46 (financial independence) of the Urban Areas and Cities Act, cap.275 and the Auditor General to verify the implementation of this recommendation in the next audit cycle;
- iii. the Governor should ensure by the commencement of the financial year 2026/2027 that the municipality is fully operationalized in line with its delegated functions as gazetted by the county government; and
- iv. the municipality is adequately funded in accordance with section 172 of Public Finance Management Act, 2012 and the Auditor to keep this matter in view and report in the subsequent audit cycle.

**EMPHASIS OF MATTER**

**1. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Ksh. 32,310,100. However, the Municipality spent Ksh. 2,459,382 against actual receipts of Ksh. 32,310,100, resulting in under-utilization of Ksh. 29,850,718 or 92% of the total revenue received. The under-utilization affected the planned activities and may have impacted negatively on service delivery to the public.

<b>PAPERS LAID</b>	
<b>DATE</b>	
<b>TABLED BY</b>	
<b>COMMITTEE</b>	
<b>CLERK AT THE TABLE</b>	

## **Management Response**

The under-utilization of funds was primarily due to delayed disbursement, which was released on 4th July 2025. Although the Municipality had an approved budget, the late release of funds left inadequate time to complete procurement processes and execute the planned activities.

## **Committee Observations**

The Committee observed that the query remains unresolved as there was a budgetary under-utilization of 92%, significantly hindering service delivery. This was primarily attributed to delayed fund disbursements.

## **Committee Recommendations**

**The Committee recommends that;-**

- i. The Governor ensures the Accounting Officer strictly complies with section 149(2) (h) and (i) of the Public Finance Management Act, Cap. 412A and the standards prescribed by the Public Sector Accounting Standards Board under IPSAS 24 on the presentation of budget information in the financial statements for an entity that prepares their financial statements under the accrual basis of accounting, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply;**
- ii. The Governor ensures the Accounting Officer to 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**
- iii. The Governors ensures the Board of Directors institutes 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 Matters**

In the prior year audit report, issues including undisclosed property, plant and equipment, lack of operational independence of the Municipality, and irregular contract for zoning standards, regulations, and guidelines remained unresolved during the 2024/2025 audit.

### **Management Response**

Management responded as follows –

-Undisclosed Property, Plant and Equipment: The Municipality formally initiated the asset transfer process, and title deeds were issued in favor of the Municipality in June 2025. Full regularization is pending the processing of statutory transfer charges once the financial system is operational.

-Lack of Operational Independence: Management refers to its response regarding IFMIS onboarding.

-Irregular Contract for Zoning: The Zoning Standards, Regulations, and Guidelines have been reviewed, regularized, and formally approved by the County Assembly.

### **Committee Observations**

The Committee observed that while progress has been made, particularly regarding asset registration and zoning regulations, the query remains partially unresolved as the full regularization of assets and operational independence are still pending.

### **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)(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 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.**

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES**

Pursuant to Article 229 (6) of the Constitution, the following matter formed the basis for the conclusion that public resources were not applied lawfully and effectively –

### **Lack of Operational Independence of the Municipality**

Review of records revealed that Municipality functions were undertaken by the department of Lands, Physical Planning, Urban Development, and Infrastructure of the Lamu County Executive on behalf of the Municipality. This was contrary to Section 170 of the Public Finance Management Act, 2012, which mandates the Accounting Officer for an urban area to be responsible and accountable to the County Assembly for financial management. In the circumstances, Management was in breach of the law.

### **Management Response**

Management acknowledges the audit observation and notes that while the legal framework is in place, the Municipality has not been provided with an independent IFMIS platform. As a result, expenditure was temporarily processed through the County Executive department to maintain oversight and documentation. Management is actively engaging the National Treasury for formal IFMIS onboarding.

### **Committee Observations**

The Committee observed that the issue is not addressed as the continued performance of municipal functions by the County Executive undermines the legal and operational autonomy of the Lamu Municipality.

### **Committee Recommendations**

**The Committee recommends that ;-**

- i. within sixty (60) days of the adoption of this report, the Governor of Lamu County, through the Board of the Municipality ensures the Integrated Development and Economic Plan and the Integrated Strategic Urban Development Plan (ISUDP) for the Municipality is put in place in line with section 20(1)(c) of the Urban Areas and cities Act, Cap.275;**
- ii. the Governor of Lamu County takes all the necessary steps to ensure the Municipality achieves full operational independence in accordance with sections 12 (management independence), 20 (functional independence), 45 and 46 (financial independence) of the Urban Areas and Cities Act, cap.275 and the Auditor General to verify the implementation of this recommendation in the next audit cycle;**
- iii. the Governor should ensure by the commencement of the financial year 2026/2027 that the municipality is fully operationalized in line with its delegated functions as gazetted by the county government; and**

- iv. **the municipality is adequately funded in accordance with section 172 of Public Finance Management Act, 2012 and the Auditor to keep this matter in view and report in the subsequent audit cycle.**

### CHAPTER THREE: HOSPITALS

#### 3.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR LAMU COUNTY REFERRAL LEVEL 4 HOSPITAL FOR THE FINANCIAL YEAR 2024/2025.

The Governor of Lamu County, Hon. Issa Timmamy, EGH appeared before the Committee on Thursday, 21st January, 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Lamu County Referral Level 4 Hospital for the Financial Year 2024/2025.

The Governor was accompanied by the following officers—

1. Amb. Ali Abbas- County Secretary
2. Mr. Mohamed Ali- CECM Finance and Economic Planning
3. Mrs. Salma Osman- Chief Officer Finance
4. Mr. Mohamed Abbas- Director Accounting Services
5. Mr. Michael Muloki Mugo- Hospital Administrator
6. Mr. Abdulkadir Omar- Medical Superintendent

#### 1. Inaccuracies in the Statement of Financial Performance

The statement of financial performance reflects revenue Kshs.146,035,546 and Kshs.122,154,673 respectively. Review of the statement revealed the following:

- i. The supporting schedule for six (6) revenue and expenditure items reflects unexplained variances in amounts from those reflected in the statement of financial performance as indicated in the table below:

Particulars	Statement of Financial Performance (Ksh)	Supporting Schedules Amount (Ksh)	Unexplained Variance (Ksh)	Management Response
Transfers from County Government	10,000,000	0	10,000,000	Transfer of Kes 10,000,000 from the County Government was initiated towards the end of the financial year 24/25, thus reflecting in the hospital revenue account in July 2025.
In-Kind Contributions from County Government	49,462,885	7,283,404	42,179,481	Please find the updated ledger of in-kind contributions from the county government

				amounting to Kes 49,462,885.
Medical Service Income	86,572,661	86,099,489	473,172	Please find the updated ledger of medical service income amounting to Kes. 86,572,661.
Employee Costs	40,925,856	5,875,091	35,050,765	Please find the updated ledger of Employee Costs amounting to Kes. 40,925,856. Appendix I (d)
Depreciation and Amortization	1,664,777	1,460,978	203,799	Please find the updated ledger of depreciation and amortization amounting to KES 1,664,777
General Expenses	34,495,590	26,240,086	8,255,504	Amount disclosed in the amended financial statement ended 30 <sup>th</sup> June 2025 was Ksh 34,493,589.65 and not 34,495,590. Please find the updated ledger with respect to general expenses amounting to Ksh 34,493,589.65.

### Management Responses

This is an error of transposition of figures. The correct depreciation and amortization expense is Ksh. 1,687,421 and not Ksh. 1,664,777 as reflected in the statement, resulting in an unexplained variance of Ksh. 22,644. The error will be corrected in the prior year adjustment.

- ii. The statement reflects total revenue of Ksh.s.146,035,546 whereas the statement of comparison of budget and actual amounts reflects actual receipts totaling Kshs.96,148,487 resulting to unreconciled variance of Kshs.49,887,059.

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

### Management Response

Statement of Financial Performance is based on accrual basis while comparison of budget and actual is cash basis. The variance of Ksh. 49,887,059 relates to in-kind contributions

from the County Executive. These contributions were not disclosed in the statement of comparison of budget and actual amounts since the budget is based on actual cash revenue collected quarterly.

### **Committee Observation**

The Committee observed that the management provided the updated ledgers to support the various variances, and committed to correcting the transposition of Ksh 22,664 in the prior year adjustments.

### **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(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 National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties;**
- iii. 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;**
- 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 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. Inaccuracies in the Statement of Comparison of Budget and Actual Amounts**

The statement of comparison of budget and actual amounts reflects revenue from rendering of services (medical service income) totalling Kshs.86,572,661 while the statement of cash flows reflects a corresponding amount of Kshs.68,107,609 resulting to unexplained variance of Kshs.18,465,052.

In addition, the statement of comparison of budget and actual amounts reflects budget carryovers from previous year of Kshs.21,250,666 while the opening cash and cash equivalents balance is Kshs.25,939,803 resulting to unreconciled variance of Kshs.4,689,137.

In the circumstances, the accuracy and completeness of the statement of comparison of budget and actual amounts could not be confirmed.

### **Management Response**

The variance of Ksh 18,465,052 represents accounts receivable from non-exchange transactions, which do not form part of cash and cash equivalents. The opening cash and cash equivalents balance of Kshs.25,939,803 includes balances in revenue, operations and M-Pesa pay bill accounts.

### **Committee Observation**

The Committee observed that the query is partially addressed as the Accounts receivables from non-exchange transactions balance is Kshs.11,222,547, while the management submitted bank reconciliation statement extract to support the balance in operations account and M-pesa pay bill of Kshs.4,689,137 only.

### **Committee Recommendations.**

- i. the Governor 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. Further, the Governor submits a status update report of the administrative action taken to the Senate within 60 days of the adoption of this report;**

- ii. the Governor ensures that the Accounting Officer 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; and
- iii. the Governor ensures the Accounting Officer 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.

### 3. Inaccuracies in the Statement of Financial Position

The statement of financial position reflects a net assets balance of Ksh. 57,685,560. Review of records revealed the following:

#### i. Unsupported Receivables from Exchange Transactions Balance

The statement reflects receivables from exchange transactions balance of Kshs.18,630,946 as disclosed in Note 29 to the financial statements. However, the movement schedule indicating the opening balance and claims made in the year against corresponding receipts to arrive at the balance were not provided for audit.

#### Management Response

Find the summary of Account Receivables movement schedule in respect to NHIF, SHA & CIC as indicated below:

<b>Account Receivables Analysis</b>	
NHIF	2,128,900
SHA	10,020,138
CIC	6,481,908.65
<b>TOTAL</b>	<b>18,630,946.65</b>

Copies of the Receivable Report ledgers were attached for the Committee verification.

**Committee Observations**

The Committee observed that the summary and schedule provided for verification.

**Committee Recommendation**

**The Committee recommends that the matter be marked as resolved.**

**ii. Unsupported Inventories Balance**

The statement reflects inventories balance of Kshs.7,240,238 as disclosed in Note 31 to the financial statements. However, the movement schedule indicating opening balance, purchases and usage of inventory during the year under review was not provided for audit. In addition, no records of expired drugs or their values were also provided for audit.

**Management Response**

The Stock Status Report showing the closing balance as of 1st July, 2025. Attached Appendix IV.

We clarify that since the inception of the Facility Improvement Fund (FIF) procurement framework, Lamu County Referral Hospital has not recorded any expired drugs or medical commodities procured using FIF funds.

**Committee Observations**

The Committee observed that the summary and schedule provided for verification.

**Committee Recommendation**

**The Committee recommends that the matter be marked as resolved.**

**iii. Unconfirmed Property, Plant and Equipment Balance**

The statement reflects a balance of Kshs.4,295,533 in respect to property, plant and equipment as disclosed in Note 32 to the financial statements. However, Management did not disclose the value of buildings and the land on which the Hospital is built. In addition, ownership documents including allotment letters and land title deeds were not provided for audit review.

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

**Management Response**

PAPERS LAID	
DATE	
TABLED BY	
COMMITTEE	
CLERK AT THE TABLE	

The Hospital currently occupies land and buildings that legally remain under the ownership of the County Government. As such, the Hospital does not hold ownership documents, including allotment letters or title deeds.

The property, plant and equipment balance of Ksh. 4,295,533 declared is what the Hospital owns.

#### **Committee Observations**

The Committee observed that management has an asset register. However, acquisition of ownership and valuation of assets has not been done. The management is in the process of valuing its land, and buildings, before onboarding them in the financial statements.

#### **Committee Observations**

The Committee observed that the summary and schedule provided for verification.

#### **Committee Recommendation**

**The Committee recommends that the matter be marked as resolved.**

#### **Emphasis of Matter**

##### **Budget 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.96,148,487, a 100% utilization of the budget. Similarly, the Hospital spent Kshs.72,691,788 against actual receipts of Kshs.96,148,487 resulting to an under-utilization of Kshs.23,456,699 or 24% of actual receipts.

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

##### **Management Response**

The balance of Ksh. 23,456,699 comprises of both Quarter funds which are ordinarily utilized in Quarter one of Subsequent Financial Year and unutilized balances arising from payments yet to be finalized including commitments for goods and suppliers pending delivery.

#### **Committee Observations**

The Committee observed that the management had an under-utilization of Kshs.23,456,699 or 24% of actual receipts.

#### **Committee Recommendations**

The Committee recommended that :-

- i. The Governor ensures the Accounting Officer strictly complies with section 149(2) (h) and (i) of the Public Finance Management Act, Cap. 412A and the standards prescribed by the Public Sector Accounting Standards Board under IPSAS 24 on the presentation of budget information in the financial statements for an entity that prepares their financial statements under the accrual basis of accounting, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply;
- ii. The Governor ensures the Accounting Officer to 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
- iii. The Governors ensures the Board of Directors institutes 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 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 Hospital in 2024/2025 revealed that the following five (5) issues remained unresolved:

No	Financial Year	Audit Issue
1	2023/2024	Inaccurate Income
2	2023/2024	Failure to Remit Thirty Percent (30%) to County Health Services Accounts
3	2023/2024	Inadequate Staffing of Hospital
4	2023/2024	Shortage in bed Capacity
5	2023/2024	Inadequate Hospital Equipment and Machines
6	2023/2024	Inefficiencies in Manual Revenue Collection System

## Management Response

No	Financial Year	Audit Issue	Management Responses
1	2023/2024	Inaccurate Income	The Hospital is undertaking reconciliation of the manual collection against the Mpesa Collection. KES 28,263,676.00 were NHIF claims paid and received while KES 35,046,263 was NHIF capitation based on registered population expected to receive services from the facility.
2	2023/2024	Failure to remit Thirty Percent (30%) to County Health Services Accounts	The revenue collection is not enough to support budgetary needs for the Lamu County Referral Hospital. In the meantime, the hospital supports management functions and primary health services such as facilitating outreaches, support for blood donation drives, and supports primary health services through provision of health commodities. The 30% that has been found to be a large percentage and hence need for the amendment of the FIF Act is in progress.
3	2023/2024	Inadequate Staffing of Hospital	The hospital is committed to achieving the recommended staffing levels but faces challenges due to budget constraints and wage bill limitations. The Management recruited additional health workers in FY 24/25.
4	2023/2024		The Hospital had expansion program and construction of additional wards. Hence, the management reduced the deficit number of beds after construction of private and ICU wards.
5	2023/2024		The Hospital has two (2) resuscitative- one (1) in the Labour ward and another one (1) in theatre. The hospital has five (5) functional dialysis machines. A six (6) beds ICU has been operationalized. In addition, the County has procured additional medical equipment for the Hospital.
6	2023/2024		Management is now using an automated cashless revenue collection system. (See Appendix viii) - Report of revenue collection.

## **Committee Observations**

The Committee observed that the hospital is progressively implementing the recommendations of the auditor general and the committee on the prior year issues.

### **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)(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 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.**

## **Basis for Conclusion**

### **1. Failure to Remit Thirty Percent (30%) to County Health Services Accounts**

The statement of financial performance reflects revenue from exchange transactions amounting to Kshs.86,572,661 being income from rendering of medical services. It was however observed that the hospital management did not remit 30% of the revenue to the county health services accounts.

This is contrary to section 24 (8) of the Lamu County Health Facility Improvement Financing Act, 2023 which states that except for Level 2 and 3 Hospitals, all other entities shall upon preparing quarterly budgets appropriate thirty percent (30%) of the budget to the County health services accounts to facilitate health management functions, primary health care services, and community health services.

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

### **Management Response**

The revenue collected by the Hospital is not even enough to meet its own budgetary needs hence the inability to transfer 30% to the County Health Services Account. In order to ensure.

### **Committee Observation**

The Committee observed that the section 24 (8) of the Lamu County Health Facility Improvement Financing Act, 2023 contravenes the national Facility Improvement Act.

### **Committee Recommendations**

**The Committee recommends that—**

- i. the Governor ensures that the Hospital immediately ceases the transfer of FIF revenues to the County Revenue Fund Account and complies fully with section 5 of the Facility Improvement Financing Act, Cap. 277;**
- ii. the Governor ensures that the standing bank order facilitating the unauthorized transfers is cancelled immediately and evidence of cancellation submitted to the Senate within 30 days of the adoption of this report;**
- iii. the Governor ensures that the CECM Health Services initiates the process to amend the Lamu County Health Facility Improvement Financing Act, 2023 , County Assembly, to be in line with Section 5 of the Facility Improvement Fund Act Cap as read together with Section 7 of the Act.**
- iv. the Governor ensures that all FIF funds improperly transferred to the County Revenue Fund are returned to the Hospital's FIF operational account within 30 days of the adoption of this report; and**
- v. the Auditor-General keeps the matter in view in the subsequent audit cycle and reports on compliance with the FIF Act, 2023.**

## **2. Role of Hospitals in Universal Health Coverage**

### **2.1 Inadequate Staffing of the Hospital**

Review of records provided revealed that the Hospital had forty-one (41) technical staff against the recommended two hundred and nineteen (219) resulting to a deficit of one hundred and seventy-eight staff (178).

#### **Management Response**

The hospital is committed to achieving the recommended staffing levels but faces challenges due to budget constraints and wage bill limitations. The Management recruited additional health workers in FY 24/25 and job advert on 20th December We remain committed in improving staffing levels in line with the operational requirement.

### **2.2 Shortage In Bed Capacity**

Records provided for audit indicates the Hospital had a total bed capacity of one hundred (100) instead of the recommended one hundred and fifty (150) beds leading to a shortage of fifty (50) beds or thirty-three percentage (33%).

#### **Management Response**

The number of beds has increased due to the introduction of private wards having seven (7) beds and an ICU with six (6) beds, respectively.

### **2.3 Inadequate Hospital Equipment and Machines**

It was also observed that the Hospital had one (1) resuscitator in Labour ward against the recommended two (2) representing fifty percent (50%) deficit. There were no functional ICU or High Dependence Unit (HDU) beds against the recommended six (6) for each of them. This was because the ICU Department was not operational. The Hospital also has four (4) dialysis machines against the recommended five (5) representing twenty percent (20%) deficit.

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

#### **Management Response**

The Hospital has two (2) resuscitative- one (1) in the Labour ward and another one (1) in theatre. The hospital has five (5) functional dialysis machines. A six (6) beds ICU has been operationalized. In addition, the County has procured additional medical equipment for the Hospital. See attached letter of Award.

#### **Committee Observations**

The Committee observed that the Hospital's staffing, bed capacity and equipment/machine complement did not meet the requirements of the Kenya Quality Model for Health.

#### **Committee Recommendations**

**The Committee recommends that—**

- i. within sixty (60) 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;**
- ii. Within ninety (90) days of the adoption of this report, the Committee recommends that the Governor ensures the hospital develops and implements a comprehensive plan, with appropriate budgetary allocations, to acquire and operationalize the required facilities and equipment to provide all services required for a Level 5 hospital. The Auditor-General should monitor progress and keep this matter under review in the subsequent audit cycle; and**
- iii. The Governor ensures the officer in charge of the facility has the requisite academic and professional qualifications in accordance with the Health Act,**

**2017 and provide evidence of measures taken to address the matter to Senate within 60 days of the adoption of this report.**

### **3. Non-Compliance with Public Sector Accounting Standards Board Financial Reporting Requirements**

Review of the annual report and financial statements revealed the following:

- i. The management discussion and analysis report on page xxiii reflects expenditure performance amount of Kshs.120,960,329 instead of Kshs.122,154,673 reflected in the statement of financial performance.

#### **Management Response**

Ksh. 122,154,673 was the correct amount reflected in the statement of Financial Performance however, this was not updated in the management discussion report. We regret the error but we will be keen next time.

- ii. The statement of comparison of budget and actual amounts reflects depreciation expense of Ksh. 1,664,777, which has no effect on the cash outflows. The statement also reflects total receipts of Kshs.96,148,487 instead of the recomputed amount of Ksh. 117,399,153.

#### **Management Response**

Depreciation expense of Ksh. 1,664,777 was incorrectly included despite having no cash outflow effect, and total receipts were misstated as Ksh. 96,148,487 instead of Ksh. 117,399,153. The Management will enhance internal review procedures to prevent recurrence.

- iii. The receivables amount of Kshs.18,630,946 is reflected both under revenue in Note 11 and receivables in Note 29 to the financial statements erroneously.

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

#### **Management Response**

The Account Receivables amounting to Ksh. 18,630,946 was erroneously reflected both under revenue in Note 11 and receivables in Note 29 to the financial statements. Measures will be put in place to prevent recurrence of similar errors in the future.

### **Committee Observations**

The Committee observed that the management is committed to complying with the PSASB guidelines in preparation of financial statements.

### **Committee Recommendation.**

**The Committee recommends that ;-**

- i) the Governor ensures that the Accounting Officer puts in place measures to ensure that the financial statements are prepared in accordance with the prescribed reporting template as required by the PSASB guidelines.**
- ii) The Auditor-General to keep this matter in view in the subsequent financial year audit process, to confirm compliance to the prescribed PSASB guidelines in preparation of financial statements**

## **REPORT ON THE EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Basis for Conclusion**

#### **Lack of an Internal Audit Function and Audit Committee**

Records provided for audit indicate that the Hospital did not have a functional Internal Audit Department or Audit Committee as at 30 June, 2025. Further, no evidence was provided to show sharing of internal audit function or audit committee with the County Treasury. There was no evidence of audit work done including audit plan/program or internal audit reports.

In the circumstances, the internal controls were inefficient due to lack of an internal audit function.

### **Management Response**

The County Government internal audit office is capable to audit Hospitals. Management will continue to engage the County Executive Internal Audit Unit and Audit Committee to provide internal audit services and oversight in order to strengthen internal controls. Copies of the letter from CECM and executive internal audit report were attached for the committee verification.

### **Committee Observations**

The Committee observed that the hospital did not have an audit committee and an effective internal audit function in place during the financial year under review contrary to Section 155(1) of the Public Finance Management Act, Cap.412A.

### **Committee Recommendations**

**The Committee recommends that the Governor ensures the Hospital Management Board puts in place all internal control systems such as the Internal Audit Committee as provided under section 155 (5) of the Public Finance Management Act, 2012 among others to guide the internal operations of the water company. Further, the managements to submit evidence of the same to the Auditor General for verification.**

**1.2. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR FAZA SUBCOUNTY HOSPITAL FOR THE FINANCIAL YEAR 2024/2025.**

The Governor of Lamu County, Hon. Issa Timmamy, EGH appeared before the Committee on Thursday, 21st January, 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Faza Sub-County Hospital for the Financial Year 2024/2025.

The Governor was accompanied by the following officers—

1. Amb. Ali Abbas- County Secretary
2. Mr. Mohamed Ali- CECM Finance and Economic Planning
3. Mrs. Salma Osman- Chief Officer Finance
4. Mr. Mohamed Abbas- Director Accounting Services

**REPORT ON THE FINANCIAL STATEMENTS**

The Auditor-General rendered a Qualified Opinion on the financial statements of the Faza Sub-County Hospital on the following basis; -

**1. Unsupported Revenue from Rendering of Services (Medical Service Income)**

The statement of financial performance reflects revenue from rendering of services (medical service income) totalling to Kshs.17,236,429 as disclosed in Note 11 to the financial statements. Included in this amount are claims received in the year under review from National Hospital Insurance Fund (NHIF) totalling Kshs.405,840.

However, Management did not provide breakdown of total claims raised and submitted to National Hospital Insurance Fund (NHIF) during that year.

In the circumstances, the accuracy and completeness of revenue from rendering of services (medical service income) totalling to Kshs.17,236,429 could not be confirmed.

**Management Response**

The amount of Kshs.405,840 recognized as NHIF income represents payments received during the year from previously submitted claims.

The NHIF claims schedule was provided for review for the Committee verification.

**Committee Observations**

The Committee observed that the management failed to provide for audit review, provide breakdown of total claims raised and submitted to National Hospital Insurance Fund (NHIF) during that year.

PAPERS LAID	
DATE	
TABLED BY	
COMMITTEE	
CLERK AT THE TABLE	

### **Committee Recommendations**

**The Committee recommends that the governor should ensure that the Accounting Officer ensures 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.**

### **Unsupported Property, Plant and Equipment Balance**

The statement of financial position reflects property, plant and equipment balance of Kshs.374,042 as disclosed in Note 32 to the financial statements. Review of supporting documents revealed that additions to ICT equipment in the year under review of Kshs.369,950 was not supported by invoices while details and ownership of the Hospital parcel of land of undetermined size and value were not provided. In addition, Management had not opened an asset register to record all these assets.

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

### **Management Response**

The invoices for the ICT equipment are provided for verification.

The Hospital's land is plot no. 847 in Rasini village. The processing of titling is ongoing.

Most of the Hospital's assets are still under the County Executive. The Hospital maintains an asset register of the items procured through FIF.

### **Committee Observations**

The Committee observed that the query remained unresolved as the management is in the process of acquiring the title deed of the land. The other documents were however submitted for the committee verification.

### **Committee Recommendations**

- i. within sixty (60) days of the adoption of this report, the Governor, through the CECM responsible for matters health, engages with the Ministry of Health of the National Government to ensure the transfer of ownership documents of land and buildings is fast tracked;**

- ii. **the Governor ensures that the management of the hospital undertakes the valuation of all assets of the hospital and submits the valuation report to the Auditor- General for verification during the subsequent audit cycle;**
- iii. **upon completion of the transfer and valuation, the Accounting Officer should prepare an updated asset register within 60 days of the adoption of this report and submit to the Auditor-General for verification; and**
- iv. **the Governor, through the Accounting Officer ensures that the hospital maintains an up-to-date asset register in accordance with section 149(2)(o) of the Public Finance Management Act Cap 412A and in the format prescribed by the Public Sector Accounting Standards Board (PSASB), failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply.**

#### **Other Matter**

#### **Prior Year Matters**

In the prior year audit report, one (1) issue was raised under the Report on Financial Statements and Lawfulness and Effectiveness in Use of Public Resources respectively. These include inaccurate property, plant and equipment balance and failure to comply with International Public Sector Accounting Standards. Review of the status during audit of the Hospital in 2024/2025 revealed that only the issue on inaccurate property, plant and equipment balance remained unresolved.

#### **Management Response**

Most of the Hospital's assets are still under the County Executive. The process of identification and valuation of the assets and transfer is ongoing as part of the transition to accrual reporting. The Hospital maintains an asset register of the items procured through FIF.

#### **Committee Observations**

The Committee observed that the management did not resolve some of the issues raised by the auditor general in the previous financial year.

#### **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)(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 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.**

## **Basis for Conclusion**

### **1. Irregular Engagement of Casual Employees**

The statement of financial performance reflects expenditure on employee costs totalling Kshs.2,970,920 as disclosed in Note 16 to the financial statements. The expenditure relates to twenty- three (23) contractual employees engaged by the Hospital. However, the casual workers were engaged for more than three (3) months without a contract of service.

This was contrary to Section 37 (1) of Employment Act, 2007 which states that notwithstanding any provisions of this Act, where a casual employee works for a period or a number of continuous working days which amount in the aggregate to the equivalent of not less than one (1) month; or performs work which cannot reasonably be expected to be completed within a period, or a number of working days amounting in the aggregate to the equivalent of three (3) months or more, the contract of service of the casual employee shall be deemed to be one where wages are paid monthly and Section 35 shall apply to that contract of service.

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

### **Management Response**

Casual employees are engaged on (3) months contracts to address staffing gaps arising from County wage bill constraints and to ensure continuity of healthcare services. Management notes that such engagement is permissible under Section 37 of the Employment Act, 2007, and will continue to review its practices to ensure compliance with labor laws.

### **Committee Observation**

The Committee observed that the contracts to support the engagement of the casual employees.

## **Committee Recommendations**

**The Committee recommends that the matter be marked as resolved.**

### **2. Non-Compliance With the Kenya Quality Model for Health for Level 4 Hospital Requirements**

Review of documents revealed that the Hospital had thirty- two (32) medical staff against the minimum requirement of one hundred and one (101) leaving a variance of sixty- nine (69) or 68%68% . Further the Hospital had thirty- two (32) equipment and machines against the requirement of one hundred and eighty- one (181) for a Level 4 Hospital and therefore having a variance of one hundred and forty- nine (149) or 82%82% .

It was also noted that the Hospital lacked specialists such as anesthesiologists, gynecologists and pediatrics. It also lacked vital Hospital facilities such as functional High Dependency Unit (HDU), Ear Nose and Throat (ENT) Unit, Renal Dialysis, CT Scan Machine and Mammography Machine. This was contrary to Gazette Notice No. 786 Vol.CXXII No. 24 of 4 February, 2020 which provides for 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 acknowledges the shortfall in both staffing and equipment. Progressive efforts are being made through the County Executive to improve the levels of staffing,

equipment and infrastructure. The County Government has allocated a budget for additional equipment. An extract of the supplementary budget is provided for verification.

To improve staffing, the County Government also recruited additional staff in the 2024/25 financial year. Another recruitment is currently ongoing as evidenced in the submitted staff recruited in 2024/25, December 2025 advert.

With support from the Global Fund, an oxygen plant is being put up at the Hospital. This will support the operationalization of a high dependency unit- see provided photos.

### **Committee Observations**

The Committee observed that the Hospital's staffing, bed capacity and equipment/machine complement did not meet the requirements of the Kenya Quality Model for Health.

## **Committee Recommendations**

**The Committee recommends that—**

- i. within sixty (60) 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;**
- ii. Within ninety (90) days of the adoption of this report, the Committee recommends that the Governor ensures the hospital develops and implements a comprehensive plan, with appropriate budgetary allocations, to acquire and operationalize the required facilities and equipment to provide all services required for a Level 5 hospital. The Auditor-General should monitor progress and keep this matter under review in the subsequent audit cycle; and**
- iii. The Governor ensures the officer in charge of the facility has the requisite academic and professional qualifications in accordance with the Health Act, 2017 and provide evidence of measures taken to address the matter to Senate within 60 days of the adoption of this report.**

## **Basis for Conclusion**

### **1. Lack of Staff Establishment**

The statement of financial performance reflects expenditure on employee costs totalling to Kshs.2,970,920 as disclosed in Note 16 to the financial statements. However, it was noted that the Hospital did not have staff establishment to guide Management in sourcing and filling vacant posts. This was contrary to Section B.5(2) of the County Public Service Human Resource Manual, 2013 which states that all vacancies shall be declared in a prescribed format which shall include the number of vacancies; when the vacancy occurred; whether the vacancy is within the authorized establishment and other relevant details.

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

### **Management Response**

The Hospital staff are employees of the County Government of Lamu. Recruitment is done by the County Public Service Board and then the staff are deployed to the Hospital. An

approved staff establishment is available for the Department of Health. An extract is provided.

### **Committee Observations**

The Committee observed that the management submitted the approved staff establishment. However, the source of the document wasn't indicated, as it should be from County Public Service Board.

### **Committee Recommendations**

**The Committee recommends that the Governor should ensure that the Accounting Officer ensures 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. Ineffective Governance by the Board of Management**

Review of the Board records revealed that nine (9) members were appointed and gazetted on 2 February, 2024 to serve for a period of three (3) years. However, it was noted that the Board had not yet established an audit committee and other three (3) committees as per governance parameter 1.7 (1) (b) of Mwongozo Code and also had not developed Annual Board Work Plan. In addition, appointment letters of the nine (9) Board members were not provided. This was contrary to Governance Parameter 1.1(11) of Mwongozo Code of governance which states that each Board member shall be formally to the Board through a gazette notice and there after an appointment letter.

Governance Parameter 1.11 (1) of Mwongozo Code of governance states that the Board should develop and adopt a Board Charter. Further paragraph 1.9 (1) states that Board members should ensure the development of an Annual Board Work Plan.

Governance Parameter 1.7 (1) (b) of Mwongozo Code of governance states that the Board should establish an audit committee and a maximum of three other committees (by whatever name called) to discharge the following function; Governance, Risk, Compliance, Finance, Technical matters, Strategy, Compliance, Human Resources and Finance.

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

### **Management Responses**

The Mwongozo Code of Governance applies to state corporations. The Hospital is an entity of the County Government of Lamu and is guided by the County Government Act, 2012 and the Lamu County Health Facility Improvement Financing Act, 2023.

Copies of the appointment letters for the Hospital Management Board were provided and are hereby resubmitted for your review.

A copy of the Board Annual Work plan was provided and is hereby resubmitted for your review.

The Hospital uses the County Audit Committee in accordance with Regulation 167(1) and (2) of the Public Finance Management (County Governments) Regulations, 2015. The Regulation allows for the sharing of an audit committee on authorization by the County Treasury- see attached authorization letter from the CECM- Finance.

### **Committee Observations**

The Committee observed that the management submitted the Appointment letters and Board work plan which addressed the matter satisfactorily.

### **Committee Recommendations**

**The Committee recommends that the matter be marked as resolved.**

### **3. Lack of Risk Management Policy and Strategy**

It was noted that the Hospital had not developed a risk management policy, strategies, and risk register to mitigate against risk. It was, therefore, not clear how the management managed risk exposures. This is contrary to Regulation 158(1) of the Public Finance Management

(County Governments) Regulations, 2015 which states that an Accounting Officer shall ensure that (a) 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 Hospital is currently using the County Government of Lamu Risk Management Policy.

### **Committee Observations**

The Committee observed that the water company operated without a risk management policy in place during the financial year under review.

#### **Committee Recommendations**

**The Committee recommends that the County Executive Committee Member (CECM) - Finance ensure that the water company puts in place all internal control systems, such as Risk Management Policy, as provided under section 158 (1) of Public Finance Management (County Governments) Regulations, 2015, among others, to guide the internal operations of the water company. Further, the board to fast track the approval and adoption of the draft risk management policy and submit evidence of the same to the Auditor-General for verification.**

#### **4. Lack of Approved Strategic Plan**

The Hospital draft strategic plan covering the period 2023- 2032 developed to guide its operations by Management had not been approved and published for implementation. This was contrary to Section 149(2)(g) of the Public Finance Management Act, 2012 which states that in carrying out a responsibility imposed by Subsection (1), an Accounting Officer shall; in respect of the entity concerned prepare a strategic plan for the entity in conformity with the medium- term fiscal framework and financial objectives of the County Government.

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

#### **Management Response**

The Hospital Management Board is in the process of finalizing and approving the hospital Strategic Plan.

#### **Committee Observations**

The Committee observed that the hospital is finalizing on the approval of an operational Strategic Plan.

#### **Committee Recommendations**

**Noting the mitigating measures, the Committee recommends that the matter be marked as resolved.**

### **3.3 REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR MPEKETONI SUB-COUNTY LEVEL 4 HOSPITAL FOR THE FINANCIAL YEAR 2024/2025.**

The Governor of Lamu County, Hon. Issa Timmamy, EGH appeared before the Committee on Thursday, 21st January, 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Mpeketoni Sub-County level 4 hospital for the Financial Year 2024/2025.

The Governor was accompanied by the following officers—

2. Amb. Ali Abbas- County Secretary
3. Mr. Mohamed Ali- CECM Finance and Economic Planning
4. Mrs. Salma Osman- Chief Officer Finance
5. Mr. Mohamed Abbas- Director Accounting Services
6. Mr. Mohamed Murua- Medical Superintendent

### **REPORT ON THE FINANCIAL STATEMENTS**

The Auditor-General rendered a Qualified Opinion on the financial statements of the on Mpeketoni Sub-County level 4 hospital the following basis; -

#### **1. Inaccurate Revenue from Exchange Transactions**

The statement of financial performance reflects revenue from exchange transactions totaling to Ksh. 50,466,599. The revenue include revenue from rendering services (medical service income) of Ksh. 49,983,599. However, the ledger provided reflects an amount of Ksh. 47,461,693 resulting to a variance of Ksh. 2,521,906. This is attributed to the fact that the Hospital used manual receipt books to collect revenue in the period July, 2024 to April, 2025 but failed to carry out reconciliation of revenue collections. In addition, several manual receipt books with serial numbers had been omitted from the revenue reports provided.

In the circumstances, the accuracy and completeness of revenue from exchange transactions totaling Ksh. 65,655,086 could not be confirmed.

#### **Management Response**

The amount of Ksh. 47,461,693 reflected in the initially submitted ledger represented revenue balances before final reconciliation and updating of records. Upon completion of revenue reconciliation, the ledger was updated to reflect the correct medical service income of Ksh. 49,983,599, thereby clearing the variance of Ksh. 2,521,906. The updated Ledger for Revenue from Exchange Transactions were provided for the Committee verification.

PAPERS LAID	
DATE	
TABLED BY	
COMMITTEE	
CLERK AT THE TABLE	

**Committee Observation**

The Committee observed that the management reconciled the variances and updated the ledgers accordingly.

**Committee Recommendation**

**The Committee recommends that the matter be marked as resolved.**

**2. Unsupported Receivables from Non-Exchange Transactions Balance**

The statement of financial position reflects receivables from non-exchange transactions balance of Ksh. 8,649,713 as disclosed in Note 17 to the financial statements. Included in this is a balance of Ksh. 6,838,040 in respect to receivables from Social Health Authority (SHA). However, the balance was not supported by a breakdown of outstanding patient invoices not settled by the SHA.

In the circumstances, the accuracy and completeness of the receivables from non-exchange transactions balance of Ksh. 8,649,713 could not be confirmed.

**Management Response**

The individual patient claims were submitted in the SHA online portal and the payments from SHA were received in lump sum thus, we could not ascertain which specific claims out of the total submitted had been paid for that period. The amount of Ksh 6,838,040 reflected in the Financial Statement was derived from the SHA portal. The SHA system has since been improved and now provides details of claims settled. The amount of Ksh 6,838,040 has been reconciled. Kindly see attached updated ledger. SHA Receivables provided.

**Committee Observation**

The Committee observed that the hospital submitted a detailed breakdown of the claims.

**Committee Recommendation**

**The Committee recommends that the matter be marked as resolved.**

**3. Unsupported and Misstated Expenditure on General Expenses**

The statement of financial performance reflects general expenses totaling to Ksh. 17,531,223 as disclosed in Note 14 to the financial statements. Review of records revealed that the expenditure included Ksh. 5,691,620 on food and rations made vide local purchase number 3891059, 3891060 and 3891061 of Ksh. 201,920, Ksh. 272,012 and Ksh. 7,300

dated 1 July, 2024 totaling to Ksh. 481,232. However, the supplier was paid Ksh. 544,872 resulting to an overpayment of Ksh. 63,640. In addition, the expenditure on electricity of Ksh. 4,027,432 and on water and sewerage charges of Ksh. 450,000 was based on actual payments made to the utility and water companies. Management did not provide electricity and water bills incurred by the Hospital in the year under review.

In the circumstances, the accuracy and completeness of the general expenses totaling Ksh. 17,531,223 could not be confirmed.

### **Management Response**

Food and Rations-The amount of Kshs. 63,640 did not constitute an overpayment. During the time of audit LPO Number 3891058 of Ksh 135,700 was not included the payment voucher which made the total LPOs amount to be less by Ksh 135,700 as follows:

The corresponding S13 and delivery notes when consolidated total to Ksh 544,872 which fully support the expenditure. Payment Voucher provided.

Electricity, Water and Sewerage Charges: The expenditure on electricity and water was based on actual bills issued by the service providers. Statements of account and billing schedules from Kenya Power and Lighting Company (KPLC) and LAKWA Water Services have now been provided to support the expenses recognized. KPLC Statements and LAKWA Water Bills provided.

### **Committee Observation**

The Committee observed that the management submitted all the required documents to address the matter satisfactorily.

### **Committee Recommendation**

**The Committee recommends that the matter be marked as resolved.**

## **4. Unsupported Expenditure on Sitting Allowances**

The statement of financial performance reflects board of management expenses totaling to Ksh. 148,000 as disclosed in Note 10 to the financial statements. Review of records revealed that Board members were paid sitting allowances in respect of various meetings held during the financial year. However, the payment was not supported by approved annual board work plan.

In the circumstances, the accuracy and completeness of the expenditure on sitting allowances totaling Ksh. 148,000 could not be confirmed.

### **Management Response**

The sitting allowance rates for Board Members are provided for in The Lamu County Health Facility Improvement Financing Act 2023 and the expenditure is in line with the approved work plan which was duly submitted and is attached for your review. Annual Work Plan provided.

#### **Committee Observation**

The Committee observed that the management submitted the approved hospital workplan.

#### **Committee Recommendation**

**The Committee recommends that the matter be marked as resolved.**

### **5. Unsupported Property, Plant and Equipment Balance**

The statement of financial performance reflects expenditure on medical/clinical costs totaling Ksh. 22,063,608 as disclosed in Note 8 to the financial statements. The expenditure included in-kind contributions from the County Government of Ksh. 4,250,526. Review of supporting documents revealed that the amount related to assorted medical equipment supplied by the County Government to the Hospital and not consumable medical items. The medical items had not been recorded in the Hospital asset register.

In the circumstances, the accuracy, completeness and existence of property, plant and equipment balance of Ksh. 22,063,608 could not be confirmed.

#### **Management Response**

The assorted medical equipment worth Ksh. 4,250,526 were an in-kind contribution from the County Government. Kindly note that these assets are still properties of the County Government of Lamu thus they were recorded in the County Executive asset register. The process of transfer of the assets is ongoing as part of the transition to accrual reporting. Once the process is completed and the transfers effected, they will be recorded in Hospital's asset register. The extract of the County Executive asset register provided.

#### **Committee Observation**

The Committee observed that the management updated its assets register, and finalized on the asset tagging.

#### **Committee Recommendation**

**The Committee recommends that the matter be marked as resolved.**

## 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 Hospital in 2024/2025 revealed that the following seven (7) issues remained unresolved:

No	Financial Year	Audit Issue
1	2023/2024	Inaccuracies in the Financial Statement
2	2023/2024	Inaccurate revenue
3	2023/2024	Budgetary Control Performance
4	2023/2024	Failure to remit thirty percent (30%) to County Health Services Accounts.
5	2023/2024	Non-Compliance with Kenya Quality Model Health Checklist for Level Four (4) Hospitals.
6	2023/2024	Lack of an automated revenue system
7	2023/2024	Lack of systems in the management of inventory

### Management Response

No	Financial Year	Audit Issue	Current Status
1	2023/2024	Inaccuracies in the Financial Statement	Working on the reconciliation and issue addressed in the prior year.
2	2023/2024	Inaccurate revenue	The hospital is undertaking reconciliation of the manual collection against the Mpesa Paybill collections, NHIF claims paid and NHIF capitation based on registered population expected to receive services from the facility
3	2023/2024	Budgetary Control Performance	Issue addressed
4	2023/2024	Failure to remit thirty percent (30%) to County Health Services Accounts	The revenue collection is not enough to support budgetary needs for Mpeketoni Sub County Hospital, in the meantime the hospital management supports functions and primary health services such as out

			reaches, blood donation drives and also support through provision of health commodities. The 30% has been found to be a large percentage and hence amendment of the FIF Act is in progress
5	2023/2024	Non-Compliance with Kenya Quality Model Health Checklist for Level Four (4) Hospitals	The issue is being progressively addressed with the County Executive.
6	2023/2024	Lack of an automated revenue system	The revenue system has been automated since April 2025
7	2023/2024	Lack of systems in the management of inventory	The issue is being progressively addressed with support from National Government through The Digital Health Authority

### **Committee Observation**

The Committee observed that the management of the hospital is progressively implementing the recommendations of the auditor general and the committee on the prior year issues.

### **Committee Recommendation**

**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)(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 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.**

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

#### **1. Irregular Expenditure on Food and Rations**

The statement of financial performance reflects expenditure on general expenses totaling to Ksh. 17,531,223 as disclosed in Note 14 to the financial statements. Included in this expenditure is an amount of Ksh. 5,691,620 in respect of food and rations. Review of the procurement process revealed that a local trader was awarded the tender to supply and deliver food stuffs at a cost of Ksh. 1,000,060 as approved in line with the professional opinion dated 6 August, 2024 and quotation number CGL/Q/FIF/MSCH/027/2024-2025.

However, the actual payment to the supplier was Ksh. 1,540,722 resulting to unjustified payment of Ksh. 540,662. This was contrary to Section 48(3) (b) of the Public Procurement and Asset Disposal Act, 2015 which states that the inspection and acceptance committee shall immediately after the delivery of the goods, works or services inspect and review the goods, works or services in order to ensure compliance with the terms and specifications of the contract. Section 134(1) of the Act states that the Accounting Officer shall be responsible for preparation of contracts in line with the award decision.

In addition, the payment was also not supported by contract agreement between the Hospital and the supplier while invoices numbers 613, 615, 695, 696, 697 of Ksh. 265,560, Ksh. 279,312, Ksh. 280,775, Ksh. 235,280, Ksh. 4,800 and delivery note numbers 688, 689, 690, 691, 692 amounting to Ksh. 1,065,727 were not dated.

This was contrary to Regulation 104(1) of the Public Finance Management (County Governments) Regulations, 2015 which provides that all receipts and payment vouchers of public moneys shall be properly supported by pre-numbered receipt and payment vouchers and shall be supported by the appropriate authority and documentation.

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

### **Management Response**

The amount of Ksh 540,662 reference in the audit observation relates to payment made in the previous financial year and is not part of the current year 2024/25 transaction under review. The following payment was done as follows: -

1. For the Financial Year 2023 - 2024 The procurement process for tender of Supply and Delivery of Food & Rations was done during this financial year (2023-2024) on fourth quarter but payment was done on the other financial 2024-2025 on 12/07/2024 amount Ksh. 474,995/
2. For the Financial Year 2024-2025 The procurement process for tender no CGL/Q/FIF/MSCH/027/2024-2025 of Supply and Delivery of Food & Rations was done and professional opinion was done and awarded to a total of Ksh. 1,000,060 but the payment was done on 4/9/2025 amount Ksh. 520,855 and 2/10/2025 amount Ksh. 544,872

Therefore, there was no overpayment done. Supporting documentation, including the relevant professional opinion and Local Purchase Orders (LPOs), has been provided to substantiate the expenditure (appendix 7). The contract agreement has been signed and is hereby attached.

#### **Committee Observation**

The Committee observed that the management provided documents in support of the expenditure.

#### **Committee Recommendation.**

**The Committee recommends that the matter be marked as resolved.**

### **3. Non-Compliance with the Kenya Quality Model for Health for Level 4 Hospital Requirements**

Review of documents revealed that the Hospital had seventy-seven (77) medical staff against the minimum requirement of one hundred and one (101) resulting to understaffing by twenty-four (24) members of staff or 24% which included the shortage of specialists such as anesthesiologists, gynecologists and pediatrics. In addition, the Hospital had one hundred and thirty-one (131) equipment and machines against the requirement of one hundred and eighty-one (181) for a Level 4 Hospital resulting to a shortage of fifty (50) or 28% 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 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 acknowledges the shortfall in both staffing and equipment. Progressive efforts are being made through the County Executive to improve the levels of staffing, equipment and infrastructure. The County Government has allocated a budget for additional equipment. An extract of the supplementary budget is provided as Appendix 9. The County Government also recruited additional staff in the 2024/25 financial year. With support from the Global Fund, an oxygen plant is being put up at the Hospital. This will

support the operationalization of a high dependency unit as per the provided photos for verification.

### **Committee Observations**

The Committee observed that the Hospital's staffing, bed capacity and equipment/machine complement did not meet the requirements of the Kenya Quality Model for Health.

### **Committee Recommendations**

**The Committee recommends that—**

- i. within sixty (60) 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;**
- ii. Within ninety (90) days of the adoption of this report, the Committee recommends that the Governor ensures the hospital develops and implements a comprehensive plan, with appropriate budgetary allocations, to acquire and operationalize the required facilities and equipment to provide all services required for a Level 5 hospital. The Auditor-General should monitor progress and keep this matter under review in the subsequent audit cycle; and**
- iii. The Governor ensures the officer in charge of the facility has the requisite academic and professional qualifications in accordance with the Health Act, 2017 and provide evidence of measures taken to address the matter to Senate within 60 days of the adoption of this report.**

## **4. Weak Imprest Management System**

The statement of financial performance reflects general expenses totaling Ksh. 17,531,223 as disclosed in Note 14 to the financial statements. Included in this is an amount of Ksh. 1,286,000 in respect of publishing and printing. Review of supporting schedules revealed that imprest warrant number 4131033 was issued to an officer for Ksh. 100,000 for catering, courier, printing and lab purposes. However, the imprest was used for maintenance, daily subsistence allowance, payment for low-income earners and general office supplies. This expenditure was not in line with the purpose for which the imprest was approved contrary to Regulation 93(1) of the Public Finance Management (County Governments) Regulations, 2015 which provides that an imprest shall be issued for a specific purpose, and any payments made from it, shall be only for the purposes specified in the imprest warrant.

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

### **Management Response**

Kindly note that this was a standing imprest requested by the officer vide letter ref no MSCH/G.C/VOL.2/ACCS-101 dated 1st July 2024. Please find attached petty cash voucher. The Imprest holder holds the amount of Ksh 100,000, being a standing imprest for the hospital drawn from the votes. The same officer is paid on behalf of the other beneficiaries and pays them for official duty/expenses Daily Subsistence Allowance, Board Allowance, Low income earners. Copies of the Request letter and Petty Cash extract were attached for committee verification.

### **Committee Observation**

The Committee observed that the Application and memorandum cash book provided to support the expenditure

### **Committee Recommendation**

**The Committee recommends that the matter be marked as resolved.**

## **5. Non-Compliance with Fiscal Responsibility Principles on Budgeting**

The statement of comparison of budget and actual amounts reflects total revenue budget amount of Ksh. 57,005,372 and total expenditure budget of Ksh. 60,777,625 resulting to a budget deficit of Ksh. 3,772,253.

This was contrary to Regulation 31 of the Public Financial Management (County Governments) Regulations, 2015 which states that unless provided otherwise in the Act, these Regulations or any other guidelines developed in furtherance of the Act or these Regulations, at all times during budget formulation and approval, budget revenue and expenditure appropriations shall be balanced.

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

### **Management Response**

This variance resulted from an error of omission. The management has taken note of the matter and appropriate corrective measures have been undertaken to ensure accuracy and prevent recurrence.

### **Committee Observation**

The Committee observed that the management's budget revenue and expenditure appropriations were not balanced.

### **Committee Recommendation.**

**The Committee recommends that the Governor ensures that the Accounting Officer adheres to Regulation 31 of the Public Financial Management (County Governments) Regulations, 2015 during preparation, formulation and approval of the budget, provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply.**

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

### **Basis for Conclusion**

#### **Poor Inventory Management System**

Physical verification of the stores department revealed that the Hospital did not have an Inventory Management System in place to manage receipts and issue of stock items. In addition, the store did not have enough shelves as some items were placed on the floor exposing them to possible damage and deterioration.

Further, it was noted that there was no proper segregation of duties within the stores section where the same officer was responsible for receiving, issuing, and updating stock records (bin cards/inventory cards)

This was contrary to Section 161 (1) of the Public Procurement and Asset Disposal Act, 2015 which provides that an Accounting Officer of a procuring entity shall set up an Inventory Management System which shall be managed by the Head of the procurement function, for the purpose of control and managing its inventory, stores and assets.

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

### **Management Response**

The Hospital uses a manual inventory management system using the standard government Inventory management tools such as S-11s, S-13s and stock control cards. The process of automation is on-going with support from the Digital Health Authority. Copies of the Distribution list Tabs was attached for the committee verification. On storage of items, the Management has provided shelves at the pharmacy and stores that are in use. In addition, there are also pallets for the storage of bulky items as per the attached photos.

### **Committee Observations**

The Committee observed that Management has instituted proper mechanisms to ensure that inventory and stock records are accurately updated to reflect actual stock movement during the year.

### **Committee Recommendations**

**The Committee recommends that-**

- i. The Governor, through the Accounting Officer, should ensure compliance to Regulation 104(1) of the Public Finance Management (County Government) Regulations which states that the accounting officer of a procuring entity to set up an inventory management system which shall be managed by the head of the procurement function, for the purpose of control and managing its inventory, stores; and**
- 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.**

<b>PAPERS LAID</b>	
<b>DATE</b>	
<b>TABLED BY</b>	
<b>COMMITTEE</b>	
<b>CLERK AT THE TABLE</b>	

## CHAPTER FOUR: FUNDS

### 4.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR LAMU COUNTY BURSARY AND SCHOLARSHIP FUND FOR THE FINANCIAL YEAR 2024/2025.

The Governor of Lamu County, Hon. Issa Timmamy, EGH appeared before the Committee on Thursday, 21st January, 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Lamu County Bursary and Scholarship Fund for the Financial Year 2024/2025.

The Governor was accompanied by;-

1. Amb. Ali Abbas- County Secretary
2. Mr. Mohamed Ali- CECM Finance and Economic Planning
3. Mrs. Salma Osman- Chief Officer Finance
4. Mr. Mohamed Abbas- Director Accounting Services

### REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered an Unqualified Opinion on the financial statements of the Lamu County Bursary and Scholarship Fund on the following basis; -

#### Basis for Opinion

##### Unresolved Prior Year Matters

In the prior year audit report, three (3) issues were raised under the Report on Lawfulness and Effectiveness in Use of Public Resources. These include failure to develop enabling regulations to the Act, irregular expenditure on scholarships and other educational benefits and lack of internal audit reports.

Review of the status during audit of the Fund in 2024/2025 revealed that only the issues on failure to develop enabling regulations to the Act and irregular expenditure on scholarships and other educational benefits remained unresolved.

#### Management Response

Unresolved Prior Matter	Key Issue	Management Response
Failure to Develop Bursary and Scholarship Regulations	Fund did not have regulations in place	Regulations were developed, waiting for the County Assembly confirmation. Appendix 1 (Draft Regulation)

Irregular expenditure on scholarship and other educational benefit	Payments outside the Mandate of the County Government	County Government recognizes the fourth schedule, but cannot be read in isolation with Article 53 (b), which recognizes and affirms education as a fundamental right of children The subject matter is currently resolved by the intergovernmental agreement with the Ministry of Education that enables the County Government to issue bursaries
--	---	---

**Committee Observation**

The Committee observed that the management of the water company is progressively implementing the recommendations of the auditor general and the committee on the prior year issues.

**Committee Recommendation**

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)(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 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.

**REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES**

**Basis for Conclusion**

1. Failure to Develop Bursary and Scholarship Regulations

During the year under review, it was observed that the County Executive Committee Member responsible for education had not developed regulations, for the better carrying out of the Act contrary to Section 21(3) of the Lamu County Bursary Fund Act, 2019 which states that the County Executive Committee Member responsible for Education shall propose regulations to the County Assembly from time to time for the better carrying out of this Act. In the circumstances, Management was in breach of the law.

### **Management Response**

Regulations were developed, waiting for the County Assembly confirmation.

### **Committee Observations**

The Committee observed that the fund management formulated the regulations, and are now awaiting approval by the County Assembly.

### **Committee Recommendations**

**The Committee recommends that the Governor ensures that the Accounting Office fast-tracks the process of approval of the regulations by the County Assembly, as required by Section 21(3) of the Lamu County Bursary Fund Act, 2019.**

## **2. Incomplete Composition of the Fund Board**

Review of the documents provided for audit revealed that, the Funds Board is Composed of six (6) board members instead of the recommended nine (9) members. No evidence of a board member representing the youth and persons with disability was provided. Further, the letter of appointment of the Secretary to the Board by the County Public Service Board was not provided for audit review.

This was contrary to Section 6 of the Lamu County Bursary Fund Act, 2019 which provides the membership of the Board to include the Chairman and three (3) members of the public appointed by the Governor, representatives from the Christian and Muslim bodies, Chief Officers of Finance and Education or their representatives and the Secretary who will be competitively recruited by the Public Service Board.

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

### **Management Response**

The said Board members were nominated but were not approved by the County Assembly. An officer is designated by the County Public Service Board to work as the secretary pending new recruitments.

### **Committee Observations**

The Committee observed that the three board members were nominated awaiting approvals by the County Assembly.

### **Committee Recommendations**

**The Committee recommends that the Governor ensures that the Accounting Office fast-tracks the process of approval of the nominated board members by the County Assembly, as required by Section 21(3) of the Lamu County Bursary Fund Act, 2019.**

### **3. Irregular Award of Bursaries**

The statement of financial performance reflects expenditure on scholarship and other educational benefits totalling to Kshs.77,378,408 as disclosed in Note 7B to the financial statements.

Review of the documents provided for audit revealed that the Board awarded bursaries and scholarships totalling to Kshs.1,214,000 to one hundred and fifty (150) students whose forms were not approved by the Ward Bursary Committees.

In addition, the expenditure included bursary and scholarships of Kshs.18,541,000 awarded to beneficiaries in Basuba and Witu Wards. However, the two (2) Wards did not have Ward Bursary Committees. This was contrary to Section 16 of the Lamu County Bursary Fund Act, 2019 which requires that the bursary application forms to be signed by Ward Bursary Committees.

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

### **Management Response**

The beneficiaries for the Basuba and Witu wards were continuing students. Since the committees were not in place, the county bursary and scholarship board had to verify and approve payments.

### **Committee Observations**

The Committee observed that the management board approved the bursaries for continuing students, due to lack of a functional ward bursary committee.

### **Committee Recommendations**

**The Committee recommends that the Governor ensures that the Accounting Officers fast-tracks the instituting the ward bursary committee, to sign the ward application forms, as required by Section 16 of the Lamu County Bursary Fund Act, 2019 .**

#### **4. Failure to Acknowledge Receipt of Bursary and Scholarship Awards**

Review of the documents provided for audit revealed that the Fund Board awarded bursary and scholarship totalling to Kshs.8,636,000 and disbursed to various Institutions. However, no acknowledgement letters or receipts from the recipient Institutions or beneficiaries were provided for audit review.

This was contrary to Section 16(7) of the Lamu County Bursary Fund Act, 2019 which requires that all scholarship beneficiaries must submit their progress report for that particular year for students on scholarship and a cash receipt for the last allocation.

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

#### **Management Response**

Progress reports and cash receipts for that particular year for students on scholarship were attached to the application forms. However, acknowledgement of cash receipts of Kshs.8,636,000 was not attached to the allocation due to the late submission of funds to schools, which was done from March to June 2025.

These payments were mostly awarded to beneficiaries in schools outside the county, which submits receipts at the end of the academic year when they get back home for holidays. The Board currently has receipts worth 2,609,000 from the amount. More students are still submitting.

#### **Committee Observations**

The Committee observed that the management failed to submit the acknowledgement letters or receipts from the recipient Institutions or beneficiaries, as required by Section 16(7) of the Lamu County Bursary Fund Act, 2019.

#### **Committee Recommendations**

**The Committee recommends that the Governor ensures that the management leverages on technology to submit receipts digitally on timely, in accordance with Section 16(7) of the Lamu County Bursary Fund Act, 2019.**

#### **5. Payments Outside the Mandate of The County Government**

During the period under review, the County spent Kshs.77,378,408 in respect of scholarships and other educational benefits for issuance of bursaries and scholarships. The scholarships are to assist students to obtain education at such recognized Institutions and to fund other education activities.

However, review of the awards revealed that the expenditure was in respect to functions that are under the mandate of National Government contrary to the fourth schedule (Article 185 (2), 186 (1) and 187 (2)) on distribution of functions between the National Government and the County Governments part 2 under paragraph 9 which indicates that the County Governments are responsible for Pre-primary education, village polytechnics, homecraft centers and childcare facilities.

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

### **Management Response**

County Government recognizes the fourth schedule, but cannot be read in isolation with Article 53 (b), which recognizes and affirms education as a fundamental right of children. The subject matter is currently resolved by the intergovernmental agreement with the Ministry of Education that enables the County to pay bursaries and scholarships to schools.

### **Committee Observations**

The Committee observed that subject matter currently resolved by intergovernmental agreement with ministry of Education.

### **Committee Recommendations**

**The Committee recommends that the Governor ensures that the Accounting Officer fast-tracks the resolution process between the county government and the national government.**

#### **4.2. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR LAMU COUNTY CLIMATE CHANGE FUND FOR THE FINANCIAL YEAR 2024/2025.**

The Governor of Lamu County, Hon. Issa Timmamy, EGH appeared before the Committee on Thursday, 21st January, 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Lamu County Climate Change Fund for the Financial Year 2024/2025.

The Governor was accompanied by;-

1. Amb. Ali Abbas- County Secretary
2. Mr. Mohamed Ali- CECM Finance and Economic Planning
3. Mrs. Salma Osman- Chief Officer Finance
4. Mr. Mohamed Abbas- Director Accounting Services
5. Mohamed Rashid Dirie- Chief Officer, Climate Change

#### **REPORT ON THE FINANCIAL STATEMENTS**

The Auditor-General rendered an Unqualified Opinion on the financial statements of the Lamu County Climate Change Fund on the following basis; -

##### **Inaccurate Accumulated Surplus and Net Assets Balance**

The statement of financial position reflects accumulated surplus and net assets balance of Kshs.73,576,512 while the statement of changes in net assets reflects corresponding accumulated surplus and net assets balance of Kshs.84,458,939 resulting to unexplained variance of Kshs.10,882,427. In the circumstances, the accuracy and completeness of accumulated surplus and net assets balance of Kshs.73,576,512 could not be confirmed.

##### **Management Response**

Management notes the variance between the accumulated surplus and net assets balances as reported in the Statement of Financial Position and the Statement of Changes in Net Assets. The difference arose from an amount that was erroneously recognized in the previous financial period.

During the current financial year, management reviewed the assets and established that they are owned and controlled by the County Executive. As a result, the assets are no longer recognized in the financial statements of the current period FY 2024/2025.

The adjustments were effected through journal entries to align the accumulated surplus and asset balances. An Extract of Financial Statement 2024-2025 and Journal Entry was attached for the Committee verification.

##### **Committee Observations**

The Committee observed that Journal Voucher supporting the adjustment was provided. However, the adjusted supporting ledger and trial balance were not provided and therefore the variance was not reconciled.

### **Committee Recommendations**

#### **The Committee recommends that-**

- i. The Governor, through the Accounting Officer, should ensure compliance to Regulation 104(1) of the Public Finance Management (County Government) Regulations which states that the accounting officer of a procuring entity to set up an inventory management system which shall be managed by the head of the procurement function, for the purpose of control and managing its inventory, stores; and**
- 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.**

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

#### **Unbalanced Budget**

The statement of comparison of budget and actual amounts reflects a final revenue budget of Kshs.156,697,125 and a final expenditure budget of Kshs.89,951,229 resulting to a budgeted surplus of Kshs.66,745,896. This was contrary to Regulation 31 of the Public Finance Management (County Governments) Regulations, 2015 which states that unless provided otherwise in the Act, these Regulations or any other guidelines developed in furtherance of the Act or these Regulations, at all times during budget formulation and approval all revenue and expenditure shall be entered into the County Government budget estimates; expenditure entered in County Government budget estimates shall be authorized for one (1) financial year only; and budget revenue and expenditure appropriations shall be balanced.

In addition, the actual surplus for the period of Kshs.66,745,896 under the actual on comparable basis column was not disclosed.

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

### **Management Response**

Management acknowledges the audit observation regarding the unbalanced budget. The budgeted surplus arose due to omissions and timing differences during the budget formulation and approval process, which resulted in revenue and expenditure not being fully aligned.

Corrective measures have since been taken to ensure that future budgets are balanced in compliance with the Public Finance Management Act and its Regulations.

These measures include enhanced review and reconciliation procedures during budget preparation and approval, as well as strengthened oversight to ensure full disclosure of budgetary and actual performance information.

### **Committee Observations**

The Committee observed that the corrective measures have been put in place to ensure balanced budgets.

### **Committee Recommendation**

**The Committee recommends that the matter be marked as resolved.**

	PROCESSED AID
DATE	
TABLED BY	
COMMITTEE	
CLERK AT THE TABLE	

**4.3. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR LAMU COUNTY EMERGENCY FUND FOR THE FINANCIAL YEAR 2024/2025**

The Governor of Lamu County, Hon. Issa Timmamy, EGH appeared before the Committee on Thursday, 16<sup>th</sup> March 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Lamu County Emergency Fund for the Financial Year 2024/2025.

The Governor was accompanied by:-

1. Amb. Ali Abbas- County Secretary
2. Mr. Mohamed Ali- CECM Finance and Economic Planning
3. Mrs. Salma Osman- Chief Officer Finance
4. Mr. Mohamed Abbas- Director Accounting Services

**REPORT ON THE FINANCIAL STATEMENTS**

The Auditor-General rendered an Unqualified Opinion on the financial statements of the Lamu County Emergency Fund on the following basis; -

**Other Matter**

**Unresolved Prior Year Matters**

In the prior year audit report, one (1) issue was raised under the Report on Financial Statements and two (2) issues under the Report on Lawfulness and Effectiveness in the Use of Public Resources. These include unsupported emergency payments, non-compliance with public sector accounting standards board reporting requirements and non-notification of emergency payments to County Assembly.

Review of the status during audit of the Fund in 2024/2025 revealed that two (2) issues on unsupported emergency payments and non-notification emergency payments to County Assembly remained unresolved.

**Management Response**

<b>Issue</b>	<b>Key Issue</b>	<b>Action Required</b>	<b>Auditor Comments</b>	<b>Management remarks</b>
Unsupported emergency payments	Distribution list not provided Work tickets, registration numbers, packing list	Provide the documentation	Issue addressed	The requested document was provided as below Distribution list Work tickets, registration numbers, packing list, and destinations was

	and destinations not provided			disclosed issue was discussed at the Senate.
Non-compliance with the PSASB reporting template	Inadequate disclosure of information	Adequate of disclosure	Issue not addressed	The financial statements were submitted, which incorporated updated information and were reported accurately in all material respects.
Non notification of emergency payments to the County Assembly	Breach of law	Notification to the county assembly	Issue not addressed	In compliance with Section 114(1) and (3) of the Public Finance Management Act, 2012, the County Executive Committee Member for Finance duly notified the County Assembly of the utilization of the emergency fund within the stipulated period. Copies of the notification letters, which were received by the Assembly, are attached and resubmitted herewith for your reference.

The management wishes to clarify that all the mentioned documents were provided and verified during the Senate committee sitting, and the issue was fully addressed. The Senate committee mandated the OAG office to follow up with the County Assembly on the

submission of the approval since the County Executive had proven that they had submitted the request for approval to the County Assembly.

### **Committee Observations**

The Committee observed that the management is progressively addressing the issues raised by the auditor in the prior year financial audit.

### **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 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.**

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES**

### **Basis for Conclusion**

#### **1. Irregular and Unapproved Emergency Expenses**

Review of the Fund bank account revealed that as at the beginning of the financial year 2024/2025 the Fund had a bank balance of Kshs.7,773,006 after having spent Kshs.29,480,152 in 2023/2024 financial year.

However, evidence that the CECM caused a draft of the Appropriation Bill to be introduced in the County Assembly for the appropriation of the money paid for the replenishment of the County Government's Emergency Fund to the extent of the amount of the payment was not provided.

This was contrary to Section 114(1) and (3) of Public Finance Management Act, 2012 which states that as soon as practicable after the County Assembly has approved the payment, the County Executive Committee Member for Finance shall cause a draft of the Appropriation Bill to be introduced in the County Assembly for the appropriation of the money paid for the replenishment of the County Government's Emergency Fund to the extent of the amount of the payment.

In addition, during the period under review, Lamu County Emergency Fund paid an amount totalling Kshs.11,960,643 in respect to emergency expenses. The expenditure included

mitigation measures in relief food supply, disease outbreak control and monetary relief for victims affected by fire.

However, the County had an approved budget during the year under review of Kshs.5,000,000 on drought contingency (item 2640203), Department of Devolution, Disaster Management and Resource Mobilization, where this expenditure could have been catered from before utilizing the emergency funds.

This was contrary to Section 112 (1) of Public Finance Management Act, 2012 which states that the County Executive Committee Member for Finance may make payments from the County Government's Emergency Fund only if he or she is satisfied that there is an urgent and unforeseen need for expenditure for which there is no legislative authority and shall be in accordance with operational guidelines made under regulations approved by Parliament and the law relating to disaster management.

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

### **Management Response**

Management notes the audit observation regarding the failure by the County Executive Committee Member (CECM) for Finance to cause a draft Appropriation Bill to be introduced to the County Assembly for the replenishment of the Emergency Fund as required under Section 114(1) and (3) of the Public Finance Management Act, 2012.

Management clarifies that at the material time, the County Executive did not have available direct funds to support the introduction of a standalone Appropriation Bill for the replenishment of the Emergency Fund. Any replenishment of the Emergency Fund at the time could only have been effected through a Supplementary Budget.

Notwithstanding the above, it is important to note that the County Executive subsequently made deliberate budgetary allocations to the Emergency Fund in the subsequent financial years. Specifically, funds for the Emergency Fund were provided for in the County budgets for the Financial Years 2024/2025 and 2025/2026, both of which were duly approved by the County Assembly and appropriated through the respective Appropriation Acts. A copy of the Budget FY 2024/2025 and 2025/2026 was attached for the committee verification.

The Emergency Fund was utilized in line with its mandate to address urgent and unforeseen situations that required immediate response. The specific emergencies encountered required prompt intervention to mitigate further loss and suffering.

The County had an approved budget during the year under review, amounting to Kshs. 5,000,000 under drought contingency (Item 2640203) in the Department of Devolution, Disaster Management and Resource Mobilization, from which this expenditure could have been catered for before utilizing emergency funds.

However, this issue was previously raised during the in-year audit, and management provided clarification as follows:

At the time of procuring the relief food, the vote book for the Department of Devolution, Disaster Management, and Resource Mobilization reflected an available balance of Kshs. 1,050,500, and not Ksh 5,000,00. (Kshs1,050,500,) This amount had been primarily budgeted for water trucking activities.

The procurement of relief food required a total budget of Ksh. 4,728,000, Disease outbreak control, which involved Ksh 1,483,156 and assisting the victims of fire, Ksh 500,00. Therefore, Ksh 1,050,500 which was available in the vote book, was significantly insufficient to cater for the proposed expenses. Given the urgent nature of the situation, the Chief Officer for the department formally notified the CECM for Finance, who subsequently sought and obtained approval from the County Executive Committee to utilize emergency funds to cater for the expenditure.

A copy of the Vote Book extract, letter from the Chief Officer Devolution, letter from CECM Health and letter from the CECM Finance, and minutes of the County Executive approval were attached for the committee recommendation.

#### **Committee Observation**

The Committee observed that;-

- i. the utilization of the Emergency Fund under these circumstances was irregular and in contravention of Sections 112(1) and 114(1) and (3) of the Public Finance Management Act, 2012.
- ii. The management however submitted the draft of the Appropriation Bill to be introduced in the County Assembly for the appropriation of the money paid for the replenishment of the County Government's Emergency Fund to the extent of the amount of the payment.

#### **Committee Recommendations**

The Committee recommends that;-

- i. **The Governor ensures that County Executive Committee for Finance issues a circular to all Accounting Officers and Chief Officers reiterating the legal parameters governing the utilization of the Emergency Fund as set out in Section 112 of the PFM Act, 2012, emphasizing that the Fund shall only be accessed where there is absolutely no legislative authority (budget provision) for the urgent and unforeseen expenditure.**
- ii. **The Chief Officer, Department of Devolution, Disaster Management and Resource Mobilization shall ensure that in future, budget utilization for**

**disaster response is prioritized from existing approved allocations, and where additional funds are required, a supplementary budget shall be sought before resorting to the Emergency Fund.**

- iii. The Auditor-General shall verify compliance with the above recommendations during the subsequent audit of the County Government for the financial year 2025/2026 and report accordingly.**

## **2. Irregular Procurement of Emergency Relief Food Supplies**

Review of records during the period under review revealed that Management paid Kshs.4,728,000 to a local supplier for the supply and delivery of emergency relief food items.

The food items were supplied under tender No: CGL/DP/DDMRB/003/2024/2025, which was supported with Local Purchase Order (LPO) No: 3177453/4 dated 10 February, 2025; invoice and delivery note dated 28 February, 2025 and counter receipt voucher (S13) No.2000607/8 dated 28 February, 2025.

However, the procurement and prices charged were contrary to directive of the Supplies Branch in the State Department for Public Works under the Ministry of Lands, Public Works, Housing and Urban Development issued through circular Ref: SDPW/SB/001A/22-24 dated 25 September, 2023 which provided the list of suppliers awarded framework contracts and the agreed prices, to user Ministries/Departments, County Governments and all Public Institutions including Schools for a two (2) year period ending 4 September, 2025.

In addition, the supplier is not included in the shortlist of firms in the contract and the prices applied in the Local Purchase Order were not supported by a market survey. In the circumstances, Management was in breach of the law.

### **Management Response**

Management notes the audit observation on the procurement of emergency relief food supplies amounting to Ksh. 4,728,000. The procurement was undertaken using the entity's duly approved and prequalified list of suppliers in accordance with the Public Procurement and Asset Disposal Act, 2015 and the applicable Public Procurement Regulations.

Management further clarifies that a market survey was conducted before the procurement to ascertain prevailing market prices, and the prices applied in the Local Purchase Order were based on the outcome of the market survey. The market survey report is attached for audit verification.

The procurement was carried out on an emergency basis to address urgent humanitarian needs, and the procedures followed were considered appropriate under the prevailing circumstances. Nonetheless, management has taken note of the directive issued by the Supplies Branch and will ensure that future procurements of a similar nature align with all applicable government framework contracts and circulars where applicable.

Kindly also note that the suppliers outlined in the said circular are not based in Lamu, thus procuring from these suppliers would have cost the County more due to transport costs. The nearest vendor is in Mombasa. Copies of the Market Survey report were availed for the committee verification.

### **Committee Observations**

#### **The Committee observed that;-**

- i. Despite Management's claim of using an approved prequalified list, the management did not adhere to the mandatory framework contract as required under the Public Procurement and Asset Disposal Act, 2015, which aims to ensure standardization, transparency, and value for money.
- ii. Although Management attached a market survey report, the prices applied in the Local Purchase Order were not benchmarked against the framework contract prices, raising concerns about cost efficiency.

### **Committee Recommendations**

#### **The Committee recommends that;-**

- i. **The Committee recommends that disciplinary action be taken against the procurement and accounting officers involved for failure to comply with binding procurement directives and for circumventing established procurement procedures without obtaining prior approval.**
- ii. **Management must ensure that all future procurements, including those deemed urgent, comply with mandatory framework contracts issued by the Supplies Branch unless a formal exemption is sought and granted by the relevant oversight authority. Any deviation must be supported by documented justifications and approved in writing.**
- iii. **The Accounting Officer should report to the Committee within 60 days on the implementation status of the above recommendations, including any recoveries made and disciplinary actions taken.**

#### **4.4 REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR LAMU COUNTY EXECUTIVE HOUSING FUND FOR THE FINANCIAL YEAR 2024/2025.**

The Governor of Lamu County, Hon. Issa Timmamy, EGH appeared before the Committee on Thursday, 16<sup>th</sup> March 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Lamu Executive Housing Fund for the Financial Year 2024/2025.

The Governor was accompanied by;-

1. Amb. Ali Abbas- County Secretary
2. Mr. Mohamed Ali- CECM Finance and Economic Planning
3. Mrs. Salma Osman- Chief Officer Finance
4. Mr. Mohamed Abbas- Director Accounting Services

#### **REPORT ON THE FINANCIAL STATEMENTS**

The Auditor-General rendered an Unqualified Opinion on the financial statements of the Lamu County Executive Housing Fund on the following basis; -

##### **1. Long Outstanding and Defaulted Loans**

The statement of financial position reflects current portion of long-term receivable balance of Kshs.1,959,334 and long-term receivables from exchange transactions balance of Kshs.4,160,000 as disclosed in Notes 19 and 29 to the financial statements.

As previously reported, review of the loan documents provided for audit revealed that a loan of Kshs.23,400,000 was disbursed to an officer on 9 July, 2019, at an interest rate of 3% and repayment period of thirty-six (36) months.

However, as at the time of the audit the loan was not fully repaid and a balance of Kshs.6,119,334 was outstanding as indicated below.

<b>No</b>	<b>Item description</b>	<b>Amount (Ksh)</b>
	Principal Amount	4,160,000
	Accumulated interest	1,959,334
	<b>Total</b>	<b>6,119,334</b>

The title deed used as collateral in case of default was not deposited with the Housing Loans Management Committee as at the time of audit. Further, the borrower was no longer an employee of the County Government of Lamu and had not given prior authority in writing for pension dues and any other employee benefits to be utilized to clear the debt in case the member loses his job before repaying the loan. Also, the fund administrative committee did not pass a resolution of converting the loan to commercial terms.

In the circumstances, the recoverability, accuracy and completeness of the long-term and current receivables from exchange transactions balance of Kshs.6,119,334 could not be confirmed.

### **Management Response**

The County Executive of Lamu acknowledges the audit observation. The borrower in question received a loan of Ksh 23,400,000 on 11th July 2019, with a thirty-six (36) months repayment period ending in July 2023. However, the borrower ceased employment with the County Government in October 2022 and has since defaulted on the loan repayment.

Despite the loan agreement requiring a title deed to be deposited as collateral, the borrower failed to submit the same to the Housing Loans Management Committee. As a result, the County Government has issued several demand letters to the borrower, and formal recovery proceedings have been initiated.

The matter has also been reported to the Ethics and Anti-Corruption Commission (EACC) for investigation and further enforcement action. Copies of the demand letters issued to the borrower and correspondence between the County executive and EACC were attached for the committee verification.

### **Committee Observations**

The Committee observed that the matter remains unresolved as it is under investigation by the Ethics and Anti-Corruption Commission.

### **Committee Recommendation**

**The Committee recommends that the EACC fast-tracks the investigation process on this matter, and gives a status report to the Senate and copy to the auditor general, within sixty (60) days from the date of adoption of his report.**

### **Other Matter Unresolved**

#### **Prior Year Matters**

In the prior year audit report, three (3) issues were raised, an issue in every section of the report, that is 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, respectively.

These issues included long outstanding and defaulted loan repayment, late submission of financial statements for audit and failure to effectively utilize appropriated funds. Review

of the status during audit of the Fund in 2024/2025 revealed that only the issue on long outstanding and defaulted loan repayment remained unresolved.

**Management Response**

<b>Issue</b>	<b>Key Issue</b>	<b>Action Required</b>	<b>Auditor Comments</b>	<b>Response</b>
Long-standing and defaulted loan repayment	Loan in default and officer no longer working with the county	Recovery of a defaulted loan	Issue not addressed	Please refer to the response above.
Late submission of financial statements	Four months after the close of the financial year	Ensure adherence to the law on submission	2024/22025 submitted in time Issue addressed	The issue resolved for the financial year 2024/2025 was submitted on time
Failure to effectively utilize appropriated funds	Failure to disburse loans	Ensure utilization of funds as intended	Issue not addressed	Please refer to the response 1. Underutilization of funds

**Committee Observation**

The Committee observed that the management of the water company is progressively implementing the recommendations of the auditor general and the committee on the prior year issues.

**Committee Recommendation**

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)(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 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.

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

## **Basis for Conclusion**

### **1. Underutilized County Funds**

The statement of financial position reflects a balance of Kshs.35,628,352 on cash and cash equivalents as disclosed in Note 27 to financial statements. The Fund had the same balance in the prior year and did not disburse any loan during the year under review.

The Fund therefore did not utilize its available resources during the year under review. No explanation was provided for keeping public funds idle at the expense of delivering services to the public.

In the circumstances, the effectiveness of the fund in meeting the intended purposes could not be confirmed.

### **Management Response**

The County Executive acknowledges the audit observation. During the period under review, the Lamu County Staff Housing Fund Committee did not receive any loan applications from staff members. Consequently, no loan disbursements were made.

It is important to note that the Fund remains active, and the County Executive is fully committed to issuing loans to eligible staff upon application. The lack of disbursement was not due to unwillingness or inaction by the Fund Committee, but rather the absence of applications from potential beneficiaries.

### **Committee Observations**

The Committee observed that Lamu County Staff Housing Fund held cash and cash equivalents amounting to Ksh. 35,628,352 as at the end of the financial year, a balance that remained unchanged from the prior year. During the year under review, the Fund did not disburse any loans to staff members as it did not receive any applications during the financial year under review.

### **Committee Recommendations**

**The Committee recommends that the Governor ensures that CECM Finance initiates the process the of winding up the Lamu County Executive Staff Housing fund, in accordance with the fund regulations and other applicable law by;-**

- i. Present a resolution to the County Assembly to repeal or amend the Lamu County Staff Housing Fund,**
- ii. Prepare a closure plan detailing the reallocation of the unutilized cash balance of Ksh. 35,628,352 to the County Revenue Fund or to alternative programs that directly address staff welfare or affordable housing needs.**

- iii. **Ensure that any outstanding liabilities are settled and that the closure is conducted in compliance with the Public Finance Management Act, 2012, and any relevant county legislation.**

## **2. Dysfunctional Loan Management Committee**

A review of the documents provided for audit revealed that the Housing Loan Management Committee was charged with running the operations of the Fund. However, the committee did not have any committee sitting during the year under review.

This was contrary to Section 109(6) of the Public Finance Management Act, 2012 which provides that the County Treasury shall obtain the written approval of the Controller of Budget before withdrawing money from the County Revenue Fund under the authority of an Act of the County Assembly that appropriates money for a public purpose; an Act of Parliament or county legislation that imposes a charge on that Fund; or this Act in accordance with sections 134 and 135.

In addition, Regulation 7(1) of the Lamu County Executive Staff Housing Fund Regulations, 2019 provides that there shall be a committee known as the Housing Loans Management Committee, which shall consist of the County Secretary (Chairperson), the Chief Officer of finance (Fund administrator), the County Chief Officer in charge of Public Service Management and Administration, the County Attorney or the person in charge of the County Legal Officer, the County Housing Officer and the County Director in charge of Human Resource.

Regulation 7(2) requires that the committee process loan applications in accordance with the existing terms of borrowing and supervise the day-to-day operations of the fund established by regulation 3.

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

### **Management Response**

The Loan Management Committee remains operational and continues to discharge its role in accordance with the Public Finance Management Act, 2012, and the applicable Fund Regulations. The Committee convened and deliberated on the recommendations of the Senate Committee, reviewed the status of defaulted loans, and considered progress on follow-up actions being undertaken by the Ethics and Anti-Corruption Commission (EACC).

During the same meeting, the Committee also discussed and guided on matters relating to the dissolution of the Fund, including the management of outstanding loan balances and

related obligations. The proceedings, deliberations, and decisions of the Committee are duly documented, and the approved minutes of the meeting are attached as evidence of continued functionality and effective oversight.

Management will ensure that the Loan Management Committee continues to meet as required during the transition period leading to the dissolution of the Fund. Outstanding loan recovery actions, including enforcement and investigative processes being undertaken by the EACC where applicable, will be monitored and periodically reported to the relevant oversight authorities.

### **Committee Observation**

The Committee observed that the fund is no longer functional, and that the committee had recommended for the winding up of the fund.

### **Committee Recommendation.**

#### Committee Recommendations

- i) The Committee recommends that the Governor ensures that CECM Finance initiates the process the of winding up the Lamu County Executive Staff Housing fund, in accordance with the fund regulations and other applicable law by;-**
- ii) Present a resolution to the County Assembly to repeal or amend the Lamu County Staff Housing Fund,**
- iii) Prepare a closure plan detailing the reallocation of the unutilized cash balance of Ksh. 35,628,352 to the County Revenue Fund or to alternative programs that directly address staff welfare or affordable housing needs.**
- iv) Ensure that any outstanding liabilities are settled and that the closure is conducted in compliance with the Public Finance Management Act, 2012, and any relevant county legislation.**

### **3. Failure to Enact an Act of The County Assembly**

Review of the records revealed that the County Executive Committee Member of Finance has not developed enabling Act for proper implementation of the Fund. This was contrary to Section 116(1) of the Public Finance Management Act, 2012 which states that a County Executive Committee Member for finance may establish other public funds with the approval of the County Executive Committee and the County Assembly.

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

### **Management Response**

Management clarifies that the County Executive did not develop a separate enabling Act for the implementation of the Housing Fund. The County Executive was guided by the Public Finance Management (PFM) Act, which is the primary legal framework governing county financial matters.

For the Housing Fund specifically, the County Executive operationalized the Fund through duly enacted Regulations, which were approved by the County Assembly and subsequently published in the Kenya Gazette. These Regulations therefore provide the legal and administrative basis for the implementation and management of the Housing Fund.

### Committee Observation

The Committee observes that the Management's response does not fully address the specific finding of the audit. The establishment of a public fund requires an enabling Act of the County Assembly to provide a distinct legal identity, governance structure, and specific accountability mechanisms for that fund.

Reliance solely on **Regulations**—which are subordinate to an existing Act—may not satisfy the explicit legislative intent of Section 116(1) regarding the formal establishment of a distinct public fund.

### Committee Recommendation

The Committee makes the following recommendation:

1. **Expedite the Enactment of an Enabling Act: The County Executive Committee Member for Finance should, within ninety (90) days of the adoption of this report, develop and submit to the County Assembly a draft County Housing Fund Bill (or Enabling Act); and**
2. **County Executive is advised to strictly adhere to the statutory provisions of the PFM Act by initiating the establishment of public funds through the proper legislative channel (County Assembly Act) rather than relying solely on subsidiary legislation (Regulations).**

PAPERS LAID	
DATE	26/3/2026
TABLED BY	Sen Cherony
COMMITTEE	C.P.F. & S.F.
CLERK AT THE TABLE	Belinda

# ANNEXTURES

Minutes

PAPERS LAID	
DATE	26/3/2026
TABLED BY	Sen. Cheraucey
COMMITTEE	CPS & S.F
CLERK AT THE TABLE	Belinda



**13<sup>TH</sup> PARLIAMENT 5<sup>TH</sup> SESSION**

**MINUTES OF THE FIFTY FIRST SITTING OF THE COUNTY PUBLIC INVESTMENTS AND SPECIAL FUNDS COMMITTEE HELD ON TUESDAY, 24<sup>TH</sup> MARCH 2026 IN COMMITTEE ROOM 10, BUNGE TOWER AT 3.00 P.M.**

**PRESENT**

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

**ABSENT WITH APOLOGY**

- |                                 |                    |
|---------------------------------|--------------------|
| 9. Sen. Eddy Gicheru Oketch, MP | - Vice-Chairperson |
|---------------------------------|--------------------|

**SECRETARIAT**

- |                      |                       |
|----------------------|-----------------------|
| 1. Mr. Yussuf Shimoy | - Clerk Assistant I   |
| 2. Mr. Godfrey Nyaga | - Clerk Assistant III |
| 3. Mr. Khatib Omar   | - Clerk Assistant III |
| 4. Mr. Victor Kimani | - Audio officer       |

**A. OFFICE OF THE AUDITOR GENERAL**

Mr. Mark Gachanja                      Liasion

**B. ETHICS AND ANTI CORRUPTION COMMISION**

Mr. Patrick Kinoti                      -Liaison Officer

**MIN. NO. SEN/CPICSF/377/2026              PRAYER**

The meeting was called to order by the Chairperson at ten minutes past three O'clock in the afternoon followed by a word of prayer.

**MIN. NO. SEN/CPICSF/378/2026      ADOPTION OF THE AGENDA**

The agenda of the meeting was adopted having been proposed by Sen. Agnes Kavindu Muthama, MP and seconded by Sen. George Mungai Mbugua, 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/379/2026      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 (1<sup>st</sup> July, 2024 to 30<sup>th</sup> June, 2025)-

1. Embu Report

Sector	No.	Entity
Water Companies	4	Ngandori water and sanitation company
		Nyagaka water and sanitation
		Embe water and sanitation company limited
		Embu water and sanitation company
Municipality	1	Embu municipality
Hospitals	4	Embu level 5 hospital
		Mbeere sub county hospital
		Runyenjes sub county hospital
		Ishiara sub county hospital
Funds	5	Embu county education support fund
		Embu county climate change fund
		Embu county executive car & mortgage fund
		Embu county government emergency fund

## 2. Kirinyaga Report

Sector	No.	Entity
Water Companies	2	Kirinyaga County Water and Sanitation plc(KICOWASCO)
		Rukanga Makutano Water and Sanitation plc. (RUMAWASCO)
Municipalities	1	Kerugoya -kutus municipal
Hospitals	3	Sagana sub - county level 4 hospital
		Kianyaga sub county level 4 hospital
		Kimbimbi sub county level 4 hospital
Funds	6	Kirinyaga county executive emergency fund
		County Government of Kirinyaga Executive Mortgage Fund
		Kirinyaga executive car loan & mortgage fund
		Kirinyaga county alcoholic drinks control fund
		Kirinyaga county climate change fund
		Kirinyaga county executive bursary fund

## 3. Lamu

Sector	No	Entity
Water company	1	Lamu water and sewerage company limited.
Municipality	1	Lamu municipality
Hospitals	3	Lamu county referral hospital
		Faza sub-county hospital
		Mpeketoni sub-county hospital
Funds	4	Lamu county bursary and scholarship fund

		Lamu county climate change fund
		Lamu county emergency fund
		Lamu county executive staff housing fund.

#### 4. Mandera Report

Sector	No.	Entity
Water companies	2	Mandera water and sewerage company (MANDWASCO)
		Elwak water and sanitation company
Municipalities	2	Elwak municipality
		Mandera municipality
Hospital	7	Banisa Sub-County Hospital Kotulo Sub-County Referral Hospital Lafey Sub-County Hospital Mandera Central Sub- County Hospital Mandera County Referral Hospital Mandera North Sub- County Hospital Mandera West Sub-County Hospital
Funds	2	Mandera county climate change fund
		Mandera county education bursary fund

#### 5. Mombasa Report

Sector	No.	Entity
Water company	1	Mombasa water supply and sanitation company
Hospitals	5	Likoni sub-county level 4 hospital
		Tudor sub-county level 4 hospital
		Mrima sub-county level 4 hospital

		Portreitz Sub-County level 4 hospital
		Coast General Teaching & Referral Hospital
Funds	2	Mombasa Alcohol Drinks Control Fund
		Mombasa County Elimu Scheme

#### 6. Murang'a Report

Sector	No.	Entity
Water companies	5	Gatamathi water and sanitation company Gatanga water and sanitation plc Kahuti (Murang'a west) water and sanitation company limited Murang'a south water and sanitation company (MUSWASCO) Murang'a water and sanitation company (MUWASCO) limited
Municipalities	3	Kangari Municipality Kenol Municipality Murang'a Municipality
Hospitals	4	Kandara Sub-County Hospital Kigumo level 4 hospital Maragua Sub- County level 4 hospital Murang'a level 5 hospital
Funds	4	Murang'a county government education and scholarship fund Murang'a county agricultural farm inputs subsidy & incentive fund (afis fund) Murang'a county climate change fund Murang'a county youth fund

### 7. Nyamira Report

sector	no.	entity
Municipality	1	Nyamira municipality
Hospitals	4	Esani level 4 hospital
		Manga level 4 hospital
		Masaba level 4 sub-county hospital
		Nyamira county referral hospital
Funds	4	Nyamira county education support fund
		Nyamira county emergency fund
		Nyamira county mortgage & car loan (executive) fund
		Nyamira county climate change fund

### 8. Tana River Report

Sector	No.	Entity
Water company	1	Tana River Water and Sanitation Company Limited
Municipality	1	Hola municipality
Funds	3	Tana river county climate change fund
		Tana river county disaster risk management fund
		Tana river county ward bursary fund

### 9. Tharaka Nithi Report

Sector	No.	Entity
Water company	1	Nithi water and sanitation company limited
Municipalities	2	Chuka municipality
		Kathwana municipality
Hospitals	3	Chuka referral hospital

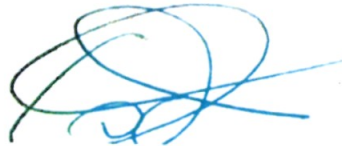
4. Iten County Referral Hospital
5. Tambach Sub-County Hospital
6. Elgeyo Marakwet County Assembly Catering Services Revolving Fund
7. Elgeyo Marakwet Alcoholic Drinks and Control Fund-Executive
8. Elgeyo Marakwet Car and Mortgage Revolving Fund-Executive
9. Elgeyo Marakwet County Climate Change Fund
10. Elgeyo Marakwet Education Fund-Executive.

**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 forty-five minutes past five o'clock in the afternoon. The next meeting would be called on notice.



**SIGNED: ..... DATE: 24/3/2026**

**(CHAIRPERSON: SEN. GODFREY ATIENO OSOTSI, CBS, MP.)**