

REPUBLIC OF KENYA



THE SENATE

THIRTEENTH PARLIAMENT – FIFTH SESSION

**Rt. Hon. Speaker**  
You may approve for tabling  
J. M. Nyegenye, C.B.S.,  
Clerk of the senate/ secretary, PSC  
Date: 25/03/26

REPORT OF THE SELECT COMMITTEE ON COUNTY PUBLIC INVESTMENTS AND SPECIAL FUNDS ON THE CONSIDERATION OF THE AUDIT REPORTS OF MOMBASA COUNTY WATER COMPANY, HOSPITALS AND FUNDS FOR THE FINANCIAL YEAR 2024/2025

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
		PORT REITZ SUB-COUNTY LEVEL 4 HOSPITAL
		COAST GENERAL TEACHING & REFERRAL HOSPITAL
FUNDS	2	MOMBASA ALCOHOL DRINK CONTROL FUND
		MOMBASA COUNTY ELIMU SCHEME

26/03/26

MARCH, 2026

PAPERS LAID	
DATE	26/3/2026
TABLED BY	Sen. Cheruacey
COMMITTEE	CPI&SF
CLERK AT THE TABLE	Belindol

APPROVED  
J.M. NYEGENYE  
1

**TABLE OF CONTENTS**

**ABBREVIATIONS** ..... 4

**PREFACE** ..... 8

**COMMITTEE MEMBERSHIP** ..... 9

**ESTABLISHMENT OF THE COMMITTEE** ..... 10

**EXECUTIVE SUMMARY** ..... 11

**REPORT STRUCTURE**..... 12

**GENERAL OBSERVATIONS FOR THE WATER COMPANY** ..... 13

**GENERAL RECOMMENDATIONS FOR WATER COMPANY**..... 13

**GENERAL OBSERVATIONS FOR THE HOSPITALS** ..... 15

**GENERAL RECOMMENDATIONS FOR HOSPITALS**..... 16

**GENERAL OBSERVATIONS FOR THE FUNDS** ..... 19

**GENERAL RECOMMENDATIONS FOR THE FUNDS**..... 20

**CHAPTER ONE: WATER COMPANY** ..... 25

**1.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR MOMBASA WATER SUPPLY AND SANITATION COMPANY LIMITED FOR THE FINANCIAL YEAR 2024/2025.**..... 25

**CHAPTER TWO: HOSPITAL** ..... 41

**2.1 REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR LIKONI SUB-COUNTY LEVEL 4 HOSPITAL FOR THE FINANCIAL YEAR 2024/2025.**  
    41

**2.2 REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR TUDOR SUB-COUNTY LEVEL 4 HOSPITAL FOR THE FINANCIAL YEAR 2024/2025.**  
    50

**2.3 REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR MRIMA SUB-COUNTY LEVEL 4 HOSPITAL FOR THE FINANCIAL YEAR 2024/2025.**  
    68

**2.4 REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR PORT REITZ SUB-COUNTY LEVEL 4 HOSPITAL FOR THE FINANCIAL YEAR 2024/2025.**..... 87

**2.5 REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR COAST GENERAL TEACHING AND REFERRAL HOSPITAL (CGTRH)FOR THE FINANCIAL YEAR 2024/2025.**..... 112

**CHAPTER THREE: FUND** ..... 114

**3.1 REPORT OF THE AUDITED FINANCIAL STATEMENTS ON  
MOMBASA ALCOHOLIC DRINK CONTROL FUND FOR THE FINANCIAL  
YEAR 2024/2025 ..... 114**

**3.2. REPORT ON THE AUDITED FINANCIAL STATEMENTS ON  
MOMBASA COUNTY ELIMU SCHEME FOR FINANCIAL YEAR 2024/2025**

128

## **ACRONYMS/ABBREVIATIONS**

<b>AFD</b>	French Development Agency (Agence Française de Développement)
<b>AGPO</b>	Access to Government Procurement Opportunities
<b>AIE</b>	Authority to Incur Expenditure
<b>API</b>	Application Programming Interface
<b>BoQ</b>	Bill of Quantities
<b>CBS</b>	Chief of the Order of the Burning Spear (award title)
<b>CBK</b>	Central Bank of Kenya
<b>CCO</b>	County Chief Officer
<b>CCTV</b>	Closed-Circuit Television
<b>CECM</b>	County Executive Committee Member
<b>CIS</b>	Customer Identification Survey
<b>CLSG</b>	Conditional Liquidity Support Grant
<b>COB</b>	Controller of Budget
<b>COG</b>	Council of Governors
<b>CPIC</b>	County Public Investments and Special Funds Committee
<b>CT</b>	Computed Tomography
<b>CWWDA</b>	Coast Water Works Development Agency
<b>DMA</b>	District Metering Area
<b>DPP</b>	Director of Public Prosecution
<b>EACC</b>	Ethics and Anti-Corruption Commission
<b>EGH</b>	Elder of the Golden Heart (award title)
<b>ENT</b>	Ear, Nose, and Throat
<b>ERP</b>	Enterprise Resource Planning
<b>FY</b>	Financial Year
<b>GAAP</b>	Generally Accepted Accounting Principles
<b>GIS</b>	Geographical Information System
<b>HDPE</b>	High-Density Polyethylene
<b>HDU</b>	High Dependency Unit

## **ACRONYMS/ABBREVIATIONS**

<b>HIMS</b>	Hospital Information Management System
<b>HMIS</b>	Health Management Information System
<b>HMT</b>	Hospital Management Team
<b>ICU</b>	Intensive Care Unit
<b>ICT</b>	Information and Communications Technology
<b>IDA</b>	International Development Association (World Bank)
<b>IFMIS</b>	Integrated Financial Management Information System
<b>IFRS</b>	International Financial Reporting Standards
<b>IGRTC</b>	Intergovernmental Relation Technical Committee
<b>IPA</b>	Intergovernmental Participatory Agreement
<b>IPSAS</b>	International Public Sector Accounting Standards
<b>IT</b>	Information Technology
<b>KEMSA</b>	Kenya Medical Supplies Authority
<b>KQMH</b>	Kenya Quality Model for Health
<b>KRA</b>	Kenya Revenue Authority
<b>MD</b>	Managing Director
<b>MOWASSCO</b>	Mombasa Water Supply and Sanitation Company Limited
<b>MP</b>	Member of Parliament
<b>MRI</b>	Magnetic Resonance Imaging
<b>MSF</b>	Médecins Sans Frontières (Doctors Without Borders)
<b>NESP</b>	National Equipment Service Programme
<b>NHIF</b>	National Hospital Insurance Fund
<b>NRW</b>	Non-Revenue Water
<b>NSSF</b>	National Social Security Fund
<b>OAG</b>	Office of the Auditor-General
<b>OB/GYN</b>	Obstetrics and Gynecology
<b>PAA</b>	Public Audit Act

## **ACRONYMS/ABBREVIATIONS**

<b>PFM</b>	Public Finance Management
<b>PPB</b>	Pharmacy and Poisons Board
<b>PPDA</b>	Public Procurement and Asset Disposal Act
<b>PSASB</b>	Public Sector Accounting Standards Board
<b>PWDs</b>	Persons with Disabilities
<b>ROR</b>	Receiver of Revenue
<b>SDG</b>	Sustainable Development Goal
<b>SHA</b>	Social Health Authority
<b>SHIF</b>	Social Health Insurance Fund
<b>SLA</b>	Service Level Agreement
<b>SO</b>	Standing Orders
<b>SRC</b>	Salaries and Remuneration Commission
<b>UHC</b>	Universal Health Coverage
<b>WASREB</b>	Water Services Regulatory Board
<b>WRA</b>	Water Resources Authority

## 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 management of the organization 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 of opinion:** This is an opinion issued by an auditor when the scope of the audit is limited, and the auditor cannot gather enough evidence to form an opinion on the financial statements.

## **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 Mombasa County water companies, Hospitals and funds for the Financial Year 2024/2025. The entities considered include Mombasa Water Supply and Sanitation Company, Likoni Sub-County Level 4 Hospital, Tudor Sub-County Level 4 Hospital, Mrima Sub-County Level 4 Hospital, Port Reitz Sub-County Level 4 Hospital and Coast General Teaching and Referral Hospital and Mombasa Alcohol Drink control Fund and Mombasa County Elimu Scheme.

The Governor of Mombasa 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 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        | - Serjant-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 Mombasa water companies, hospitals, and Funds 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 investigations. The Committee invited the Governor of Mombasa as the Chief Executive Officer pursuant to Article 179(4) as a witness to respond to the audit queries raised in the reports under consideration.

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

This report presents the findings and recommendations of the Select Committee on County Public Investments and Special Funds following its consideration of the Auditor-General's reports on eight (8) entities in Mombasa County for the Financial Year 2024/2025. The entities covered were: one (1) water company – Mombasa Water and Sewerage Company (MOWASSCO); five (5) Hospitals- Likoni Sub-County Level 4 Hospital Mrima Sub-County Level 4 Hospital, Port Reitz Sub-County Level 4 Hospital, Tudor Sub-County Level 4 Hospital and Coast General Teaching and Referral Hospital and two (2) funds – Mombasa Alcohol Control Fund and the Mombasa County Elimu Fund.

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

The key issues identified across the entities reveals that Mombasa County Water Company is in a precarious financial state with excessive Non-Revenue Water of 62% and operates without a valid license, while hospitals face critical staffing deficits, lack essential equipment, and lack functional governance structures. The County funds suffer from catastrophic under-expenditure, lack of autonomy, and systemic misrepresentation in financial reporting, with the Alcoholic Drink Control Fund unable to access its legally mandated resources and the Elimu Scheme overstating its position by KES 160.9 million.

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 report of the Auditor-General for Mombasa County Water Company for the Financial Year 2024/2025 and observations and recommendations of the Committee on each audit query.

**CHAPTER TWO** is a record of the audit queries raised in the report of the Auditor-General for Mombasa County Hospitals for the Financial Year 2024/2025 and observations and recommendations of the Committee on each audit query.

**CHAPTER THREE** is a record of the audit queries raised in the report of the Auditor-General for Mombasa Alcohol Fund and Mombasa County Elimu Fund for the Financial Year 2024/2025 and observations and recommendations of the Committee on each audit query.

## **GENERAL OBSERVATIONS FOR THE WATER COMPANY**

The Committee made the following general observations on Mombasa County Water Company (MOWASSCO).

- 1. Precarious Financial Position (Technical Insolvency):** The company is in a critical financial state, characterized by negative working capital (current liabilities far exceeding current assets) and substantial accumulated losses exceeding KShs. 2.26 billion. This raises material uncertainty about its ability to continue as a going concern without external support from the County Government and Donor partners.
- 2. Excessive Non-Revenue Water (NRW):** The company's NRW level stands at an alarming 62%, far exceeding the 25% benchmark set by WASREB. This represents a massive loss of potential revenue (estimated at KShs. 1.2 billion) and fundamentally undermines the company's financial viability and operational efficiency.
- 3. Regulatory Non-Compliance:** The company operated without a valid license from WASREB after its expiry in August 2024, constituting a direct breach of the Water Act, 2016. Additionally, staff earnings fell below the legal threshold, contravening the Employment Act, 2007.
- 4. Weak Financial Reporting and Asset Management:** The financial statements contained material inaccuracies, such as the misclassification of a World Bank disbursement. Furthermore, there are deficiencies in asset management, evidenced by grounded motor vehicles lacking proper disposal plans and inspection reports, risking the deterioration and loss of value of public assets.
- 5. High Level of Pending Bills:** The company has a significant trade and other payables balance (KShs.2.33 billion), with a large portion outstanding for over 120 days. This indicates severe cash flow challenges and an inability to meet financial obligations to key creditors like CWWDA and WASREB.
- 6. Persistent Unresolved Prior Year Matters:** Nine (9) audit issues from previous financial years remained unresolved, including long-outstanding payables, grounded assets, stalled projects, and the environmental hazard of raw sewer discharge. This demonstrates a systemic failure to implement corrective actions.

## **GENERAL RECOMMENDATIONS FOR WATER COMPANY**

The Committee makes the following general recommendations with respect to MOWASSCO.

- 1. Develop and Implement a Financial Recovery Plan:** The Governor should ensure that the MOWASSCO Board and Management develop and submit a comprehensive short-term turnaround strategy within 60 days. This plan must bridge the gap between

the current liquidity crisis and long-term infrastructure projects, with clear timelines, revenue-enhancement strategies, and strict cost-containment measures.

2. **Expedite Regulatory Compliance:** The Governor should ensure that the company expedites its license renewal process with WASREB, aiming for full compliance within 60 days. This includes resolving any related issues such as the pending tariff review and ensuring all staff earnings comply with the Employment Act.
3. **Implement an Aggressive NRW Reduction Strategy:** The Governor should ensure that the company demonstrates the impact of its current NRW reduction strategies with quantifiable targets and progress metrics. The focus should be on accelerating initiatives such as illegal connection inspections, the Smart Meter Project, and the finalization of the NRW Policy to bring water losses down to regulatory benchmarks.
4. **Resolve All Outstanding Prior Year Audit Issues:** The Governor should ensure that the Board and Management develops and submit, within 60 days, a prioritized action plan with clear timelines for the resolution of all nine outstanding audit issues. The CECM for finance monitor the implementation of this plan.
5. **Strengthen Financial and Asset Management Controls:** The Governor should ensure that the Board institutes strict measures to ensure all future financial reporting is accurate and supported by proper documentation. Furthermore, the Accounting Officer must expedite the Board's approval of the Disposal Committee report to deal with grounded assets and update the asset register in compliance with IPSAS 17.
6. **Enforce Strict Liquidity Oversight:** The Governor should form a Liquidity Oversight Committee, involving the County Treasury, to monitor the company's external dependencies (bankers, creditors) and report bi-weekly until the working capital position improves. This committee should also enforce PFM Act-compliant budgetary controls to halt non-essential spending.

## GENERAL OBSERVATIONS FOR THE HOSPITALS

- 1. Systemic Failure in Financial Reporting Accuracy:** A pervasive issue across all hospitals is the fundamental unreliability of financial statements. This is evidenced by material inaccuracies, including unexplained variances in opening balances compared to prior year audited figures, misclassification of expenses (e.g., clinical vs. advertising), arithmetic errors, and unsupported balances for significant line items like in-kind contributions and receivables.
- 2. Critical Breach of Health Service Standards:** All hospitals are operating in significant breach of the Kenya Quality Model for Health (KQMH) guidelines and the First Schedule of the Health Act, 2017, for Level 4 facilities. Key deficiencies include severe staffing deficits (ranging from 59% to 63%), lack of essential diagnostic equipment (CT scans, MRI, functioning X-rays), absence of critical care units (ICU, HDU), and inadequate infrastructure (beds, incubators, mortuary facilities). This fundamentally compromises patient care and the right to health.
- 3. Financial Instability Exacerbated by the SHA Transition:** The transition from the NHIF Linda Mama program to the Social Health Authority (SHA) has created significant financial volatility. While some hospitals reported higher per-delivery reimbursements under SHA (e.g., KShs. 10,000 vs. KShs. 5,000), the transition caused delays in system integration (SHA and TaifaCare), lower-than-anticipated collections, and contributed directly to poor budgetary performance, revenue shortfalls, and cash flow constraints across facilities.
- 4. Absence of Foundational Governance Structures:** There is a critical and systemic failure in governance, highlighted by the complete absence of functional Hospital Management Boards and dedicated internal audit functions in most facilities. This lack of oversight, strategic direction, and independent assurance severely undermines accountability and exposes the hospitals to operational and financial mismanagement.
- 5. Widespread and Recurring Breach of Procurement Laws:** Hospitals demonstrated repeated non-compliance with the Public Procurement and Asset Disposal Act, 2015. Common infractions included making payments to suppliers not on prequalified lists, failure to maintain complete procurement documentation (e.g., evaluation minutes, appointment letters), and irregular engagement of casual workers beyond legally permitted periods, creating significant legal and financial risks.
- 6. Persistent Unresolved Prior Year Audit Issues:** There is a systemic failure to implement corrective actions, as evidenced by a substantial backlog of unresolved audit matters. Tudor and Mrima hospitals, for instance, had 21 and 16 issues respectively outstanding from previous financial years, indicating that management and oversight bodies are not addressing root causes of identified problems.

7. **Ineffective Budgetary Planning and Execution:** Hospitals consistently exhibited poor budget performance, characterized by either significant under-collection or over-collection of revenue against unrealistic budgets, coupled with a persistent inability to utilize funds received (under-absorption up to 35%). This indicates significant weaknesses in revenue forecasting, budget preparation, and cash flow management, which directly impacts service delivery.
8. **Significant Weaknesses in Internal Control and ICT Systems:** Critical control weaknesses were found across all facilities. These include a lack of segregation of duties in revenue collection, reliance on error-prone manual accounting systems, lack of IT governance committees, absence of off-site data backups, and under-utilization of existing ERP systems like DuroMED. These gaps expose hospitals to the risk of fraud, data loss, and operational inefficiency.
9. **Inadequate Asset and Inventory Management:** Hospitals failed to maintain proper fixed asset registers, impeding the safeguarding and tracking of public assets. Furthermore, inventory management for pharmaceuticals was weak, characterized by a lack of regular physical stock takes, inadequate storage facilities contravening Pharmacy and Poisons Board (PPB) guidelines, and poor record-keeping, risking stock-outs, drug deterioration, and financial loss.

## GENERAL RECOMMENDATIONS FOR HOSPITALS

The Committee makes the following general recommendations to the Governor of Mombasa County to address the systemic issues identified:

1. **Restore Foundational Governance and Oversight:** The Governor should ensure that the CECM for Health finalizes the appointment and gazettment of competent Hospital Management Boards for all Level 4 and Level 5 hospitals within 60 days of this report's adoption. This is essential to restore strategic direction, oversight, and accountability as mandated by the Health Act, 2017.
2. **Mandate and Enforce Financial Reporting Compliance:** The Governor should ensure that all hospital accounting officers, through the CECM for Finance, prepares future financial statements with absolute accuracy and in full compliance with IPSAS accrual standards. The County Treasury should provide hands-on support to hospital finance teams to ensure all balances, including opening balances and in-kind contributions, are fully supported by verifiable documentation and prior-year reconciliations.
3. **Develop and Implement a County-Wide Health Facilities Compliance and Investment Plan:** The Governor should ensure that the CECM for Health develops a comprehensive, costed, and time-bound master plan to bring all county health facilities into compliance with KQMH guidelines and the Health Act, 2017. This plan must prioritize critical staffing, equipment, and infrastructure gaps (e.g., ICU/HDU, renal units) and include clear annual targets for universal health coverage (UHC) realization. A progress report should be submitted to the Senate within 90 days.

#### **4. Stabilize Health Financing and Strengthen SHA Integration:**

- a) **Revenue Forecasting:** The Governor should ensure that the hospitals adopts data-driven budgeting processes that incorporate actual service volume trends and revised SHA reimbursement rates, moving away from static, historical budgets to minimize revenue shortfalls and over-collections.
- b) **System Integration:** The Governor should ensure the County Department of Health and ICT prioritizes the full and seamless integration of hospital HMIS systems (including DuroMED) with the SHA and TaifaCare payment platforms to ensure timely and accurate claims processing, reduce manual reconciliation, and prevent cash flow disruptions.

#### **5. Enforce Lawful and Documented Staffing Arrangements:** The Governor should ensure that :

- a) All staff engagements, including contract and casual workers, strictly comply with the Employment Act, 2007, County Public Service Board regulations, and any issued circulars.
- b) The County Treasury and Public Service Board establish a standardized mechanism to provide detailed payroll schedules for all seconded staff to hospitals promptly. This will support accurate "in-kind contribution" figures in hospital financial statements and facilitate audit verification.

#### **6. Issue a Strict Directive on Full Procurement Compliance:** The Governor should ensure, through the CECM for Finance and Health, that health facilities and hospitals strictly adhere to the Public Procurement and Asset Disposal Act, 2015. This directive must explicitly require complete documentation for all procurements, the use of updated prequalified supplier lists, and the establishment of clear, auditable trails for every transaction, from initiation to payment.

#### **7. Strengthen Independent Assurance through Internal Audit:** The Governor should ensure the County Public Service Board immediately deploy dedicated internal auditors to all Level 4 and Level 5 hospitals to ensure continuous, independent oversight. This function must develop and implement risk-based audit plans and report directly to the relevant County Executive Committee Member and the respective Hospital Management Board.

#### **8. Improve Asset and Inventory Management Controls:** The accounting officers under the Department of Health should ensure that the hospital managements takes the following actions:

- a) Immediately finalize and maintain comprehensive fixed asset registers in line with PSASB guidelines, with assets physically verified and appropriately valued.

- b) Conduct regular, independent physical stock takes and implement automated inventory management systems for pharmaceuticals to ensure accuracy and safeguard assets.
- c) Prioritize the upgrade of pharmaceutical storage facilities to comply with Pharmacy and Poisons Board (PPB) guidelines to maintain drug quality and patient safety.

**9. Accelerate Digital Transformation and System Integration:** The Governor should ensure that the County Departments of Health and ICT expedites the full rollout of an integrated, county-wide Hospital Management Information System (HMIS) to replace manual processes, ensure proper segregation of duties, and provide secure, auditable data trails. This includes ensuring full utilization of existing systems and their integration with bank platforms and the national SHA system.

## GENERAL OBSERVATIONS FOR THE FUNDS

1. **Catastrophic Under-Expenditure Hampering Service Delivery:** Both funds exhibited a severe inability to utilize the resources available to them.
2. **Systemic Misrepresentation in Financial Reporting:** Both funds demonstrated a fundamental misunderstanding of accounting principles.
  - i. The **Alcoholic Drink Control Fund** erroneously recorded funds it never controlled (those banked in the County Revenue Fund) as its own revenue and surplus in its financial statements, breaching basic accrual accounting principles.
  - ii. The **County Elimu Scheme** misclassified unrealized budget allocations from FY 2017/18 and 2018/19, totaling KES 160.9 million, as long-term receivables. This means assets were recorded for funds that were never received, severely overstating the scheme's financial position.
3. **Persistent Non-Compliance with Legal and Reporting Standards:**
  - i. **Accounting Standards:** The Alcoholic Drink Control Fund's financial statements were fraught with material inaccuracies, including incorrect headers, misnumbered pages, and erroneous recognition of a surplus, showing a systemic disregard for PSASB reporting templates.
  - ii. **Data Protection Laws:** The County Elimu Scheme collects and manages sensitive personal data but operates in violation of the Data Protection Act, 2019, by not being registered as a data controller or processor, exposing the county to significant legal and reputational risk. This has however been ameliorated by securing a registration.
  - iii. **Human Resource Laws:** The Elimu Scheme allowed an administrator to serve in an acting capacity for over six months, exceeding the legal limit and reflecting weak governance and a failure by the County Public Service Board to enforce regulations.
4. **Poor Budgetary Planning and Execution:** The Elimu Scheme's performance highlights a failure in budget formulation and execution. It faced both a significant revenue shortfall (15% below target) and a massive under-absorption of the funds it did receive (35%). This indicates that budgets are not based on realistic revenue forecasts and that mechanisms to spend available cash efficiently are broken.

## GENERAL RECOMMENDATIONS FOR THE FUNDS

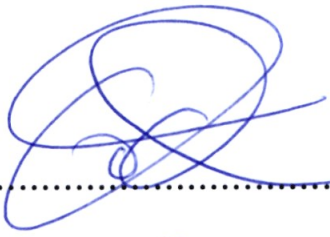
1. **Resolve Legal Bottlenecks to Ensure Fund Autonomy:** The County Assembly should expedite finalizing and enacting amendments to the Mombasa County Liquor Licensing Act, 2014, to address the concerns raised by the Controller of Budget. This will legally restore the Alcoholic Drink Control Fund's access to its resources and enable it to function as intended. The Governor should issue a clear directive that all funds raised for any county fund be remitted directly to that fund's designated account.
2. **Mandate a Clean-Up of Financial Records:** The Governor, through the Board of the Elimu Scheme, should consider writing off the KES 160 million "receivable" that is not likely to be recovered.
3. **Enforce Strict Adherence to Accounting and Reporting Standards:** The Governor should ensure that the County Treasury provides hands-on support and mandatory training for administrators of all county funds. This training must focus on the application of IPSAS and the specific reporting templates prescribed by the PSASB to ensure future financial statements are accurate and compliant.
4. **Improve Budgetary and Expenditure Performance:**
  - i. The Governor should ensure that the County Treasury and the Elimu Scheme to adopt more realistic, data-driven budgeting processes that reflect actual revenue collection trends.
  - ii. Monthly or quarterly budget monitoring committees should be instituted to expedite fund utilization, prioritize bursary disbursement schedules, and address administrative bottlenecks like procurement delays to prevent future under-absorption.
5. **Ensure Full Legal and Regulatory Compliance:**
  - i. **Data Protection:** The Governor should ensure the County Elimu Scheme completes its registration with the Office of the Data Protection Commissioner within 60 days and implements a comprehensive data protection policy.
  - ii. **Human Resources:** The County Public Service Board should conclude the substantive recruitment for the Scheme Administrator position and enforce a policy that no acting appointments exceed the six-month limit stipulated by law and provide status report to the senate within 60 days of the adoption of this report.
6. **Strengthen Internal Controls and Reconciliation:** The Governor should mandate the implementation of robust internal controls at all county funds. For the Elimu Scheme, this includes monthly reconciliations of all transactions and automated

aging reports within its financial systems to ensure compliance with the Public Finance Management Act, 2012, and prevent future misclassifications.

**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. The Committee further wishes to express its appreciation to the able secretariat for their support and services in facilitating the Members and the Committee in its operations.

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:** ..... 23/03/2026 .....

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

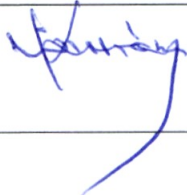


**ADOPTION OF THE REPORT OF THE SENATE SELECT COMMITTEE ON COUNTY PUBLIC INVESTMENTS AND SPECIAL FUNDS ON THE CONSIDERATION OF THE AUDIT REPORTS OF SEVEN COUNTY ENTITIES FOR MOMBASA FOR THE FINANCIAL YEAR 2024/2025**

ENTITY	NO.	
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
		PORT REITZ SUB-COUNTY LEVEL 4 HOSPITAL
		COAST GENERAL TEACHING AND REFERRAL HOSPITAL(CGTRF)
FUNDS	2	MOMBASA ALCOHOL DRINK CONTROL FUND
		MOMBASA COUNTY ELIMU SCHEME

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

No.	Name	Signature
1.	Sen. Godfrey Atieno Osotsi, CBS, MP <i>(Chairperson)</i>	
2.	Sen. Eddy Gicheru Oketch, MP <i>(Vice – Chairperson)</i>	
3.	Sen. Agnes Kavindu Muthama, MP	

<b>PAPERS LAID</b>	
<b>DATE</b>	
<b>23</b>	
<b>TABLED BY</b>	
<b>COMMITTEE</b>	
<b>CLERK AT THE TABLE</b>	

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	

## **CHAPTER ONE: WATER COMPANY**

### **1.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR MOMBASA WATER SUPPLY AND SANITATION COMPANY LIMITED FOR THE FINANCIAL YEAR 2024/2025.**

The Governor of Mombasa County, Hon. Abdulswamad Sharrif Nassir, appeared before the Committee on Tuesday 20<sup>th</sup> January, 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Mombasa Water Supply and Sanitation Company Limited for the Financial Year 2024/2025.

The following officers accompanied the Governor—

1. Mr. Abdallah Khamis - CECM, Environment and Water
2. Mr. Evans Oanda - CECM Finance
3. Eng. Albert T.Keno - CCO Water and Sanitation
4. Mr. Jeizan Faruk - County Secretary
5. Dr. Noah Akala - Chief of staff
6. Ms. Habiba Ali - AG. MD. Mowassco

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

The Auditor-General rendered a Qualified Opinion on the financial statements of the on Mombasa Water Supply and Sanitation Company Limited for the financial year 2024/2025 on the following basis—

##### **1. Inaccurate Water Services Development Plan Loan Balance**

The statement of financial position and Note 24 to the financial statements reflect the Water Services Development Plan (WSDP) loan of Kshs 1,301,444,266. Review of the non-current liability ledger in respect to WSDP loan provided for audit in support of the financial statements indicated loan amount received from external borrowing during the year (World Bank /IDA) of Kshs 234, 539,000 which differs with the increase of Kshs. 138,448,372 between the opening balance and the reported balance resulting in an explained variance of Kshs. 96,090,628.

In the circumstances, the accuracy and completeness of the WSDP loan of Kshs. 1,301,444,266 could not be confirmed.

##### **Management Response**

During the financial year 2024/2025, a total of KShs 234,539,000 was received through external borrowing. In line with the Financing Agreement for the Water & Sanitation Development Project (WSDP), which stipulates a composition of 59% credit (loan) and

41% grant, the amount was apportioned accordingly: KShs 138,448,372 representing the loan portion, and KShs 96,090,628 representing the grant portion.

### **Committee Observations**

The Committee acknowledged Management's response, supported by the trial balance and bank statements, which confirm the variance of KShs 96,090,628 as the grant portion (41%) of the KShs 234,539,000 WSDP disbursement, with KShs 138,448,372 (59%) correctly recorded as loan. However, the initial financial statements and Note 24 inaccurately presented the full receipt as loan without distinguishing the grant component, compromising transparency and audit confirmation of the KShs 1,301,444,266 balance.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures the management of the water company implements measures to provide appropriate, sufficient, accurate and timely documentation in all future audit processes and the auditor general to review on the matter in the subsequent audit cycle.**

## **2. Long Outstanding Trade and other Receivables**

The statement of financial position and Note 16 to the financial statements reflect trade and other receivables balance of Kshs. 501,954,618. The net receivables balance increased from Kshs. 433,140,949 to Kshs. 501,954,618 by Kshs. 68,813, 669 or 16%.

Management has not provided evidence of effort or strategies initiated to collect the overdue debts. Further, the Management did disclose ageing analysis of provision for bad and doubtful debts.

In the circumstances, the accuracy and valuation of trade and other receivables of Kshs. 501,954, 618 could not be confirmed.

### **Management Response**

The company has established a dedicated team of revenue officers who carry out door-to-door visits to customers with overdue accounts. Follow-ups are also conducted through phone calls, SMS reminders, and the issuance of demand letters.

To facilitate recovery of large outstanding bills, the company enters into part-payment agreements with customers, ensuring gradual settlement of debts. Long-standing arrears are primarily comprised of disputed accounts, which are addressed by an Adjustment Committee mandated to investigate, review, and approve all disputed customer bills. In addition, the company has developed a comprehensive Debt Policy that has been presented

to the Board for approval. Once approved, the policy will be implemented. Key remedies outlined in the policy include:

- a) Offsetting customer balances with deposits: Applying deposits from disconnected customer accounts to clear outstanding balances.
- b) Debt write-off: Establishing clear work instructions for the write-off of uncollectable debts.

### **Committee Observation**

The Committee observed that there was no debt management policy in place to guide the water company and there were concrete strategies to collect overdue debts.

### **Committee Recommendation**

**The committee recommends that:**

- 1. the Governor ensures the Accounting Officer, within 60 days of the adoption of this report, submits a debtors' schedule to the Auditor-General for verification and review and update the Committee in the subsequent audit cycle;**
- 2. the Governor ensures the Accounting Officer, within 60 days of the adoption of this report, submits an approved copy of the Debt Management Policy to the Auditor-General for verification. The Auditor-General to verify the policy and submit a status update on the same in the subsequent audit cycle;**
- 3. the Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, puts in place recovery measures for the outstanding amount with clear timelines. The Auditor-General should review the implementation of the measures put in place provide a status update on the matter in the subsequent audit cycle;**
- 4. the Governor ensures that the Accounting Officer undertakes a detailed ageing analysis of its long outstanding trade receivables and with the Board's approval, write off the irrecoverable debts in line with the Section 130 (2) (d) of the Public Finance Management (County Governments) Regulations, 2015.**
- 5. the Governor ensures the management invests in Enterprise Resource Planning (ERP) for maintenance of customer records to reduce disputes and enhance revenue collection.**

### **3. Long Outstanding and Unsupported Trade and Other Payables**

The statement of financial position and Note 25 to the financial statements reflect trade and other payables balance of Kshs.2,326,736,526. Included in the balance is Kshs.2,083,447,586 relating to trade payables, out of which Kshs.1,980,944,754 was

outstanding for a duration of more than 120 days. Further, the balance was not supported by schedule. In the circumstances, the accuracy and completeness of trade and other payables balance of Kshs.2,326,736,526 could not be confirmed.

### **Management Response**

The Company faced cash flow challenges during the year, largely driven by high operational costs, inflationary pressures, and the implementation of the bulk water tariff, which significantly increased both the cost of purchasing bulk water and the Regulatory Levy. Of the long outstanding balance amounting to KShs 1.98 billion, KShs 1.4 billion is owed to the Coast Water Works Development Agency, while KShs 252 million relates to WASREB.

Despite these challenges, management has observed progressive improvement in revenue generation following the revenue-enhancing measures outlined in the Going Concern response.

Consequently, the Company has successfully settled its current bulk water bills and established monthly standing orders of KShs 2.5 million to WASREB, as evidenced by the attached payment schedule and standing orders.

### **Committee Observation**

The Committee observed that trade and other payables totaling KShs 2.33 billion were reported, with a substantial portion of KShs 1.98 billion remaining outstanding for over 120 days and the management cited resource constraints in settling the matter.

### **Committee Recommendation:**

- 1. The Committee recommends that the governor ensures that Management develops strategies to enhance revenue collections thus increase ability to meet obligations as and when fall due.**
- 2. the governor ensures the Board of Directors puts in place a payment plan for the outstanding payables in line with the Company's cash flow improvement plan and auditor general reviews the process and reports in the subsequent audit cycle.**

### **4. Grounded Motor Vehicles**

The statement of financial position and Note 14 to the financial statements reflects property, plant and equipment of Kshs.261,977,793. Included in the balance are motor vehicles valued at Kshs.66,095,974 as disclosed in Note 14a. Review of the asset register

and physical verification of assets revealed that the Company had thirty-three (33) motor vehicles which included eight (8) grounded motor vehicles while three (3) were held by auctioneers. Further, inspection reports on the extent of damage which led to grounding of the transport equipment and action taken by management to safeguard against further deterioration of value were not provided for audit confirmation.

In the circumstances, the accuracy, completeness and valuation of the motor vehicles balance of Kshs.66,095,974 could not be confirmed.

### **Management Response**

The Company constituted a Disposal Committee in compliance with the Public Procurement and Asset Disposal Act, 2015. The Committee prepared a report identifying assets for disposal, which is currently awaiting Board approval.

In addition, the Company is undertaking the process of recovering three motor vehicles

### **Committee observations**

The Committee observed that the Board of the water was yet to undertake the necessary approval for disposal of the grounded vehicles and yet to recover the three vehicles. The county provided a court order to recover the vehicles.

### **Committee Recommendations**

**The Committee recommends that the Governor ensures the Accounting Officer:**

- i) expedites Board approval of the Disposal Committee report and complete disposal/recovery of all 11 affected vehicles within 60 day;**
- ii) Conduct and document comprehensive physical inspections with independent valuations for all grounded assets, implementing maintenance protocols to preserve residual value pending disposal;**
- iii) Update the asset register to reflect grounded/held vehicles with impairment provisions, ensuring full audit trail compliance under IPSAS 17 for future financial statements;**
- iv) Ensure the process of recovery of the three vehicles is concluded and provide a status report to the senate within 60 days of adoption of this report.**

### **Emphasis of Matter**

#### **5. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final budget and actual

amounts on comparable basis of Kshs.1,259,880,769 and Kshs.1,115,777,961 respectively resulting in under collection of Kshs.144,102,808 or 11 % of the budget.

The under realization of revenue and may have affected implementation of planned activities and impacted negatively of service delivery to the public.

### **Management Response**

Management acknowledges the noted under-collection and under-expenditure during the period under review. The revenue shortfall was mainly due to reduced billing efficiency, delays in customer payments, and operational disruptions affecting meter reading and revenue assurance.

To address this, the Company has enhanced revenue protection measures, strengthened debt collection, and increased automation of billing processes.

Management is committed to improving overall budget performance in line with the Public Finance Management Act and to enhancing service delivery to the residents of Mombasa.

### **Committee Observation**

The Committee observed the significant budgetary underperformance which likely constrained planned activities and adversely affected public service delivery, additionally, Management acknowledged the issue, citing billing inefficiencies, payment delays, and meter reading disruptions, while committing to revenue protection, debt collection enhancements, and billing automation yet provides no specific timelines, performance metrics, or evidence of implementation, limiting the credibility of corrective measures under the Public Finance Management Act.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures that Management prioritizes investing in an Enterprise Resource Planning (ERP) systems for efficient billings and revenue collections and adopt strategies that will ensure preparation of realistic budget.**

## **6. Material Uncertainty Related to Going Concern**

The statement of financial position reflects a negative working capital of Kshs.1,990,688,908 (2023/2024 Kshs.1,978,182,400) resulting from its total current liabilities of Kshs.2,637,966,311(2023/2024 Kshs.2,513,692,755) exceeding its total current assets of Kshs.647,277,403 (2023/2024 Kshs.535,510,355) as at 30 June, 2025. In addition, the Company had accumulated losses totalling Kshs. 2,261,624,175 as at 30 June, 2025 (2023/2024 Kshs. 2,200,867,381).

Management and Directors have expressed their confidence that the Company will remain a going concern over the next twelve (12) months by disclosing that this unsatisfactory situation is being addressed through implementation of infrastructural improvement projects funded by the World Bank aimed at increasing water supply, which they feel optimistic will lead to turn-around.

These conditions indicate the existence of a material uncertainty that casts doubt on the Company's ability to meet its financial obligations as they fall due, and to continue as a going concern.

In the circumstances, the Company's existence as a going concern is depended upon continued support from the County Government of Mombasa, its bankers and creditors.

### **Management Response**

Together with the ongoing initiatives to reduce Non-Revenue Water (NRW), the Company is also implementing the following strategies aimed at increasing revenue and thereby strengthening its ability to continue as a going concern:

#### **1. Implementation of the WSDP Project**

One of the projects currently funded by the World Bank under the Water and Sanitation Development Project (WSDP) is the Rehabilitation and Extension of the Mombasa Water Supply and Distribution (Lot 2B).

##### **The scope of works includes:**

- Provision of materials, construction, testing, disinfection, and commissioning of 57.8 km of water distribution network.
- Construction, testing, and commissioning of 30 masonry water kiosks.
- Construction and installation of valve chambers, meter chambers, and fire hydrant chambers.

The project is presently at 86% completion, with the scheduled completion date set for October 2026. Upon completion, the initiative is expected to significantly increase customer connections and reduce water losses caused by leaks and bursts, thereby enhancing the Company's revenue base.

#### **2. Construction of Mwache Dam**

Further through funding from the development partners, World Bank (WB) and French Development Agency (AFD) water supply to Mombasa will drastically improve in more than three folds after the completion of Mwache Dam and Mwache Water Treatment Plant by 2029. These projects are already 60% complete and we expect the first water

compounding by May 2026. The designed volume to Mombasa is 180,000m<sup>3</sup> consequently increasing the revenue.

### **3. Replacement of Non-functional Meters**

The ministry of water through their ongoing World Bank projects under Coast Water, the company received 7,900 meters to activate dormant accounts and replace nonfunctionally meters. This will help in expanding the active customer base through reactivation of dormant accounts and also improving billing accuracy thereby increasing billed revenue.

### **Committee Observations**

The Committee observed the following:

- i) Technical Insolvency-**the Committee observes that the company is technically insolvent, with a negative working capital position., meaning its current liabilities exceed its current assets. They accumulated losses further confirm a persistent financial distress that threatens the Company's ability to deliver services or meet obligations as they fall due.
- ii) Long-Term Dependency Risks-** the Committee acknowledges Management's optimism regarding long-term infrastructural interventions, including the WSDP project, Mwache Dam, and meter replacement initiatives, with completion timelines extending to 2026 and 2029. However, these capital projects fail to address the immediate liquidity crisis, rendering the Company's continued existence entirely contingent on finite external support from the County Government, bankers, and creditors.
- iii) World Bank Reliance Risks-** The Committee notes that reliance on World Bank-funded infrastructure as a going concern remedy, without concurrent short-term fiscal interventions, presents a significant risk of service disruption and potential Company collapse

### **Committee recommendation**

**The Committee recommends that the Governor intervenes and directs the Company's Board and Management to**

- i) develop and submits a comprehensive short-term turnaround strategy that bridges the gap between the current cash flow crisis and the long-term infrastructural projects within 30 days.**

- ii) **enforce PFM Act-compliant budgetary controls, mandating monthly financial dashboards and halting non-essential spending until positive working capital is restored.**

**Other Matter**

**7. Unresolved Prior Year Matters**

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

No.	No. Financial Year	Audit Issue
1	2023/2024	Long outstanding trade and other payables
2	2023/2024	Long outstanding trade and other receivables
3	2023/2024	Grounded and obsolete motor vehicles and motor cycles
4	2023/2024	Material uncertainty related to going concern
5	2023/2024	Excessive non-revenue water
6	2023/2024	Officers earning below a third of basic pay
7	2023/2024	Direct discharge of raw sewer to the Indian ocean
8	2023/2024	Stalled project – Kipevu waste Water Treatment Plant
9	2023/2024	Abandoned and unapproved contract extension period (Rehabilitation and Extension of Sewer Networks West Mainland and Island)

**Management Response**

Issues 1–6 have already been addressed in detail under the current year audit queries. Please refer to the respective responses provided in Basis for Qualified Opinion (Items 2, 3, and 4), Emphasis of Matter (Item 2), and Basis for Conclusion (Items 1 and 2) of this report.

For the remaining issues (7–9), management’s responses are as follows:

- a) **Direct discharge of raw sewer to the Indian Ocean** -Management acknowledges that raw wastewater is currently being discharged into the Indian Ocean due to non-operational treatment plants. However, corrective measures are underway through the Water and Sanitation Development Programme (WSDP). The following projects are ongoing to address this challenge:
- i) KE-MOWASCO-16771-CW-RFB of Kshs 240,623,364 Rehabilitation of the Kipevu wastewater treatment plant and four (4) pumping stations in West Mainland. The project is at 70% progress with a completion date of October 2026. The project is to rehabilitate the treatment plant and West Mainland pump stations.
  - ii) KE-MOWASCO-16772-CW-RFB/LOT 1 of Kshs 459,091,415 Improvement of storm water outlets and combined sewer overflows in Mombasa Island. This entails improvement of storm water outlets to cater for illegal connections of sewage to storm water drains and also improvement of the pump stations within the island. The project is at 78% progress with the completion date of October 2026.
- b) **Stalled project – Kipevu waste Water Treatment Plant**  
 The WSDP projects had not stalled, we had slow pace of work, with the Contractor only keeping few staff that he could afford to pay when not receiving payments due to delay in disbursement of funds.  
 However, the funds were disbursed and the project has resumed and it is at its final stages expected to be completed by October 2026.
- c) **Abandoned and unapproved contract extension period (Rehabilitation and Extension of Sewer Networks West Mainland and Island)**  
 The sewer rehabilitation project was completed in September 2024. The contract has completed the Defects Liability Period. The works have already been handed over to the Client (Mombasa Water Supply and Sanitation Company).

### **Committee Observations**

The Committee observed that the nine (9) issues remained unresolved .

### **Committee recommendations**

**The Committee recommends that the governor ensures that:**

- i. **the Accounting Officer resolves any issues resulting from an audit that remains outstanding as required by section 149(2)(l) of the Public Finance**

**Management Act, Cap. 412A, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences may apply; and**

- ii. the 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**

### **Conclusion**

#### **Basis for Conclusion**

##### **1. Excessive Non-Revenue Water**

The statement of profit or loss and other comprehensive income and Note 6 to the financial statements reflect operating revenue of Kshs.1,111,143,175 which includes water sales of Kshs.908,143,081. Records provided for audit review indicated that the company produced 13,194,018 cubic meters of water, out of which 5,079,420 cubic meters of water was billed to customers. The balance of 8,114,598 cubic meters of water, or 62% representing Non-Revenue Water which is more than the maximum allowable loss of 25% by the Water Services Regulatory Board (WASREB) Guidelines. The unbilled water of 8,114,598 cubic meters may have resulted into loss of sales estimated at Kshs.1,217,189,700 at the rate of Kshs.150 per cubic meter.

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

#### **Management response**

The company has initiated the following strategies to reduce Non-Revenue Water;

##### **i) Inspections of Illegal Connections**

To address the rising number of illegal water connections, management, in collaboration with the County Government, established a dedicated task force. The task force comprises the Company's Compliance Team and the County Inspectorate. Its mandate includes:

- Conducting door-to-door inspections to identify unauthorized connections.
- Dismantling illegal connections to safeguard the integrity of the water supply network.

- Surcharging customers found with illegal connections to recover losses and deter future violations.
- This coordinated approach is aimed at reducing non-revenue water, protecting infrastructure, and enhancing overall revenue collection.

## **ii) 2. Increasing NRW Funding.**

To strengthen the execution of the NRW strategy, management has enhanced facilitation for NRW-related activities, thereby increasing concentration and focus on reducing water losses. In addition, the County Government has extended financial support to the Company, specifically earmarked for the repair of leaks and bursts. These combined efforts are expected to significantly reduce NRW levels and improve overall revenue generation.

## **iii) The Smart Meter Project**

The Smart Meter Project is implemented in phases beginning with the West Mainland Business Unit, where a total of ten thousand and fifty-two (10,052) Smart meters were allocated. The project started with a pilot area, within the National house and Khamis Estates, that has a total number of 830 connections, the progress is at 96% with most of remaining work being on test running of the different components of the project. 821 Smart meters of diameters ranging from DN15 to 150 were installed and that mainly consisted of replacement, reactivation of the customer meters and installation of boundary meters. The project is expected to significantly enhance billing and revenue collection efficiency by minimizing human malpractices, which directly or indirectly contribute to water losses.

## **iv) Engagement of NRW Consultant**

For effective monitoring and reduction of Non-Revenue Water (NRW), the Company's strategy requires the subdivision of business units into 30 District Metering Areas (DMAs). Since MOWASSCO's network lacked an existing hydraulic model capable of integrating the entire system with the DMAs, it was necessary to engage a consultant to design, implement, and build the capacity of MOWASSCO's team.

With funding support from the French Development Agency (AFD) and the World Bank, an NRW Consultant was appointed through the Coast Water Works Development Agency (CWWDA). The consultant is currently working with the

Company to reduce NRW through the introduction of a hydraulic model, which will enhance informed decision-making and enable evaluation of network integrity. As part of this project, a Customer Identification Survey (CIS) and database validation will also be undertaken.

Additionally, through this program, the Company has received essential goods and equipment, including: Two trucks, Repair kits Customer and bulk water meters of various sizes. These interventions are expected to strengthen operational efficiency, improve monitoring, and significantly reduce NRW levels.

#### **v) Enterprise Resource Planning (ERP) and GIS Reporting Dashboard**

Through the Enterprise Resource Planning (ERP) system, the Company has introduced a Geographic Information System (GIS) Reporting Dashboard that has significantly strengthened both technical and commercial controls.

The dashboard has enhanced monitoring, streamlined the movement of resources to their points of utilization, and improved feedback mechanisms.

Key benefits include: Access to critical data at specific points in the network, enabling informed decision-making, Evaluation of material requirements and utilization, allowing for better resource management and Integration of active leaks survey data, with repairs displayed through the GIS Technical Module for real-time monitoring and follow-up.

This innovation has improved operational efficiency, accountability, and responsiveness, while providing management with reliable data to support planning and performance evaluation.

#### **vi) Draft Non-Revenue Water (NRW) Policy**

The Company has developed a draft Non-Revenue Water (NRW) Policy designed to establish clear procedures and enforcement mechanisms. Once approved, the policy will serve as a framework for guiding NRW reduction initiatives, strengthening accountability, and ensuring consistent application of measures across all business units.

### **Committee Observations**

The committee observed that Audit report records excessive Non-Revenue Water at 62% (8,114,598 cubic meters unbilled out of 13,194,018 produced), far exceeding WASREB's 25% limit and causing potential revenue loss of Kshs.1,217,189,700. Management outlined comprehensive mitigation including illegal connection taskforces, increased NRW funding from the County, phased smart metering, NRW consultant for 30 District Metering Areas backed by AFD/World Bank, ERP/GIS dashboards for real-time monitoring, and a draft NRW policy.

### **Committee recommendations**

**The Committee recommends that the Governor, through the County Executive Committee Member for Water to enforce a binding NRW reduction target of 40% by June 2026, tying further funding to monthly GIS dashboard reports.**

#### **2. Staff Earning Below a Third of Basic Pay**

Review of payroll records during the year under review revealed that some staff members earned less than a third (1/3) of their basic salary after deductions contrary to Section 19 (3) of the Employment Act, 2007 which stipulates that without prejudice to any right of recovery of any debt due, and notwithstanding the provisions of any other written law, the total amount of all deductions made by an employer from the wages of his employee at any one time shall not exceed two thirds of such wages.

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

### **Management response**

Compliance with Section 19(3) of the Employment Act, 2007, has been prioritized as an ongoing commitment over the past two financial years, in alignment with the auditors' recommendations. Management has implemented several mitigation measures to adhere to a third rule. However, recent increases in mandatory statutory deductions, including NSSF, House Levy, and SHIF, have posed challenges to full compliance, as they have significantly impacted the salaries of employees who were previously compliant but on the borderline before these deductions were introduced.

### **Committee Observations**

The committee observed that payroll records confirm instances where staff net earnings fell below one-third of their basic salary after deductions, directly contravening Section

19(3) of the Employment Act, 2007. Management's response acknowledges prioritization of compliance but attributes ongoing issues to rising statutory deductions like NSSF, Housing Levy, and SHIF, which have eroded net pay for borderline cases.

### **Committee recommendations**

**The committee recommends that the governor ensures that the management:**

1. Institutes measures that will ensure full compliance with the Employment Act to avoid pecuniary embarrassment by staff

### **3. Operations without a valid license**

Review of records provided for audit revealed that the Company has been operating without a license from the Water Services Regulatory Board (WASREB). The last license was issued to the Company for a period of two (2) years beginning 1 August, 2022 to 1 August, 2024 contrary to Section 72 (1) (c-d) of the Water Act, 2016 which gives the Water Services Regulatory Board (WASREB) powers and functions to set license, conditions and accredit water services providers, monitor and regulate licenses and enforce license conditions. In the circumstances, Management was in breach of the law.

### **Management Response**

The Company submitted its application for license renewal in November 2024. However, management was advised to first apply for the tariff review, which was due to expire in June 2026, so that both approvals could be issued concurrently. This approach ensures regulatory compliance and alignment of the Company's operational license with the applicable tariff structure. Copies of the License application and Tariff application were submitted for the committee verification.

### **Committee Observations**

- i) The committee observed that the Company operated without a valid license from WASREB after its expiry on 1 August 2024, breaching Section 72(1) (c-d) of the Water Act, 2016, which mandates WASREB to license, monitor, and enforce conditions on water services providers.
- ii) Audit records confirm no renewal was secured by November 2024, despite the Company's license application submission, indicating a lapse in regulatory compliance and potential legal exposure for unauthorized operations.

### **Committee Recommendations**

**The Committee recommends that the governor ensures the Company expedites the license renewal process with WASREB within 60 days of the adoption of this report and submit evidence of the water company obtaining the license.**

## CHAPTER TWO: HOSPITAL

### 2.1 REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR LIKONI SUB-COUNTY LEVEL 4 HOSPITAL FOR THE FINANCIAL YEAR 2024/2025.

The Governor of Mombasa County, Hon. Abdulswamad Sharrif Nassir, appeared before the Committee on Tuesday 20<sup>th</sup> January, 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Likoni Sub-County Level 4 Hospital for the Financial Year 2024/2025.

The Governor was accompanied by the following officers—

1. Mr.Evans Oanda CECM Finance
2. Mr.Jeizan Faruk -County Secretary
3. Dr.Noah Akala-Chief of staff

#### REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a Qualified Opinion on the financial statements of the on Likoni Sub-county level 4 Hospital for the financial year 2024/2025 on the following basis—

##### 1. Inaccurate Opening Balances

Review of the financial records reflects variances between the opening balances for the financial statements and the closing balances for prior year audited amounts as tabulated below:

Item	Balance as per Financial Statements (Kshs)	Prior Year Audited Financial Statements (Kshs)	Variance (Kshs)
<b>Revenue</b>			
Transfers from the County Government	6,369,668	3,100,000	3,269,668
Transfers from other Government Entities	16,466,943	13,926,423	2,540,520
Rendering of Services – Medical Service Income	25,877,019	25,990,939	-113,920
<b>Expenses</b>			

Medical/clinical Costs	20,968,580	13,484,174	484,406
Employee Costs	152,124,711	149,417,102	2,707,609
Depreciation and Amortization Expense	1,441,647	3,871,163	-2,429,516
Repairs and Maintenance	1,235,904	1,525,678	-289,774
General Expenses	7,722,540	13,389,080	-5,666,540
Medical Services Contracts Gains/Losses	0	14,126,303	-14,126,303
<b>Statement of Financial Position</b>			
Cash and Cash Equivalents	16,795,742	13,334,171	3,461,571
Property, Plant and Equipment	61,987,756	76,158,419	-14,170,663
Trade and other payables	2,046,154	23,005,658	-10,959,504
<b>Statement of Cash Flows</b>			
Transfers from other Government entities	16,466,943	13,926,423	2,540,520
Rendering of Services – Medical Service Income	25,877,019	25,990,839	-113,820
Medical / Clinical Costs	20,968,580	13,484,174	7,484,406
Employee Costs	12,157,333	9,449,724	2,707,609
Repairs and Maintenance	1,235,904	1,525,678	-289,774
General Expenses	7,722,540	13,389,080	-5,666,540

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

### **Management Response**

The difference in the opening balances arose from prior period errors, mainly due to incorrect posting of accounts in the previous financial year and audit adjustments that were effected after the finalization of the earlier accounts. These errors and adjustments were identified and corrected during the current period, and the necessary rectifications were effected through the opening balances.

### **Committee Observation**

The Committee observed the discrepancies between the current year's opening balances and prior year's audited closing balances across key financial statement lines, including revenue, expenses, assets, and liabilities. That undermine the statements' accuracy and completeness. Management attributed these to prior period errors from incorrect postings and post-finalization audit adjustments, now rectified via opening balances yet provides no detailed error log, audit trail, or restated prior year comparatives, signaling weak accounting controls and potential non-compliance with IPSAS 3 on retrospective restatements.

### **Committee Recommendation**

**The Committee recommends that the Governor directs the management to**

- i. strengthen internal controls via mandatory monthly balance reconciliations and error corrections to ensure accuracy of financial statements.**
- ii. restates the balances in the financial statement for FY 2025/2025**

### **2. Inaccurate Reconciliation of Cash Generated from Operations**

The statement of cash flows reflects cash and cash equivalents balance of Kshs.19,209,361 which includes net cash flows from operating activities of Kshs.2,848,181. However, recalculation of working capital adjustments in Note 43 on cash generated from operations reconciliation shows an amount of Kshs.1,784,242 which differs with the reported amount of Kshs.(20,857,343) resulting in a variance of Kshs.22,641,585 was not explained.

In the circumstances, the accuracy and completeness of net cash flows from operating activities of Kshs.2,848,181 could not be confirmed.

### **Management Response**

The variance in the working capital adjustments in Note 43 on cash generated from operations was due to an oversight during preparation of the financial statements. Training and strengthened review procedures will be instituted to ensure accurate reconciliation and reporting of cash flows in subsequent years.

### **Committee observation**

The committee observed inaccurate reconciliation of cash generated from operations in the statement of cash flows in Note 43 which remains unexplained. This discrepancy undermines the accuracy and completeness of the financial statements, potentially misrepresenting the county's cash position and operational performance. Management's response attributes the issue to an oversight and commits to training and enhanced review procedures, but lacks evidence of immediate corrective action or restatement of the affected figures.

### **Committee Recommendations**

#### **The committee recommends that the Governor**

- 3. Ensures , through the County Executive Committee for Health, that errors of misstatement are restated or corrected in the subsequent financial year.**

#### **Inaccurate Statement of Changes in Net Assets**

The statement of changes in net assets reflects capital fund and total net assets of Kshs.81,466,486 and Kshs.83,405,302 but recalculated totals show Kshs.73,325,817 and Kshs.75,264,634 respectively resulting in a variance of Kshs.8,140,669 for both, which was not explained or reconciled.

In the circumstances, the accuracy of net assets balance of Kshs.83,405,302 reported in the statement of changes in net assets could not be confirmed.

#### **Management Response**

The variance in the totals of the capital fund and net assets was due to an arithmetic error during preparation of the financial statements. Strengthened review procedures and staff training will be instituted to ensure accurate reconciliation and reporting of net assets in subsequent years

### **Committee Observation**

The Committee observed the material discrepancy in the cash flow statement, where net cash from operating activities is reported as KShs 2,848,181, but Note 43's working capital reconciliation shows KShs 1,784,242 against an unexplained (20,857,343), yielding a KShs 22,641,585 variance that questions the figure's accuracy and completeness highlighting deficiencies in financial reporting controls under IPSAS 2, which mandates precise reconciliations of profit to operating cash flows.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures that the management**

- i. Puts in place measures to identify and correct errors early to ensure accuracy of financial statements.**

**4. Inaccurate Grants and Subsidies Expenditure**

The statement of financial performance and Note 20 to the financial statements reflects Nil expense in respect of grants and subsidies. Review of records provided for audit revealed that the Hospital waived bills totaling to Kshs.183,030. However, the amount was not expensed in the financial statements and no evidence was provided for audit indicating that there were requests for waivers and that relevant prior approvals were obtained.

In the circumstances, the accuracy and completeness of grants and subsidies Nil expenditure could not be confirmed.

**Management Response**

During the year under review, the Hospital granted patient bill waivers, which were recorded in a waiver register and approved through internal administrative processes. However, these waivers were not expensed in the financial statements, and documentation supporting formal requests and approvals was not fully standardized at the time.

To strengthen controls, a Waiver Committee has since been established, with the Chair appointed by the County Executive Committee Member (CECM)Health, as evidenced by the attached letter of appointment. The Chair reports to the CECM Health and provides regular reports on all approved waivers, ensuring proper oversight. A Social Worker has also been posted to the facility, and formal waiver forms and approval procedures have been adopted. Waivers approved by the Committee are now properly documented and accounted for in accordance with applicable financial reporting requirements.

**Committee Observation**

The Committee observed the reporting of Nil grants and subsidies expenditure (Note 20) despite KShs 183,030 in patient bill waivers, which were neither expensed nor supported by evidence of formal requests or prior approvals during audit questioning the completeness and accuracy of financial performance. While remedial steps align with public health financing practices requiring proper accounting for waivers as expenditures or bad debts, the initial lapse indicates control weaknesses and potential revenue understatement.

**Committee Recommendation**

**The Committee recommends that the Governor directs the Hospital management to:**

- i) .
- ii) **To comply with the legal framework and process of granting and accounting for any waiver**

### **Emphasis of Matter**

#### **Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual amounts on comparable basis of Kshs.83,126,076 and Kshs.78,347,319 respectively, resulting in receipts shortfall of Kshs.4,778,757 or 6%. Similarly, Management spent Kshs.59,137,958 against actual receipts of Kshs.78,347,319 resulting in underutilization of Kshs.19,209,361 or 25% of actual receipts.

The underutilization and under absorption affected the planned activities and may have impacted negatively on service delivery to the public by the Hospital.

#### **Management Response**

The receipts shortfall was primarily attributable to lower-than-anticipated collections from the Social Health Authority (SHA) and delays in the integration of the SHA and TaifaCare systems, which affected timely and full realization of projected revenues.

Approval to incur expenditure is granted on a quarterly basis, guided by revenue collected in the preceding quarter, in line with established financial controls. Consequently, the amount collected in the fourth quarter of FY 2024/2025 was not available for expenditure within the same financial year and was instead budgeted for in the first quarter of FY 2025/2026.

### **Committee Observation**

The Committee observed receipts shortfall of KShs 4,778,757 followed by 25% underutilization of actual receipts. Management attributed this to lower Social Health Authority (SHA) collections and SHA-TaifaCare integration delays, with quarterly expenditure approvals based on prior collections carrying Q4 funds to FY 2025/2026 yet lacks variance analysis, revenue forecasts adjusted for integration risks, or evidence of mitigation, highlighting forecasting weaknesses contrary to PFM Act requirements for prudent budgeting.

### **Committee Recommendation**

The Committee recommends that the Governor ensures the hospital management to revise budgeting processes to incorporate rolling forecasts and monthly cash flow monitoring, targeting variances under 5%; simultaneously accelerate SHA-TaifaCare integration with regular progress reports to the Committee, while exploring supplementary NHIF/SHA funding options.

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

### Basis for Conclusion

#### 1. Lack of Essential Equipment and Machines

Review of Hospital Health Policy guidelines against actual status revealed that the Hospital did not have the necessary equipment and machines as required under Section 44(1) of the Primary Health Care Act, 2023.

Service	Level Hospital Standard Requirements	Actuals in The hospital	Variance	Variance In Percentage (%)
Beds	150	24	126	84
Newborn Unit Incubators	5	0	5	100
Newborn Unit Cots	5	0	5	100
Functional ICU Beds	6	0	6	100
High Dependency Unit (HDU)	6	0	6	100
Renal Unit at least 5 Dialysis Machines	5	0	5	100

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

#### Management Response

The Hospital has initiated measures to address the identified equipment and infrastructure gaps in line with its service mandate. Requests for essential equipment have been submitted

under the National Equipment Service Programme (NESP) to optimize available equipment in accordance with the level of services currently offered. Supporting requisitions are attached.

In addition, the Hospital has partnered with the M-Pesa Foundation to facilitate the construction and equipping of a 50-bed capacity unit, which will enhance service delivery and progressively align the facility with Level 4 hospital standards. Relevant documentation is attached.

### **Committee Observation**

The Committee observed a critical breach of Section 44(1) of the Primary Health Care Act, 2023, with the hospital operating far below Level 4 standards. Management's requests under the National Equipment Service Programme (NESP) and M-Pesa Foundation partnership for a 50-bed unit are steps forward but lack timelines, funding confirmations, or bridging plans, risking patient safety and legal non-compliance.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures that Management puts in place action plan that will ensure compliance with the law.**

## **2. Deficiencies in Implementation of Universal Health Coverage (UHC)**

Review of hospital records and interviews on verification of services offered, equipment used and medical specialists in the Hospital at the time of audit revealed that the Hospital did not meet the requirements of Kenya Quality Model for Health policy guidelines due to staff deficits by sixty-four (64) staff requirements or 63.4 % of the authorized establishments as shown below:

<b>Staff Requirements</b>	<b>Level 4 Standard</b>	<b>Number in Hospital</b>	<b>Variance</b>	<b>Variance in Percentage %</b>
Medical Officers	16	6	10	62.5
Anesthesiologists	2	0	2	100
General Surgeons	2	2	0	0
Gynecologist	2	2	0	0
Pediatrics	2	1	1	50
Radiologists	2			100

Kenya Registered Community Health Nurses	75	26	49	65.3
<b>Total</b>	<b>101</b>	<b>37</b>	<b>64</b>	

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

**Management Response**

The staffing gaps identified are primarily attributable to budgetary constraints, which have limited the full funding of the approved establishment in line with the Kenya Quality Model for Health Policy Guidelines. The Hospital regularly submits staff returns detailing staffing levels, attrition, and gaps to the County Department of Health and escalates staffing needs through Level 4 management meetings with the County Health Management Team.

To ensure continuity of essential services, the Hospital has engaged staff on a contract and locum basis where feasible, while continuing to engage the County Government to progressively address the staffing gaps.

**Committee Observation**

The Committee observed a severe staffing deficit breaching Kenya Quality Model for Health (KQMH) guidelines essential for Universal Health Coverage (UHC), Management attributed staffing shortages to budgetary constraints, routinely submits returns to the County Health Department, and employs contract and locum staff to maintain service continuity however, there is no evidence of funded recruitment plans or associated timelines which heightens risks to patient outcomes and exposes the facility to legal non-compliance.

**Committee Recommendation**

**The Committee recommends that the Governor ensures that the Hospital management puts in place a staffing establishment plan with timelines to achieve compliance for enhanced service delivery.**

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

The Governor of Mombasa County, Hon. Abdulswamad Sharrif Nassir, EGH, appeared before the Committee on Tuesday 20<sup>th</sup> January, 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Tudor Sub-County Level 4 Hospital for the Financial Year 2024/2025.

The Governor was accompanied by the following officers—

1. Mr.Evans Oanda CECM Finance
2. Mr.Jeizan Faruk -County Secretary
3. Dr.Noah Akala-Chief of staff

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

The Auditor-General rendered a Qualified Opinion on the financial statements of the on Likoni Sub-county level 4 Hospital for the financial year on the following basis—

#### **1. Unsupported Revenue from Rendering of Services – Medical Service Income**

The statement of financial performance and Note 11 to the financial statements reflects rendering of services - medical services of Kshs.44,230,466. The revenue includes Kshs.7,083,282 in respect of under-five reimbursement which was not supported by signed confirmation of amounts received by the Hospital.

In the circumstances, the accuracy and completeness of revenue from rendering of services—medical service income of Kshs.44,230,466 could not be confirmed.

#### **Management Response**

The under-five reimbursements amount to Kshs. 7,083,282 has been confirmed by signing of the inter entity confirmation letter by the chief officer of finance.

#### **Committee Observation**

The Committee noted that medical service revenue of KShs 44,230,466 (Note 11) includes KShs 7,083,282 under-five reimbursements unsupported by signed confirmations at audit time, casting doubt on revenue accuracy and completeness. Management has since obtained the Chief Officer's inter-entity confirmation letter, resolving the evidential gap post-audit. However, this reactive approach highlights initial lapses in timely third-party verifications, essential for audit trails under IPSAS accrual standards for Level 4/5 hospitals, risking revenue overstatement and accountability.

#### **Committee Recommendation**

**The Committee recommends that the Governor directs the hospital management to ensure that going forward, documents required for audit are submitted within the statutory timelines.**

## **2. Long Outstanding Receivables from Exchange Transactions**

The statement of financial position and Note 28 to the financial statements reflects receivables from exchange transactions balance of Kshs.10,411,741. Included in the balance is NHIF claims totalling to Kshs.3,421,800, out of which Kshs.1,911,800 had remained outstanding for over six(6) years. The facility has not provided evidence of action taken by Management to recover the long outstanding receivables.

In the circumstances, the valuation and recoverability of receivables from exchange transactions of Kshs.10,411,741 could not be confirmed.

### **Management Response**

Management has engaged SHA (Successor to NHIF) through correspondence to confirm the validity and recoverability of the long outstanding claims, and appropriate accounting treatment will be applied based on the outcome.

### **Committee Observations**

The Committee observed that the Statement of Financial Position and Note 28 reflected receivables from exchange transactions amounting to Kshs. 10,411,741, which included NHIF claims of Kshs. 3,421,800, out of which Kshs. 1,911,800 had remained outstanding for over six years. Although Management indicated that it had engaged the Social Health Authority (SHA), the successor to NHIF, to confirm the validity and recoverability of the claims, no supporting documentation was availed at the time of review.

### **Committee recommendations**

**The Committee recommends that going forward, the Governor ensure that the hospital management promptly provides all relevant supporting documentation during audit exercises to facilitate verification and enhance the accuracy and reliability of financial reporting.**

## **3. Unsupported Employee Costs**

The statement of financial performance and Note 16 to the financial statements reflects employee costs of Kshs.143,499,312. Included in the amount is Kshs.139,671,140 in respect of in-kind contribution from the Mombasa County Government being services from ninety-nine (99) medical and non-medical staff employed and paid for by the County

Government. However, the expenditure was not supported by payroll and detailed schedules showing the breakdown of basic salary and allowances incurred. In addition, the employee costs excluded Kshs.244,903 that relates to employer contributions towards statutory deductions for casual employees.

In the circumstances, the accuracy and completeness of employee costs of Kshs.143,499,312 could not be confirmed.

### **Management Response**

As the employees are seconded, they are remunerated directly by the County Government and the Hospital does not process their payroll.

Communication has been made to the county to provide the details and amount paid to the seconded officers.

### **Committee Observation**

The Committee noted that employee costs of KShs 143,499,312 (Note 16) include KShs 139,671,140 as in-kind contributions from Mombasa County for 99 seconded staff, unsupported by payrolls, salary/allowance breakdowns, or schedules at audit plus omission of KShs 244,903 employer statutory contributions for casuals questioning the figure's accuracy and completeness.

Management explains direct County remuneration without hospital payroll processing and confirms requesting details from the County, but provides no timelines, confirmation evidence, or quantification protocol for in-kind valuation.

### **Committee recommendation**

**The Committee recommends that the Governor ensures that**

- i. the hospital management obtains and submits County payroll schedules, remittance proofs, and in-kind valuation (basic pay plus allowances) for the 99 staff, plus casual statutory reconciliations during the audit.**
- ii. the hospital puts in place appropriate measures to ensure compliance and adherence to established financial reporting standards and frameworks.**

## **4. Inaccurate Inventory Balance**

The statement of financial position reflects inventory balance of Kshs.3,702,973 as disclosed in Note 30 to the financial statements. However, stock take records provided revealed inventory values of Kshs.2,127,870 resulting in an unexplained variance of Kshs.1,575,103.

In the circumstances, the accuracy, completeness, and valuation of the inventory balance of Kshs.3,702,973 could not be confirmed.

**Management Response**

Attached are the annual stock take records and stock ledger cards supporting the full inventory balance of Kshs. 3,702,973 as disclosed in the financial statements.

**Committee Observation**

The committee noted management's provision of annual stock take records and stock ledger cards, which support the full inventory balance of Kshs. 3,702,973 as disclosed in Note 30.

**Committee recommendations**

**The Committee recommends that the Governor ensures that hospital management conducts blind periodic physical inventories and real-time ledger updates(reconciliation) for accurate reporting.**

**5. Inaccurate Opening Balances**

Review of the financial statements opening balances for the financial statements against prior year audited amounts revealed several inconsistencies as tabulated below:

<b>Item</b>	<b>Balance as per financial statement (Kshs)</b>	<b>Prior year audited financial statement (Kshs)</b>	<b>Variance (Kshs)</b>
<b>Revenue</b>			
Transfers from the County Government	0	1,455,326	-1,455,326
Transfers from other Government entities	0		
Rendering of services – medical service income	27,158,059	11,231,215	15,926,844
<b>Expenses</b>			
General expenses	6,452,513	6,963,037	-510,524

<b>Statement of financial position</b>			
Revaluation reserve	276,050,558	278,919,827	-2,869,269
Accumulated surplus/deficit	-10,119,534	12,988,805	-23,108,339
<b>Statement of Cash Flows</b>			
Transfers from other Government entities	14,889,688	14,323,492	566,196

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

### **Management Response**

The difference in the opening balances arose from prior period errors, mainly due to incorrect posting of accounts in the previous financial year and audit adjustments that were effected after the finalization of the earlier accounts. These errors and adjustments were identified and corrected during the current period, and the necessary rectifications were affected through the opening balances.

### **Committee Observation**

The Committee noted multiple discrepancies between opening balances in the current financial statements and prior year audited closing balances, including County transfers (KShs -1,455,326 variance), medical service income (overstated by KShs 15,926,844), accumulated surplus/deficit (KShs -23,108,339 swing), revaluation reserve (down KShs 2,869,269), and cash flow variances undermining overall accuracy and completeness. Management attributed these to prior period posting errors and post-finalization audit adjustments rectified via opening balances, but fails to provide adjustment journals, error analyses, or restated comparatives as required under IPSAS 3 for prior period corrections.

### **Committee recommendation**

**The Committee recommends that the relevant accounting officers complies with the requirements of IPSAS 3 on reporting of both opening and closing balances.**

### **Other Matter**

#### **5. 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 the audit of Hospital in 2024/2025 revealed that twenty-one (21) matters remained unresolved as detailed.

**Management Response**

The audits for FYs 2021/22 to 2023/24 were conducted and concluded in August 2025, following which the audit for FY 2024/25 commenced shortly thereafter. This resulted in a short implementation window between audit cycles to fully address all prior-year recommendations.

Notwithstanding this, steps have been initiated to address the issues raised through strengthened oversight arrangements and improved internal controls. For the remaining matters, engagement with the relevant departments is ongoing, and formal requests for the required facilitation have been submitted.

Key governance and planning tools, including the Annual Procurement Plan, Annual Budget, and Quarterly Revenue Reports, are now being implemented in FY 2025/2026 to enhance compliance, accountability, and effective use of public resources.

**Committee Observation**

The Committee expressed concern over the persistence of twenty-one (21) unresolved audit issues from prior years (2021/22–2023/24) across financial statements, public resource utilization, and internal controls/governance, despite audit conclusion in August 2025.

**Committee recommendation**

**The Committee recommends that the Governor ensures that the accounting officer ensures that all prior year audit matters are addressed appropriately.**

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

**1. Failure to Meet Minimum Requirement of Level 4 Hospitals**

Review of Hospital records and interviews for verification of services offered, equipment used and medical specialists in the Hospital revealed that the hospital which was gazetted as a level four facility on 4 February, 2020 did not meet the requirements of Kenya Quality Model for Health Policy Guidelines due to staff deficiencies by 60 staff requirements or 59.4 % of the authorized establishments.

<b>Staff Requirements</b>	<b>Level 4 standard</b>	<b>No. in Hospital</b>	<b>Variance</b>	<b>% Variance</b>
Medical Officers	16	5	10	62.5

Anesthesiologists	2	0	2	100
Gynecologists	2	1	1	50
Pediatrics	2	1	1	50
Radiologists	2	0	2	100
Kenya Registered Community Health Nurses	75	34	17	200
<b>Total</b>	<b>101</b>	<b>41</b>	<b>60</b>	<b>59.4</b>

In addition, the Hospital did not provide services described in the first schedule of the Health Act, 2017 which include male circumcision, prostate examination for men, management of surgical emergencies including trauma care as the hospital had one theatre that was only used for inpatient services, advanced life support, outpatient services of outpatient turnover of more than two hundred and fifty, emergency, general and specialized operations and palliative care.

Further, the facility did not offer clinical supportive supervision to lower-level facilities as it was explained that the lower-level facilities fell under the department of public health services while the facility was under the department of clinical services. Surgery on inpatient basis was limited to gynae obstetrics. Additionally, proper case management of referral cases through the provision of four main clinical specialties including internal medicine, general surgery, gynae obstetrics and pediatrics backed by appropriate technical devices was also not available as the hospital did not have a resident surgeon.

In the circumstances, the adequacy of services delivered could not confirmed.

### **Management Response**

The Mombasa County Taskforce on Healthcare System has recommended that Tudor Sub-County Hospital operate as a Maternal and Child Care Hospital. In line with this recommendation, the Hospital is designated as a specialized Level 4 facility providing maternity and child care services only. Consequently, the cited staffing deficit of 60 staff members relates to services that fall outside the approved scope of the facility, particularly due to the absence of medical wards. The Hospital currently has 41 clinical staff, which is appropriate for its approved service scope, whereas the standard staffing level of 101 staff applies to a general Level 4 hospital with medical wards.

Should medical wards be established, the additional staff would be deployed accordingly, and the staffing levels would align with the Kenya Quality Model for Health Policy Guidelines. To this end, Mombasa County is developing a master plan for the construction of medical wards at Tudor Subcounty Hospital.

Further, on 24 November 2025, Management wrote to the Chief Officer requesting a Bill of Quantities for the construction of medical wards and an emergency department.

In the interim, service delivery within the approved mandate has been strengthened. Male circumcision and prostate examinations are now available at the facility, with prostate tests included in the laboratory menu. In addition, the X-ray department is operational and in use.

Surgical services remain limited to obstetrics and gynecology, consistent with the Hospital's designation as a specialized maternal and child care facility.

### **Committee Observation**

The Committee noted the hospital's failure to meet Level 4 standards under the Kenya Quality Model for Health guidelines and First Schedule of the Health Act, 2017, alongside limited services. Management clarified its redesignation as a specialized maternal and child care facility by the County Taskforce (excluding medical wards), justifying current staffing for an OB/GYN focus, with additions of male circumcision, prostate tests, and X-ray services. However, plans for medical wards under the master plan and the 24 November 2025 BoQ request lack timelines or funding proofs, risking misaligned designation and undermining Universal Health Coverage (UHC) delivery.

### **Committee recommendation**

**The Committee recommends that the Governor directs the County Executive Committee Member for Health and hospital management to fast-track development of a detailed implementation plan with clear timelines, as required under the Health Act, 2017 guidelines.**

## **2. Irregular Engagement of Casual Workers**

The statement of financial performance reflects employee costs amounting to Kshs.143,499,312 as disclosed in Note 16 to the financial statements. The amount includes payments amounting to Kshs.3,828,172 made to fifteen (15) casual workers at the facility. Review of documents provided for audit revealed that Management engaged the casual workers in the first two quarters of the year (July - December 2024) for more than three months by continuously renewing their three-month contracts at expiry, an indication that they were not engaged in short-term and urgent tasks. Further, review revealed that the hospital engaged the casual employees and paid them wages from January - June 2025 without any formal contract agreement to stipulate the terms of engagement which was

contrary to circular from the Mombasa County Public Service Board issued on 5 December, 2024 revoking any delegated authority to engage casual workers. In the circumstances, Management was in breach of the law.

### **Management Response**

In December 2024, the County Public Service Board commenced facility-wide surveys and suitability assessments in preparation for staff regularization. During this interim period, and to ensure continuity of essential services, the casual employees continued to provide services. The regularization process was completed in August 2025, after which the affected staff were awarded contracts.

### **Committee Observation**

The Committee noted management's explanation and regularization process which addressed the prior concerns regarding continuous contract renewals beyond three months.

### **Committee Recommendation**

**The Committee recommends that going forward, the Governor ensures the hospital management engages all staff lawfully, with proper supporting documentation and full compliance with the Human Resource Management Regulations Manual, 2013.**

### **3. Irregular Procurement of Medical Items**

The statement of financial performance reflects medical/clinical costs amounting to Kshs.18,760,424 as disclosed in Note 15 to the financial statements. However, review of sampled payments amounting to Kshs. 4,061,622 revealed that there was no evidence that procurement was supported with appointment letters of adhoc opening and evaluation committees, minutes of the opening and evaluation committees, professional opinion, and market survey report. This is contrary to Regulation 91. (2) to (4) of the Public Procurement and Asset Disposal Regulations, 2020 which requires the accounting officer or such other person delegated in writing by that accounting officer for the purposes of the procurement process to appoint adhoc opening and evaluation committees in accordance with section 46 of the Act and Regulation 39 of these Regulations.

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

### **Management Response**

Procurement of the medical items was undertaken to meet urgent operational requirements, ensuring continuity of critical medical services. All procurement activities were conducted in accordance with operational needs and the Hospital's established procedures at the time.

To strengthen compliance and enhance record-keeping, measures have since been implemented, including the formal appointment of procurement committees, improved documentation practices, and systematic filing of all supporting procurement records. These steps ensure that future procurement activities fully comply with the Public Procurement and Asset Disposal Regulations, 2020, and strengthen transparency, accountability, and audit readiness.

### **Committee Observation**

The Committee observed the irregular procurement of medical items lacking mandatory evidence such as adhoc opening/evaluation committee appointment letters, minutes, professional opinions, and market surveys breaching Regulations 91(2)-(4) of the Public Procurement and Asset Disposal Regulations, 2020 which require formal committee appointments under Section 46 of the PPDA Act.

### **Committee recommendation**

**The Committee recommends that the governor directs hospital management to ensure adherence to procurement laws and regulations under the Public Procurement and Asset Disposal Act, 2015.**

## **4. Irregular Procurement of Fuel**

The statement of financial performance and Note 21 to the financial statements reflect general expenses totaling Kshs.7,908,301, out of which Kshs.460,000 was incurred on fuel and lubricants. However, there was no evidence that the procurement process was followed in selection, evaluation and award of the contract contrary to section 44(2) of the Public Procurement and Assets Disposal Act, 2015 which states that in the performance of the responsibility under subsection (1), an accounting officer shall ensure the procurement and asset disposal process of the public entity shall comply with this Act.

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

### **Management Response**

The procurement of fuel and lubricants for all health facilities, including the Hospital, was centrally coordinated at the County level. Under this arrangement, the Hospital was responsible for effecting payment for fuel issued to the facility, while procurement decisions including supplier selection, evaluation, and contract award—were managed at the County level. Payments totaling Kshs. 460,000 were made for fuel supplied to the Hospital, all of which were verified and utilized in operations.

### **Committee Observation**

The Committee noted irregular procurement of fuel and lubricants costing KShs 460,000 within general expenses of KShs 7,908,301 (Note 21), lacking evidence of selection, evaluation, and award processes at the facility level breaching Section 44(2) of the Public Procurement and Asset Disposal Act, 2015, Management attributes this to centralized County-level procurement with hospital handling only payments for verified operational use, but provides no framework agreements.

### **Committee recommendation**

**The Committee recommends that the Governor ensures the County Treasury, Health Department, and hospital management conduct all procurements of fuel in accordance with the Public Procurement and Asset Disposal Act, 2015, by undertaking competitive processes, maintaining complete procurement documentation, and ensuring transparency and value for money.**

### **5. Irregular Procurement of Printing and Stationary**

The statement of financial performance and Note 21 to the financial statement reflects general expenses amount of Kshs.7,908,301 which includes Kshs.768,757 incurred on printing and stationery. However, payments totaling Kshs 644,556 made to three (3) suppliers were not supported by tender evaluation and award committee minutes and the contract document, contrary to section 44(2) of the Public Procurement and Assets Disposal Act 2015 which states that in the performance of the responsibility under subsection (1), an accounting officer shall ensure the procurement and asset disposal process of the public entity shall comply with this Act.

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

### **Management Response**

During the period, the procurement function was limited to a single staff member, which affected the timely preparation and filing of some supporting documentation for printing and stationery. All goods procured were, however, delivered, verified, and fully utilized to support Hospital operations, with no loss of funds.

To strengthen compliance and record-keeping, the Hospital has formalized the appointment of procurement committees, enhanced documentation practices, and instituted systematic filing of all supporting procurement records, ensuring that all future procurements are fully compliant with the Public Procurement and Asset Disposal Act, 2015, while maintaining transparency, accountability, and audit readiness.

### **Committee Observation**

The Committee noted management's explanation that procurement limitations due to a single staff member delayed preparation and filing of supporting documentation for payments totaling Kshs. 644,556 to three suppliers.

### **Committee recommendation**

**The Committee recommends that the accounting officer for the Hospital complies with Section 44(2) of the Public Procurement and Asset Disposal Act, 2015, by mandating that all procurement of general expenses follows a competitive bidding process, maintaining complete and auditable procurement records, and instituting quarterly internal audit reviews to monitor adherence to procurement laws and enhance accountability.**

## **6. Non-compliance with the Prescribed Format for Presentation of Financial Statements**

The financial statements presented for audit did not include statement of board of management's responsibilities. The financial statements therefore lacked the board's accounting officer's formal confirmation of its commitment and obligation regarding preparation of financial statements that give a true and fair view of the operations of the Hospital during the period. In addition, the statement of financial performance and the statement of financial position did not indicate the dates of approval of the financial statements.

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

### **Management Response**

The omission of the Statement of the Board of Management's Responsibilities and the dates of approval of the financial statements has been noted. Management will ensure that these disclosures are fully incorporated in the financial statements for subsequent financial years in line with the applicable reporting requirements.

### **Committee Observation**

The Committee observed the non-compliance with prescribed financial statement formats, including the absence of the mandatory Statement of the Board of Management's, where the accounting officer confirmed commitment to true and fair presentation.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures hospital management complies with prescribed reporting templates in the preparation of future financial statements.**

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

### **1. Staff Under-Establishment**

The statement of financial performance reflects employee costs amounting to Kshs.143,499,312 as disclosed in Note 16 to the financial statements. However, review of employee returns as at 30 June 2025 revealed that although the approved staff establishment provides for 226 employees, the facility had only 127 employees, resulting in a shortfall of 99 staff.

In the circumstances, the adequacy of the facility's human resource capacity to effectively deliver its mandate could not be confirmed.

#### **Management Response**

The 2023 Task Force for Health, Mombasa County, recommended Tudor Subcounty Hospital be designated as a maternal and child care facility. Although the approved staff establishment of 226 positions reflects a fully functioning Level 4 hospital, the current staffing levels are sufficient to deliver the specialized maternal and child health services for which the Hospital has been designated. The difference in numbers reflects the distinction between a general Level 4 hospital and a specialized maternal and child-focused Level 4 hospital, rather than an actual staffing shortfall.

To address infrastructure-related gaps and support the expansion of specialized services, Management has submitted requests for a Bill of Quantities for pediatric wards and the neonatal unit, as well as for replacement of staff lost through attrition and deployment of critical cadres. These measures are intended to progressively align staffing and facilities with the requirements of a specialized Level 4 hospital, while ensuring uninterrupted delivery of maternal and child health services.

Currently, the Hospital does not have inpatient wards, which limits deployment of certain cadres and accounts for the staffing shortfall of 99 positions. As a result, some specialist services are provided on a sessional or part-time basis, consistent with the existing service scope. To address this gap, Management has engaged the relevant County departments, including submitting requests for a Bill of Quantities to facilitate construction of additional wards and formally requesting replacement of staff lost through attrition and deployment of critical cadres.

These measures are intended to progressively align staffing levels with the approved establishment as infrastructure capacity expands.

### **Committee Observation**

The committee noted the Management explanation deeming current staffing adequate for Obstetrics and Gynecology (OB/GYN) focus.

### **Committee recommendation**

**The Committee recommends that the Governor ensure that the county government allocates resources to achieve the recommended staff establishment.**

## **2. Weak Governance and Risk Management Framework**

Review of the governance and internal control structures of the Hospital revealed significant weaknesses in internal audit and risk management systems. There was no evidence of an in-post internal auditor or engagement of internal audit services from the County Government as required. In addition, the financial statements submitted for audit had not been authenticated by the Chairman of the Board since the facility did not have a Hospital Management Board during the year under review.

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

### **Management Response**

During the year under review, the Hospital did not have a constituted Hospital Management Board, and consequently board-related governance structures, including authentication of the financial statements and establishment of board committees, were not operational. The list of proposed members for the Hospital Management Board was prepared by the Medical Superintendent, following engagement with the Hospital Management Team (HMT), and submitted through the Chief Officer to the CECM Health. Appointments to the Board are made by the Governor, and the proposed members are currently awaiting formal approval. Once appointed, the Hospital Board will operationalize governance structures and reporting requirements in line with applicable regulations.

The Hospital relies on the Internal Audit Department under the County Executive's Department of Finance, which conducted an internal audit for FY 2023/2024. To strengthen internal audit and risk management oversight at the facility level, the County Executive Committee Member has formally requested the assignment of a dedicated internal auditor to the Level 4 and Level 5 facilities, and measures have been initiated in FY 2025/2026 to establish a formal risk management framework.

### **Committee Observation**

The Committee observed critical deficiencies in hospital governance and risk management, lacking an in-post internal auditor or County-provided audit services, and no Hospital Management Board to authenticate financial statements undermining internal controls, risk oversight, and accountability as required under PFM Act governance standards

### **Committee recommendation**

**The Committee recommends that the Governor ensures that the hospital management strengthens the governance and internal control environment by ensuring the recruitment or engagement of qualified internal auditor, operationalize fully functional Audit and Risk Management Committee and develop and implement a comprehensive risk management policy.**

#### **3. Inadequate Storage Space for Non-Pharmaceutical and Pharmaceutical Supplies**

Physical verification of the pharmaceutical and non-pharmaceutical stores conducted on 17<sup>th</sup> November, 2025 revealed that the Hospital lacked adequate storage space to maintain the quality of the drugs and non-pharmaceutical items stored. In the laboratory, boxes and polythene bags containing health products were placed on the floor at the entrance due to lack of space. Further, interviews and observation in both the pharmaceutical and non-pharmaceutical stores revealed that expired items and drugs whose values could not be determined, were located in a small storage space contrary to the Pharmacy and Poisons Board (PPB) Guidelines.

In the circumstances, the effectiveness of internal control measures in regards to pharmaceutical management could not be confirmed.

### **Management Response**

Tudor Subcounty Hospital was initially established as a dispensary and later upgraded to a health Centre and subsequently a Level 4 facility, while retaining the same infrastructure. As service delivery and commodity volumes increased, the available storage space became constrained.

To address this, Management has initiated engagement with the relevant County departments and submitted a request for a Bill of Quantities to facilitate expansion and improvement of storage facilities. In the interim, measures have been taken to reorganize existing storage areas, ensure segregation of expired and unidentified items, and strengthen

compliance with Pharmacy and Poisons Board (PPB) Guidelines pending infrastructure enhancement.

**Committee Observation**

The Committee observed the storage inadequacies a breach of Pharmacy and Poisons Board (PPB) guidelines on quality preservation and compromising drug integrity, safety, and internal controls.

**Committee recommendation**

**The Committee recommends that the Governor ensures the County Executive Committee Member for Health and hospital management to:**

- i) Fast-track approval and funding of the submitted Bill of Quantities for expanding pharmaceutical and non-pharmaceutical storage facilities to comply with Pharmacy and Poisons Board (PPB) Guidelines.**
- ii) Submit quarterly progress reports on storage reorganization, PPB compliance verification, and interim quality control measures to the County Assembly.**

**4. Weaknesses in Information Technology Controls**

Review of records of the Hospital revealed significant weaknesses in the organization's Information Technology (IT) controls including lack of internal IT department to oversee the management and security of IT systems, lack of a strategic IT steering committee to guide and align IT initiatives with organization's objectives. In addition, there was no offsite or external data backup, which increases vulnerability to data loss in the event of system failure, cyber-attacks, or natural disasters.

Further, the Hospital relied on an Enterprise Resource Planning (ERP) system, a revenue collection system without a formal contract or service level agreement to define roles, responsibilities, and service standards.

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

**Management Response**

The Hospital did not have a formal internal IT governance structure during the year under review. Management has since constituted an Information Technology Committee to provide oversight, guide IT initiatives, and strengthen governance of information systems. In addition, steps have been taken to formalize contractual arrangements for the ERP and

PAPERS LAID	
DATE	
TABLED BY	
COMMITTEE	
CLERK AT THE TABLE	

revenue collection systems, and a contract is now ready for execution. Measures are also being implemented to establish off-site data backup arrangements to enhance data security and reduce the risk of data loss.

The County Government is also in the process of implementing its own Hospital Information Management System, and a tender for HMIS providers has been advertised. Once implemented, this system will complement the Hospital's internal IT initiatives and strengthen overall information management and internal controls.

### **Committee Observation**

**The Committee observed critical weaknesses in IT controls at the hospital due to the lack of a strategic IT steering committee, undermining internal controls, risk management, and governance effectiveness; management acknowledged these gaps, noting formation of an IT Committee, pending ERP/revenue contracts, planned offsite backups, and County HMIS tender, however the committee points out that these post-audit remedies lacked implementation timelines, leaving the facility vulnerable to operational disruptions and data breaches..**

### **Committee recommendations**

**The Committee recommends that the Governor:**

- a) directs the County Finance, Health, and ICT Departments to execute ERP/revenue contracts and establish offsite backups with immediate IT Committee operationalization, and]**'
- b) ensures that the hospital deploys dedicated IT support to the hospital and complete HMIS rollout with facility training.**

### **5. Lack of a Hospital Management Board**

Review of documents provided for audit and interview with Management revealed that during the year under review, the Hospital did not have a Hospital Management Board to provide oversight on the management of the facility.

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

### **Management Response**

The list of proposed members for the Hospital Management Board was prepared by the Medical Superintendent, following engagement with the Hospital Management Team (HMT), and submitted through the Chief Officer to the CECM Health. Appointments to

the Board are made by the Governor, and the proposed members are currently awaiting gazettelement.

### **Committee Observation**

The Committee observed that the Governor was yet to constitute Hospital Board of Management as at the time of meeting with the Committee.

### **Committee Recommendation**

**The Committee recommends that, within 60 days of the adoption of this report, the Governor constitutes the Hospital Board of Management as in accordance with the Health Act, 2017 to enhance governance, oversight, and strategic decision-making at the facility, aligning with county health policy standards for improved accountability and service delivery and provide evidence of the Same to the Senate.**

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

The Governor of Mombasa County, Hon. Abdulswamad Sharrif Nassir, appeared before the Committee on Tuesday 20<sup>th</sup> January, 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Mrima Sub-County Level 4 Hospital for the Financial Year 2024/2025.

The Governor was accompanied by the following officers—

1. Mr. Evans Oanda CECM Finance
2. Mr. Jeizan Faruk -County Secretary
3. Dr. Noah Akala-Chief of staff

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

The Auditor-General rendered a Qualified Opinion on the financial statements of the on Mirima Sub-county level 4 Hospital for the financial year 2024/2025 on the following basis—

#### **1. Misclassification of Medical/Clinical**

The statements of financial performance reflect total revenues of Kshs. 214,728,568 which includes medical /clinical costs of Kshs. 19,543,029. However, it was established that the components listed below relating to medical/clinical costs had been misclassified as per the schedules provided for audit review:

<b>Medical/Clinical Costs</b>	<b>Amounts Kshs</b>	<b>Correct Classification as per Schedules</b>
Dental Costs/Materials	3,198,537.00	Laboratory Chemicals and Reagents
Food Ration	505,200.00	Uniform, Clothing and Linen
Uniform Clothing and Linen	4,169,733.00	Dressing and Non-Pharmaceuticals
Dressing and Non-Pharmaceuticals	3,835,522.00	Pharmaceutical Supplies
Pharmaceutical Supplies	1,057,227.00	Health Information Stationery
Reproductive Health material	2,492,709.00	Sanitary and Cleansing Materials
Sanitary and Cleansing Materials	246,244.00	Purchase of Medical Gas

X-Ray/Radiology Supplies	1,019,899.00	Other Medical related Clinical Costs
--------------------------	--------------	--------------------------------------

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

**Management Response**

The misclassification has been rectified in the amended financial statements

**Committee Observation**

The Committee observed material misclassifications within medical/clinical costs of KShs 19,543,029 against total revenues of KShs 214,728,568, including dental costs (KShs 3,198,537) wrongly under laboratory chemicals, food rations (KShs 505,200) as uniforms, and other items like dressings, pharmaceuticals, and X-ray supplies improperly categorized undermining the statement of financial performance's accuracy and completeness per IPSAS presentation standards.

**Committee Recommendation**

**The Committee recommends that the hospital management adheres to IPSAS financial reporting guidelines on classification.**

**2. Variances Between the Opening Balances in Financial Statements and the Closing Balances for Prior Financial Statements**

Review of the financial records disclosed the following variances between the financial statements opening balances and the those shown in the prior years' financial statements closing balances: -

<b>Component</b>	<b>Opening balances in Financial Statements</b>	<b>Closing Balances as per Prior Years' Financial Statements</b>	<b>Variances</b>
<b>Statement of Changes in Net Assets</b>			
At July 1, 2024	197,192,201	208,910,405	- 11,718,204
At June 30 ,2025	248,324,741	260,042,945	- 11,718,204

<b>Statement of Cashflows</b>			
Net Increase/ (decrease) in Cash and Cash Equivalents	-5,319,974	-5,420,975	101,001

In the circumstances, the accuracy of the financial statement balances could not be confirmed.

**Management Response**

The variances have been rectified in the financial statements

**Committee Observation**

The Committee notes material variances between opening balances in the current financial statements and prior year's closing balances, including KShs 11,718,204 discrepancies in the Statement of Changes in Net Assets (both at 1 July 2024 and 30 June 2025) and KShs 101,001 in net cash flows casting doubt on the accuracy of financial statement balances

**Committee Recommendation**

**The Committee recommends that the accounting officer ensures proper accounting records are kept and properly reported as per the accounting guidelines.**

**3. Unconfirmed In-Kind Contribution from County Government Kshs.148,239,440**

The statement of financial performance and Note 7 reflects in-kind contribution from the County Government of Kshs.148,239,440 relating to costs of employees who are seconded to the Hospital. However, the details of those workers and the amounts paid to the respective officers was not provided for audit review. In the absence of the listing and amounts paid, it was not possible to determine whether the remuneration paid to the officers was in line with the salaries and remuneration commission.

In the circumstance, the accuracy and completeness of the in-kind contribution from the County Government of Kshs. 148,239,440 could not be confirmed

**Management Response**

The staff in question are seconded to the Hospital and are remunerated directly through the County Government payroll in accordance with Salaries and Remuneration Commission (SRC) guidelines. As such, the Hospital does not process payroll for these employees, and the related staff costs are recognized and disclosed in the financial statements as an in-kind contribution.

The detailed remuneration data is maintained at the County payroll and was therefore not immediately available at the Hospital. The information has since been formally requested from the County authorities, obtained, and is now attached for verification.

### **Committee Observation**

The Committee observed the unconfirmed in-kind contribution of KShs 148,239,440 from the County Government for seconded staff costs within the statement of financial performance, lacking details of worker identities, payroll listings, and payment amounts during audit preventing verification of compliance with Salaries and Remuneration Commission (SRC) remuneration guidelines and questioning the figure's accuracy and completeness.

### **Committee Recommendation to the Governor**

**The Committee recommended that that the Governor directs that the hospital management submits the full seconded staff schedule within 30 days to the Office of the Auditor general (OAG) for audit confirmation.**

#### **4. Misstatement of Property, Plant and Equipment Balance**

The statement of financial position and Note 32 reflects property, plant and equipment of Kshs.232,968,534.00. However, management did not provide schedules or valuation reports disclosing how the values were determined and title deed to the parcel of land on which the Hospital stands was not provided for audit review. Further, the balance excluded the values of motor vehicles yet the Hospital had an ambulance.

In the circumstances, the accuracy, ownership and existence of property, plant and equipment balance of Kshs.232,968,534 could not be confirmed.

### **Management Response**

The property, plant and equipment balance of Kshs. 232,968,534 is supported by a detailed asset register and an accompanying valuation report, which outline the basis used in determining the disclosed values. The Hospital occupies land held under an allotment number and, as such, does not currently possess a title deed. Management has formally initiated the process of securing ownership by issuing a request through the Chief Officer for the engagement of a surveyor to undertake beaconing and facilitate the subsequent acquisition of a title deed.

In addition, the Hospital has an ambulance donated by Médecins Sans Frontières (MSF) which was inadvertently omitted from the motor vehicles category during the preparation

of the financial statements. Management has since updated the asset register and will ensure that the asset is properly recognized and disclosed in accordance with the applicable accounting standards.

#### **Committee Observation**

The Committee observed the misstatement of property, plant, and equipment at KShs 232,968,534 (Note 32), lacking valuation schedules/reports, title deed for the hospital land, and omission of an MSF-donated ambulance from motor vehicles. Management provided post-audit asset register/valuation support, confirms land under allotment letter with surveyor request initiated for titling, and pledges ambulance inclusion; however, these evidential gaps during audit highlight inadequate asset management and risks of unrecorded/under-valued public assets.

#### **Committee recommendation**

**The Committee recommends that the Governor ensures hospital management expedites acquisition of the ownership documents and the discloses vehicles as per the template of the PSASB in the subsequent reporting period through prior year adjustments**

#### **5. Unsupported Expenditure of Telephone Expenses**

The statement of financial performance and as disclosed in Note 21 to the financial statements reflects general expenses of Kshs 12,618,490. Included in the amount is Kshs. 570,154 in respect of internet expenses which comprised of telephone expenses of Kshs. 372,000. However, review of expenditure and procurement records revealed that the items were not supported with store receipts and stores ledger cards. Further, detailed breakdown of staff and airtime received against the entitlement was not provided for the audit review. In the circumstances, the accuracy and validity of the expenditure of Kshs. 372,000 could not be confirmed.

#### **Management Response**

The store receipts and ledger cards supporting the expenditure are attached. The submission also includes a detailed breakdown of staff beneficiaries and corresponding airtime allocations, supported by signed acknowledgment forms, as well as minutes by Level 4 Medical Superintendents approving and harmonizing staff airtime entitlements, which form the basis of allocation.

#### **Committee Observation**

The Committee notes that general expenses of KShs 12,618,490 (Note 21) include KShs 570,154 internet expenses, within which KShs 372,000 telephone/airtime lacks store receipts, ledger cards, and staff entitlement breakdowns. Management provided the supporting documents post-audit, including receipts, ledgers, beneficiary lists, signed acknowledgments, and Medical Superintendents' minutes approving allocations

#### **Committee Recommendation**

**The Committee recommends that the Governor directs hospital management to always provide supportive documents within the audit timeline.**

#### **6. Unsupported Trade and Other Payables**

The statement of financial position and Note 36 to the financial statement reflects trade and other payables balance of Kshs.15,220,128. However, schedules, ledgers and supporting documents in support of trade payables balance of Kshs. 15,220,128 in relation to staff payables were not provided for audit review. In the circumstances, the accuracy and completeness of trade payables balance of Kshs.15,220,128 could not be confirmed.

#### **Management Response**

The trade and other payables balance of Kshs. 15,220,128 relates to staff salary costs due for seconded staff by end of 30 June which are remunerated directly by the County Government. The Hospital does not process payroll for these staff and the costs are treated as an in-kind contribution.

The balance was recognized based on information provided by the County Government. A detailed monthly breakdown was not available at the time, as the information received was partly cumulative. A request dated 2 December has since been issued to the Public Service Board seeking a detailed breakdown, and the available schedules and request letter are attached for verification.

#### **Committee Observation**

The Committee noted the unsupported trade and other payables balance, lacking schedules, ledgers, and documents for staff-related amounts preventing confirmation of accuracy and completeness.

#### **Committee Recommendation**

**The Committee recommends that the Governor ensures that hospital management provide complete staff payables schedules, County payroll confirmations, and reconciliations when required for audit .**

## **7. Irregular Engagement of Casuals**

The statement of financial performance and as disclosed under Note 16 to the financial statements reflect employee costs of Kshs.151,448,462. Included in the amount is Kshs.3,039,947 relating to contractual/casual employees. However, review of employee records revealed that a total of Kshs1,160,359 was paid to the casuals despite their contracts ending in December 2024.

In the circumstances, the accuracy, completeness and validity of the casual employee payments of Kshs.1,160,359 could not be confirmed.

### **Management Response**

In December 2024, the County Public Service Board commenced facility-wide surveys and suitability assessments in preparation for staff regularization. During this interim period, and to ensure continuity of essential services, the casual employees continued to provide services. The regularization process was completed in August 2025, after which the affected staff were awarded contracts.

### **Committee Observation**

The Committee noted the irregular engagement of casual employees, where Kshs. 1,160,359 was paid post-contract expiry in December 2024, raising questions on the accuracy, completeness, and validity of these payments. While Management explained this as an interim measure during the County Public Service Board's facility-wide surveys and regularization process, the absence of documented approvals or extensions for these payments undermines financial controls and non-compliance with the Public Finance Management Act, 2012

### **Committee recommendations:**

**The committee recommends that the governor directs the management to take administrative actions including mandatory pre-approval protocols for all casual/contract extensions, including documented justification and budget provisions, aligned with PFM Regulations.**

### **Emphasis of Matter**

#### **Budget as a Control Tool and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.47,358,276 and Kshs.52,462,225 respectively, resulting to over-collection of Kshs.5,103,949, or 11% of the budget. However, the

Hospital spent Kshs.38,998,385 against actual receipts of Kshs.52,462,225, resulting to an under-utilization of Kshs.13,463,840 or 26% of actual receipts.

The over collection implies lack of budget rationalization while under-utilization affected the planned activities and may have impacted negatively on service delivery to the public by the Hospital.

#### **Management Response**

The over-collection against the approved budget was primarily due to the transition from the Linda Mama program to the Standard Health Allocation (SHA). Under Linda Mama, the Hospital received Kshs. 5,000 per delivery, whereas under SHA, reimbursements increased to Kshs. 10,000 per normal delivery and Kshs. 30,000 per cesarean section. This change, together with actual service volumes, resulted in actual collections exceeding the approved budget. The under-utilization of funds reflects timing differences between revenue realization and expenditure authorization.

Approval to incur expenditure is granted on a quarterly basis and is guided by revenue collected in the preceding quarter, in line with established financial controls. Consequently, the amount of Kshs. 13,463,840 collected in the fourth quarter of FY 2024/2025 was not available for expenditure within the same financial year and was instead programmed for use in the first quarter of FY 2025/2026.

#### **Committee observation**

The Committee noted the budgetary over-collection due to enhanced SHA reimbursements replacing Linda Mama (KShs 10,000 normal delivery vs. prior KShs 5,000; KShs 30,000 C-sections), signalling inadequate revenue forecasting contrary to PFM Act budget control principles.

#### **Committee Recommendation**

**The Committee recommends that the Governor ensures that the hospital management revises budgeting with rolling forecasts incorporating SHA volume projections and monthly cash flow monitoring to minimize variances.**

#### **Key Audit Matters**

##### **Other Matter**

##### **Unresolved Prior year Matters**

In the prior years' audit reports, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. Review

of the status during the audit in 2024/2025 revealed sixteen (16) as detailed in the attached Appendix matters remained unresolved.

### **Management Response**

The audits for FYs 2021/22 to 2023/24 were conducted and concluded in August 2025, following which the audit for FY 2024/25 commenced shortly thereafter. This resulted in a short implementation window between audit cycles to fully address all prior-year recommendations.

Notwithstanding this, steps have been initiated to address the issues raised through strengthened oversight arrangements and improved internal controls. For the remaining matters, engagement with the relevant departments is ongoing, and formal requests for the required facilitation have been submitted.

Key governance and planning tools, including the Annual Procurement Plan, Annual Budget, and Quarterly Revenue Reports, are now being implemented in FY 2025/2026 to enhance compliance, accountability, and effective use of public resources.

### **Committee Observation**

The Committee expressed grave concern over the persistence of sixteen unresolved audit issues from prior years (2021/22–2023/24) spanning financial statements, public resource effectiveness, and internal controls/governance, despite audits concluding in August 2025 demonstrating systemic delays despite short implementation windows. Management cites tight audit cycles but notes initiated oversight improvements, ongoing departmental engagements, facilitation requests, and FY 2025/2026 rollout of procurement plans, budgets, and revenue reports; however, absent a detailed resolution matrix, timelines, or progress evidence, this pattern erodes accountability, risks financial losses, and hampers service delivery.

### **Committee Recommendation**

**The Committee recommends that the Governor directs the hospital management submit a comprehensive action plan to the senate days covering all the unresolved issues. .**

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

### **1. Irregular Payments for Medical/Clinical Costs**

The statement of financial performance and as disclosed under Note 15 to the financial statements reflect medical/clinical expenses of Kshs 19,543,029. However, review of the

payment vouchers for the expenditure revealed that a total of Kshs 1,140,920 was paid to firms which were not in the prequalified list of suppliers. This is in violation of Section 106 (2) (a) of the Public Procurement and Asset Disposal Act, 2015 which requires a procuring entity to give the request to such persons who are registered by the procuring entity;

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

#### **Management Response**

The suppliers paid under the referenced medical and clinical costs were all prequalified and fall within the reserved group (AGPO), in line with the applicable procurement framework. Procurement was therefore conducted from eligible suppliers, and supporting documentation including the approved list of reserved and general suppliers and the full list of prequalified suppliers is hereby attached.

#### **Committee Observation**

The Committee observed the irregular payments of KShs 1,140,920 within medical/clinical expenses to firms absent from the prequalified suppliers list, breaching Section 106(2)(a) of the Public Procurement and Asset Disposal Act, 2015, which mandates procurement from registered entities. Management asserted all suppliers were prequalified, particularly under the reserved AGPO category, while this may resolve the evidential gap, initial non-production risks non-competitive practices and favouritism.

#### **Committee Recommendation**

**The Committee recommends that the Governor ensures that the hospital management aligns all payments totalling KShs 1,140,920 made to the suppliers with the full prequalified/AGPO lists, payment vouchers, and procurement minutes within 15 days.**

#### **2. Lack of an Approved Budget**

During the year under review, the Hospital did not have an approved budget. This is in contravention of Regulation 29 (2) (a) of the Public Finance Management (County Government) Regulations, 2015 which requires all services which could be reasonably foreseen, to be included in the estimates and that the same be within the capacity of the County Government entity during the financial year.

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

#### **Management Response**

The Hospital operates on quarterly budgets aligned to the Annual Work Plan, which guide revenue and expenditure management throughout the financial year based on operational needs. These quarterly budgets are approved and applied to ensure continuity of services and prudent financial management.

To strengthen compliance and planning, a consolidated annual budget has now been prepared and approved, with measures put in place to ensure that all future annual budgets are approved and applied consistently.

#### **Committee Observation**

The Committee observed the copy of the approved consolidated procurement plan of an approved annual budget during the year under review.

#### **Committee recommendations**

**The Committee recommends that the Governor ensures hospital management provides supporting documents within the audit timeliness.**

### **3. Irregular Management of Imprests**

Review of imprest records revealed that the Hospital did not maintain an imprest register as required by Regulation 93(4)(c) of the Public Finance Management (County Governments) Regulations, 2015 which stipulates that 'before issuing temporary imprests an accounting officer to ensure that the applicants imprest has been recorded in the imprest register including the amount applied for.

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

#### **Management Response**

The Hospital had been recording all imprests in an excel schedule to track issuance and accountability. To enhance compliance with Regulation 93(4)(c) of the Public Finance Management (County Governments) Regulations, 2015, a formal imprest register has since been procured from the Government Printer and established to record all imprests issued.

#### **Committee Observation**

The Committee notes the hospital's failure to maintain a formal imprest register as required by Regulation 93(4)(c) of the Public Finance Management (County Governments) Regulations, 2015, which mandates recording imprest before issuance exposes funds to misuse, unaccounted surrenders, and corruption. Management used an Excel schedule for tracking but has now procured the official Government Printer register; while this addresses the breach reactively, the initial non-compliance contravenes basic cash management controls.

## **Committee Recommendation**

**The Committee recommends that the Governor direct the hospital management to implement the imprest register in accordance with the provisions of Public Finance Managements regulations.**

### **4. Lack of an Approved Procurement Plan**

Review of policy documents revealed the Hospital did not have an approved procurement plan for the year under audit. This is contrary to Regulations 40(1) and 40(4) of the Public Procurement and Assets Disposal Regulations, 2020 which requires a procuring entity to prepare a procurement plan for each financial year as part of the annual budget preparation process

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

#### **Management Response**

The Hospital prepares a procurement plan at facility level, which is submitted to the departmental procurement office. Measures have since been taken to ensure procurement plans are approved as required.

## **Committee Observation**

The Committee notes the absence of an approved procurement plan for the audit year, breaching Regulations 40(1) and 40(4) of the Public Procurement and Asset Disposal Regulations, 2020, which mandate preparing and approving a plan during annual budgeting to guide all procurements. Management claims facility-level preparation with submission to departmental procurement but lacks approval evidence, risking ad-hoc purchasing, non-competitive awards, and accountability gaps.

## **Committee Recommendation**

**The Committee recommends that the Governor ensures that hospital management provides the supporting documents within the audit timelines.**

### **5. Non-Compliance with Kenya Quality Model for Health Policy Guidelines**

During the year under review, verification of services offered, equipment used and staffing levels revealed that the Hospital did not meet a number of key specifications as prescribed by the Kenya Quality Model for Health policy guidelines as analyzed below:

<b>Personnel</b>	<b>Level 4 Standard</b>	<b>Actual Numbers</b>	<b>Deficit</b>
Medical Officers	16	6	10

Anesthesiologists	2	0	2
Neurologist	1	0	1
Optometrist	1	0	1
Paediatrics	2	0	2
Radiologists	2	0	2
ophthalmologist	1	0	1
Physician(internist)	2	1	1
General clinical Officers	30	7	23

Physical verification of equipment's within the facility on 13 November, 2025 indicated non-availability of Computed Topography (CT) scan, Magnetic Resonance Imaging (MRI) machine, Mammography machine, ENT unit, Ultra sound Machine, Radiology services and patient ventilators. There was also no Dental X-Ray machine, General X- Ray Machine, Intensive care unit (ICU), high dependence unit (HDU) and Support vehicle. There was also no Mortuary and Renal unit with at least five (5) dialysis. Further verification indicated that the hospital did not have the CCTV Camera System which is a necessity in Hospitals. The issue and receipt of medicine in the pharmacy was not automated and one of the laundry machines was not working, Vans in the Laundry office was not working at the time of Audit. The hospital also had one (1) working incubators as opposed to the required five (5) and further verification of the ward indicated that the hospital had forty-one (41) beds contrary to the required one hundred and fifty (150) beds. In the circumstances, the Sustainable Development Goal number 3.8 whose target is to achieve universal health coverage, including financial risk protection, access to quality essential health care services and access to safe, effective, quality and affordable essential medicines and vaccines for all could not be achieved.

### **Management Response**

The Hospital is a Level 4(b) specialized facility for single-specialty OBGYN surgical services, and as such does not provide the full range of services and infrastructure applicable to a general Level 4 hospital. Accordingly, certain personnel categories, diagnostic equipment, and support units cited in the audit fall outside the approved scope of the facility's mandate.

Notwithstanding this specialization, the Hospital has submitted formal equipment requisitions to the County Government and finalized requests under the National Equipment Service Programme (NESP) for facilities applicable to its service scope and is awaiting supply. In addition, requests were submitted to the County Public Service Board

during the year under review for deployment of additional staff to address identified gaps within the approved staffing establishment.

### **Committee Observation**

The Committee observed significant deficits against Kenya Quality Model for Health (KQMH) Level 4 standards, including shortages of Medical Officers, beds alongside missing critical equipment. Management While specialization partially justifies gaps, the unaddressed shortages within its mandate undermine service quality, patient safety, and SDG 3.8 on universal health coverage, potentially violating the Health Act, 2017 (Sections 15-16 on facility standards).

### **Committee Recommendation**

**The Committee recommends that the Governor ensures that hospital management prioritizes and fast-track NESP equipment procurement for Obstetrics and Gynaecology (OBGYN)-relevant items, with delivery timelines and budget allocation confirmed in Q1 2026/27.**

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

### **Conclusion**

#### **Basis for Conclusion**

##### **1. Lack of Board of Management**

Review of management records and the financial statements disclosed that the facility operated without Hospital Management Board. Further, the financial statements did not include a report on board of management information and chairman's statement. In addition, the financial statements were not signed by the chairman of the board

In the circumstances, the effectiveness of risk management and governance at the Hospital could not be confirmed.

#### **Management Response**

During the year under review, the Hospital did not have a constituted Hospital Management Board in place, and consequently board-related reports and approvals were not included in the financial statements.

The list of proposed members for the Hospital Management Board was prepared by the Medical Superintendent, following engagement with the Hospital Management Team (HMT), and submitted through the Chief Officer to the CECM Health. Appointments to the Board are made by the Governor, and the proposed members are currently awaiting

formal approval. Once appointed, the Hospital Board will operationalize governance structures and reporting requirements in line with applicable regulations.

### **Committee Observation**

The Committee observed that the Governor was yet to constitute Hospital Board of Management as at the time of meeting with the Committee.

### **Committee Recommendation**

**The Committee recommends that, within 60 days of the adoption of this report, the Governor constitutes the Hospital Board of Management as in accordance with the Health Act, 2017 to enhance governance, oversight, and strategic decision-making at the facility, aligning with county health policy standards for improved accountability and service delivery and provide evidence of the Same to the Senate.**

## **2. Failure to Maintain an Asset Register**

Review of management records revealed that the Hospital did not maintain an asset register for its movable and non-movable assets. This was contrary to Regulation 170(1) of the Public Procurement and Asset Disposal Regulation, 2020 which provides that an Accounting Officer of a procuring entity to be responsible for maintaining a register of assets under his or her control or possession.

In the circumstances, the existence and effectiveness of internal controls for asset management could not be confirmed.

### **Management Response**

The Hospital maintains an asset register in electronic format, which captures both movable and non-movable assets and is updated whenever new assets are acquired. The register is reviewed by the Hospital Management Team and is hereby provided for audit review.

### **Committee Observation**

The Committee notes the hospital's failure to maintain a physical asset register for movable and non-movable assets, breaching Regulation 170(1) of the Public Procurement and Asset Disposal Regulations, 2020, which mandates the Accounting Officer to keep such records undermining asset existence verification, internal controls effectiveness, and risk of loss/theft.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures the hospital management provides a fixed asset register as per the guidelines of Public Sector Accounting Standards Board (PSASB).**

### **3. Lack of Internal Audit Function**

As a Cost saving measure, review of Management records revealed that the Hospital did not have an internal auditor and the internal audit department was not established, contrary to Section 153(1) of the Public Finance Management (County Governments) Regulations, 2015 which requires all public entities to establish internal audit functions.

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

#### **Management Response**

The Hospital currently utilizes the Internal Audit Department under the County Executive's Department of Finance, which conducted an internal audit for the 2023/2024 financial year. In addition, the County Executive Committee Member has formally requested that an internal auditor be assigned to the Level 4 and Level 5 facilities, as evidenced by the attached request letter.

#### **Committee Observation**

The Committee noted the absence of an internal audit function at the hospital, implemented as a cost-saving measure but breaching Regulation 153(1) of the Public Finance Management (County Governments) Regulations, 2015, which mandates all public entities to establish internal audit units for independent assurance on controls, risk management, and governance.

#### **Committee Recommendation**

**The Committee recommends that the Governor fast-tracks the process of deploying internal auditor to the hospital..**

### **4. Lack of Risk Management Policy**

Assessment of the internal control system in place at the Hospital disclosed that Management had not established a risk management policy to mitigate and control operational and other risks that the facility may face from time to time. In addition, the Hospital had not carried out any risk assessments to identify and address key areas of concern and document specific controls in Management Response to risks identified.

In the circumstances, the existence of an effective mechanism to safeguard against risks could not be confirmed

#### **Management Response**

The Hospital had not formalized a risk management policy during the year under review. Measures have since been initiated to develop a risk management framework, including a disaster recovery plan, and to undertake a comprehensive risk assessment to identify key operational and strategic risks and document appropriate mitigation controls.

#### **Committee Observation**

The Committee observed the absence of a formal risk management policy at the hospital, with no evidence of risk assessments to identify operational, financial, or strategic vulnerabilities and document mitigation controls undermining effective internal controls and governance as required under PFM Act risk frameworks. Management acknowledged the gap during the review year but confirms initiation of a risk framework however, without timelines or implementation evidence, the facility remains exposed to unmitigated threats like service disruptions or financial losses.

#### **Committee Recommendation**

**The Committee recommends that the Governor directs the hospital management to finalize and approve the risk management policy with initial assessments.**

### **5. Identification, Collection and Accounting for Own Generated Revenue**

The statement of financial performance reflects Kshs. 15,167,016 in relation to rendering of services - medical income as disclosed in Note 11 to the financial statements. Review of internal controls in respect to revenue collection established that there was no segregation of duties in revenue collection. The person receiving the payment confirmation details also records the receipts in the account, issues the receipts and records the transactions in the cash book register.

This is contrary to Regulation 158 (1) (b) of the Public Finance Management (County Government) Regulation, 2015 which requires the Accounting Officer to ensure that the County Government entity to develop a system of risk management and internal controls that builds robust business operations.

In the circumstances, the effectiveness of the system of revenue collection and controls could not be confirmed.

#### **Management Response**

Revenue collection is conducted through an M-Pesa Paybill platform, and the Hospital does not handle physical cash. Payment notices are clearly displayed at service points. To strengthen internal controls, daily reconciliations are independently performed by the facility accountant to confirm that receipts issued reconcile with amounts received in the bank.

#### **Committee Observation**

The Committee observed the revenue collection.

#### **Committee recommendation**

**The committee recommends that the governor ensures that the management provides the supporting documents within the audit timelines**

### **6. Reliance on Manual Accounting System**

The Hospital relies on manual accounting system to record, process, and report its transactions. This is prone to errors, inconsistencies, lack of control for data, confidentiality, integrity, and availability, and lack of audit trail of transactions. This exposes the entity to service delivery interruptions in the case of an eventual loss of crucial data.

In the circumstances, the effectiveness of the internal control systems could not be confirmed.

#### **Management Response**

The Hospital is in expectation of transitioning from the manual accounting system to the National Government's Hospital Information Management System (HIMS) under the Taifa Care Programme. The Hospital has undergone system assessment, and initial testing of the supplied equipment and modules has been conducted to ensure readiness for full implementation.

Full rollout of the HIMS at the Hospital is expected upon completion of the national programme, after which manual processes will be progressively phased out. This transition will strengthen internal controls, enhance data integrity, and ensure the availability of an audit trail. Additionally, the County has advertised a tender for HMIS providers, which will complement the national rollout and fully address digitization and accounting system requirements once executed.

#### **Committee Observation**

The Committee noted the hospital's continued reliance on a manual accounting system for recording, processing, and reporting transactions, which is prone to errors, lacks data

controls for confidentiality/integrity/availability, and provides no audit trail exposing the entity to service disruptions from data loss and questioning internal control effectiveness.

**Committee recommendation**

**The Committee recommends that the Governor directs the County Departments of Health and Information, Communication, and Technology (ICT) expeditiously implement computerized Hospital Management Information Systems (HMIS), with priority on transitioning from manual accounting processes to mitigate risks of errors, data loss, and weak internal controls.**

**2.4 REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR PORT REITZ SUB-COUNTY LEVEL 4 HOSPITAL FOR THE FINANCIAL YEAR 2024/2025.**

The Governor of Mombasa County, Hon. Abdulswamad Sharrif Nassir, EGH, appeared before the Committee on Tuesday 20<sup>th</sup> January, 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Port Reitz Sub-county Level 4 Hospital for the Financial Year 2024/2025.

The Governor was accompanied by the following officers—

1. Mr.Abdallah Khamis -CECM- environment and water
2. Mr.Evans Oanda CECM Finance
3. Mr.Jeizan Faruk -County Secretary
4. Dr.Noah Akala-Chief of staff
5. Ms.Habiba Ali -Ag.Md Mowassco
6. Eng.Albert Keno CCO Water Sanitation

**REPORT ON THE FINANCIAL STATEMENTS**

The Auditor-General rendered a Qualified Opinion on the financial statements of the on Port Reitz Sub-county level 4 Hospital for the financial year on the following basis—

**1. Inaccuracies in the Financial Statements**

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

**1.1. Variances between the Financial Statements Opening Balances and Prior Year’s Balances.**

The opening balances differed with the prior year’s audited balances as detailed below:

Component		Amounts in	Prior Year’s	Absolute
	Note	the Financial Statements (Opening Balances)	Audited Balances	Variance
		Kshs	Kshs	Kshs
Accumulated Surplus/Deficit		0	3,992,212	3,992,212
<b>Statement of Changes in Net Assets</b>				

<b>Capital Fund</b>				
At July 1, 2024		45,625,558	62,741,091	17,115,533
At June 30,2025		-	45,625,558	45,625,558
<b>Accumulated Surplus/Deficit</b>				
At July 1, 2024		21,107,745	2,150,221,351	2,129,113,606
At June 30 ,2025		25,079,750	2,125,141,602	2,100,061,852
<b>Cash Generated from Operations</b>				
Net Cashflow from Operating Activities	43	30,244,010	30,179,189	64,821
Medical/Clinical Costs	15	62,174,252	61,790,373	383,879
Employee Costs	16	366,845,326	364,648,252	2,197,074
General Expenses	21	23,852,775	23,843,325	9,450
Inventories	31	24,635,005	23,787,158	847,847

## 1.2. Variances Between Financial Statement and Schedule Amount

The balances presented in the financial statements did not agree with the supporting schedules as analyzed below:

<b>Component</b>		<b>Amount in Financial Statement Amounts</b>	<b>Supporting Schedule or Note Amounts</b>	<b>Absolute Variances</b>
	<b>Note</b>	<b>(Kshs.)</b>	<b>(Kshs.)</b>	
In Kind Contributions from the County Government	7	7 403,585,06	400,974,472	2,610,588
Receivables from Exchange Transactions	29	24,382,937	23,993,787	389,150
General Expenses	21	26,434,328	27,234,328	800,000)
Depreciation and	18	5,693,946	5,974,640	280,694

Amortization				
--------------	--	--	--	--

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

**Management Response**

The audit report was issued in respect of an earlier version of the financial statements, which has subsequently been overridden by amended financial statements as adopted. The attached extracts and supporting schedules are prepared in accordance with the amended financial statements. No variance exists between the balances and the related schedules on this basis

**Committee Observations**

The Committee noted significant variances in the financial statements presented for audit, including discrepancies between opening balances and prior year's audited figures as well as mismatches between financial statement amounts and supporting schedules. Absence of independent verification or audit clearance for the amendments leaves these claims unconfirmed, potentially exposing the County to risks of misstatement and qualified audit opinions.

**Committee recommendations**

**The committee recommends that the Governor through the County Health Executive Committee Member ensures that the hospital management submits the full amended financial statements, supporting variance reconciliations and engage external validation of FY 2024/2025 statements and ensure that the same reflects in the financial statement for year ended 30<sup>th</sup> June 2026 to confirm that the errors have been corrected.**

**2. Unsupported In-Kind Contribution from County Government**

The statement of financial performance and Note 7 reflect an in-kind contribution from County Government of Kshs.403,585,060 in respect of employee costs for the permanent employees paid by the County Government of Mombasa. However, details of staff seconded to the Hospital and the amount paid to the respective officers were not provided for audit review.

In the circumstances, the accuracy and completeness of the in-kind contribution from County Government of Kshs.403,585,060 could not be confirmed.

**Management Response**

As the employees are seconded, they are remunerated directly by the County Government and the Hospital does not process their payroll.

Communication has been made to the county to provide the details and amount paid to the seconded officers.

### **Committee observation**

The Committee observed the unconfirmed in-kind contribution of from the County Government for seconded permanent staff employee costs, lacking details of seconded workers and payment amounts during audit preventing verification of accuracy, completeness, and Salaries and Remuneration Commission compliance. Management confirms direct County payroll processing with Hospital recognition as in-kind per standard public sector accounting, however, persistent unavailability of schedules underscores coordination gaps between County payroll and facility reporting.

### **Committee Recommendation**

**The Committee recommends that the Governor directs the hospital management submits full seconded staff schedules (names, SRC scales, payment proofs) within 14 days.**

### **3. Recognition of Prior Year's Expenses in the Current Financial Year**

The statement of financial performance and Note 15 to the financial statements reflect medical/clinical costs of Kshs.91,005,948. However, an audit of a sample of payment vouchers relating to the expenditure revealed that expenditure totalling Kshs.1,921,155 was incurred in the previous financial year but recognized and charged in the current year's financial statements.

In the circumstances, the accuracy and completeness of medical/clinical costs of Kshs.91,005,948 could not be confirmed.

#### **Management Responses**

The payments relate to pending bills originating from the period before devolution, which remained unsettled and were carried forward into subsequent financial periods. The bills were reviewed and approved by the Hospital Management Team during preparation of the FY 2024/2025 budget and were settled during the year.

#### **Committee Observation**

The Committee observed the misrecognition of KShs 1,921,155 prior year medical/clinical expenditure within current year costs of KShs 91,005,948 (Note 15), where payment

vouchers confirm pre-FY 2024/2025 incurrence but improper charging to the current period undermining accrual accounting accuracy and completeness under IPSAS.

#### **Committee recommendation**

**The Committee recommends that the Governor ensures that the hospital management ensures all expenditures are accurately reflected in the financial period to which they relate, in strict compliance with accrual accounting principles under the Public Finance Management Act, 2012, and supported by verifiable documentation such as invoices, delivery notes, and approval records.**

#### **4. Unsupported Depreciation and Amortization Expenses**

The statement of financial performance and Note 18 to the financial statements reflect depreciation and amortization expenses of property, plant and equipment amounting to Kshs.5,693,946. However, the method and rates applied in computation of depreciation were not disclosed in the financial statements.

In addition, land, buildings and civil works, furniture, fittings and office equipment, ICT equipment and plant and medical equipment balances as at 1 July, 2024 of Kshs.2,000,000,000, Kshs.112,425,048, Kshs.1,582,455 and Kshs.1,185,340 respectively were not supported.

In the circumstances, the accuracy of the depreciation and amortization expenses of Kshs.5,693,946 could not be confirmed.

#### **Management Response**

Rates applied for calculating depreciation are straight line method and the rates are highlighted in the depreciation schedules.

#### **Committee observations**

The Committee observed that the statement of financial performance and Note 18 report depreciation and amortization expenses for property, plant, and equipment, but fail to disclose the depreciation methods and rates used, contravening International Financial Reporting Standards (IFRS) and the Public Finance Management Act, 2012 requirements for transparency.

Furthermore, key asset balances as at 1 July 2024 such as land, buildings and civil works, furniture, fittings and office equipment, and plant and medical equipment lack supporting documentation. These heightens risks of asset overstatement or understated depreciation.

#### **Committee recommendations**

**The Committee recommends that the governor directs the hospital management to be disclosing the method of depreciation in the financial statement as well as disclose supporting computation of opening balances as calculated from the acquisition cost.**

#### **5. Unsupported Procurements on Repairs and Maintenance**

The statement of financial performance and Note 19 to the financial statements reflect the amount of Kshs.16,207,064 in respect to repairs and maintenance. The amount includes Kshs.15,209,521 in respect of maintenance of property, plant, machinery and equipment, out of which Kshs.2,460,833 was not supported with procurement records including notification of award, regret letters to unsuccessful bidders, letter of acceptance by the successful bidder and professional opinion. This was contrary to Section 68(6) of the Public Procurement and Asset Disposal Act, 2015 which states that, ‘an Accounting Officer of a procuring entity shall maintain a proper filing system with clear links between procurement and expenditure files that facilitates an audit trail’.

In the circumstances, the accuracy, regularity and value for money on repair and maintenance expenditure of Kshs.2,460,833 could not be confirmed and Management was in breach of the law.

#### **Management Response**

#### **Committee Observations**

The Committee observed that the statement of financial performance and Note 19 report repairs and maintenance expenses totaling Kshs 16,207,064, including Kshs 15,209,521 for maintenance of property, plant, machinery, and equipment. However, Kshs 2,460,833 of this amount lacks critical procurement records contravening Section 68(6) of the Public Procurement and Asset Disposal Act, 2015, which mandates a proper filing system ensuring a clear audit trail between procurement and expenditure files. Consequently, the accuracy, regularity, and value for money of the Kshs 2,460,833 expenditure could not be confirmed, exposing the County to risks of irregular spending, potential fraud, and legal non-compliance.

#### **Committee recommendations.**

**The Committee recommends that the Governor ensures the hospital management to always keep accurate records of procurement and submit them for audit within the required timelines.**

#### **6. Misclassification of Advertising and Publicity Expenses**

The statement of financial performance and Note 21 to the financial statements reflect Kshs.26,434,328 in respect to general expenses. Included in this amount is Kshs.800,000 relating to advertising and publicity expenses. However, review of schedules provided in support of the expenditure revealed that Kshs.600,000 comprised surrenders of imprests issued for facilitation of payments for SHA patients as per the Governor's directive. Hence, the amount was wrongly classified under advertising and publicity expenses instead of medical costs.

Further, included in the expenditure was an imprest advance of Kshs.200,000 which was issued to the Medical Superintendent that had not been surrendered as at 30 June, 2025.

Therefore, the expenditure was classified under advertising and publicity expense instead of receivables as staff advance.

In the circumstances, the accuracy and completeness of general expenses of Kshs.1,000,000 for could not be confirmed.

#### **Management Response**

The audit report was issued in respect of an earlier version of the financial statements, which has subsequently been overridden by the amended financial statements as adopted. The amount of Kshs. 600,000 relates to imprest surrenders issued for the facilitation of SHA patients in line with the Governor's directive and has been correctly classified under medical costs.

The imprest advance of Kshs. 200,000 remained unsurrendered as it was issued on 30 June 2025, as evidenced in the attached bank statement, to facilitate the continuous flow of funds for SHA payments in line with the Governor's directive.

#### **Committee Observation**

The Committee observed the misclassification within general expenses was incorrectly recorded under advertising/publicity rather than medical costs, and KShs 200,000 imprest advance to the Medical Superintendent remained outstanding as at 30 June 2025, requiring reclassification from expense to staff receivables breaching IPSAS on proper categorization and timely imprest accountability.

#### **Committee Recommendation.**

**The Committee recommends that the Governor ensures that hospital management classifies expenditure according to the nature of expense.**

### **7. Inaccurate and Unsupported Cash and Cash Equivalents Balance**

The statement of financial position reflects cash and cash equivalents balance of Kshs.60,034,345 as disclosed in Note 27 to the financial statements. The following observations have been made:

**Unsupported Cash and Cash Equivalents Balance**

The statement of cash flows reflects cash and cash equivalents balance of Kshs.60,034,345. Included in the cash flows from investing activities is purchase of property, plant and equipment of Kshs.9,806,207. However, no detailed schedule was provided of the purchased assets or location of the assets.

**Management Response**

The detailed schedules are hereby attached for review.

**Committee observation**

the Committee observed that the management addressed the matter adequately.

**Committee recommendations**

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

**8. Unreconciled Cash and Cash Equivalents Balance**

The balance comprised balances in three bank accounts. However, the bank account balances disclosed in Note 27 to the financial statements differed with the reconciled cash book balances as shown below:

<b>Bank</b>	<b>Financial Statement Balance (Kshs)</b>	<b>Reconciled Cash Book Balance (Kshs.)</b>	<b>Variance (Kshs.)</b>
Kenya Commercial Bank	52,560,785	52,574,479	13,694
National Bank of Kenya	1,695,989	1,706,429	10,440
Equity Bank	5,777,572	5,781,195	3,623

In addition, Management did not provide a board of survey report to support the cash and cash equivalents balance.

**Management Response**

The noted variances between the financial statement balances and the reconciled cash book balances relate to bank charges. A Board of Survey is currently being constituted, after which a Board of Survey report will be prepared and available for FY 2025/2026.

**Committee Observation**

The Committee observed unreconciled cash and cash equivalents in Note 27 totaling KShs 60,034,346 across three bank accounts as at 30 June 2025, the absence of a Board of Survey report further undermines cash accountability, contravening public sector cash management regulations under the Public Finance Management Act, 2012 that mandate periodic verifications.

**Committee Recommendation**

**The Committee recommends that the governor directs the hospital management reconciles the balances and reflect correct opening balance in the subsequent financial year.**

**9. Long Outstanding Reconciling Items**

Review of the National Bank account reconciliation revealed payments in cash book not yet recorded in bank statement totalling Kshs.164,654.00 that had been outstanding for a period of more than six (6) months. No reason was provided for the failure to reverse the cheques in the cash book.

In the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.60,034,346 could not be confirmed.

**Managements Response**

The amount of Kshs. 164,654 relates to cheque no 2134 amounting to 3098 which is still unpresented. The second one was cheque no 2138 which was presented as 161556 but the bank cleared it as cheque number 2131.The facility will follow up on this matter.

**Committee Observation**

The Committee observed long-outstanding reconciling items with no reversal action or explanation provided undermining the accuracy of the overall cash and cash equivalents balance of KShs 60,034,346 (Note 27). Management commits to follow-up but offers no timeline or reversal plan, highlighting ongoing accountability gaps.

**Committee recommendation**

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

**The Committee recommended that the Governor ensures the hospital management to fast track the reverse or substantiate the KShs 164,654 reconciling items with bank confirmations and updated reconciliations to reflect the correct balance in the next financial year**

#### **10. Unsupported Receivables from Exchange Transactions**

The statement of financial position and Note 29 to the financial statements reflect receivables from exchange transactions balance of Kshs.24,382,937 which comprises of medical services receivables balance of Kshs.23,993,787 and imprests of Kshs.389,150. The medical service receivables balance includes Kshs.11,126,173 in respect to receivables from the County Government in respect of under-five (5) payments for Mombasa County residents. However, no schedules indicating details of the residents, their amounts and age analysis were provided for audit review.

In the circumstances, the accuracy and completeness of receivables from exchange transactions balance of Kshs.11,126,173 could not be confirmed.

#### **Management Response**

The schedules are hereby attached for review.

#### **Committee observation**

The Committee observed that the receivables from exchange transactions totalling Kshs 24,382,937, as reported in the statement of financial position.

#### **Committee recommendation**

**The committee recommends the governor to ensure that the hospital managementsubmits documents for audit within the statutory timelines. .**

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

The statement of financial position reflects property, plant and equipment balance of Kshs.2,118,332,385 as disclosed in Note 32 to the financial statements. However, fixed assets register was not maintained to support the balance. Further, the list of assets provided for audit did not include motor vehicles, land and buildings.

In the circumstances, the accuracy and completeness of property, plant and equipment balance of Kshs.2,118,332,385 could not be confirmed.

#### **Management Response**

The Hospital is in the process of finalizing a comprehensive fixed asset register. Attached is a consolidated list of assets, including motor vehicles, land, and buildings, to support the property, plant and equipment balance disclosed in the financial statements.

#### **Committee Observation**

The Committee observed a critical absence of a fixed assets register, which undermines verification of the accuracy, completeness, existence, and valuation of property, plant, and equipment and IPSAS 17/45 compliance on asset records and disclosures.

#### **Committee recommendation**

**The Committee recommends that the Governor directs the hospital management to maintain a fixed asset register as required under the accrual accounting system.**

### **12. Anomalies in Presentation of the Financial Statements**

The financial statements presented for audit reflect anomalies in presentation and disclosure as detailed at Appendix I, contrary to the requirements of the template prescribed by the Public Sector Accounting Standards Board (PSASB).

In the circumstances, the financial statements do not comply with the reporting template as prescribed and published by the PSASB.

#### **Management Response**

The financial statements have since been amended and aligned to the reporting template prescribed and published by the Public Sector Accounting Standards Board (PSASB). The revised financial statements are now in compliance with the applicable presentation and disclosure requirements.

#### **Committee Observation**

The Committee observe the anomalies in the presentation and disclosure of FY 2024/2025 financial statements. Management confirmed post-audit amendments aligning statements to PSASB templates, but initial non-compliance indicates inadequate preparation controls and familiarity with updated reporting guidelines.

#### **Committee recommendation**

**The Committee recommends that the Governor directs hospital management to ensure preparation of financial statements in full compliance with the amended Kenyan Public Sector Accounting Standards (PSASB) standards.**

## **EMPHASIS OF MATTER**

### **13. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final revenue budget and actual amounts on a comparable basis of Kshs.105,822,987 and Kshs.163,956,719 respectively, resulting in over-collection of Kshs.58,133,732 or 55% of the budget. However, the Hospital spent a balance of Kshs.143,583,737 against actual receipts of Kshs.163,956,719, resulting in an under-utilization of Kshs.20,372,982 or 12% of actual receipts.

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

#### **Management Response**

The over-collection against the approved budget was primarily due to the transition from the Linda Mama program to the Standard Health Allocation (SHA). Under Linda Mama, the Hospital received Kshs. 5,000 per delivery, whereas under SHA, reimbursements increased to Kshs. 10,000 per normal delivery and Kshs. 30,000 per cesarean section. This change, together with actual service volumes, resulted in actual collections exceeding the approved budget.

Approval to incur expenditure is granted on a quarterly basis, guided by revenue collected in the preceding quarter, in line with established financial controls. Consequently, the amount of Kshs.20,372,982 collected in the fourth quarter of FY 2024/2025 was not available for expenditure within the same financial year and was instead budgeted for in the first quarter of FY 2025/2026.

As such, the under-utilization reflects timing differences in revenue realization and expenditure authorization, rather than inefficiencies in service delivery.

#### **Committee Observation**

The Committee observed an over-collection of revenue amounting to KShs 58,133, indicating collections exceeding approved tariffs, budgeted amounts, or service entitlements.

#### **Committee recommendation**

**The Committee recommends that the Governor ensures that management considers undertaking a supplementary budget to address increase in revenue collection.**

## **Basis for Conclusion**

### **A. Uncollected Revenue from Rent of Facilities**

The statement of financial performance and as disclosed in Note 12, reflects nil revenue from rent of facilities. However, the Hospital has kiosks and stalls operated by private business owners within its premises which Management did not collect any rent from. This denied the Hospital rent revenue which it could have realized and utilized in its operations. In addition, there were no contract agreements between the Hospital and the kiosk operator. This was contrary to Regulation 63(1) of the Public Finance Management (County Governments) Regulations, 2015 which provides that an accounting officer and a receiver of revenue are personally responsible for ensuring that; (a) adequate safeguards exist and are applied for the prompt collection and proper accounting for, all county government revenue and other public moneys relating to their county departments or agencies.

In the circumstances, failure to collect revenue entitled to the Hospital may have resulted in loss of public funds.

### **Management Response**

A market survey was done and the rates were revised accordingly. The facility is in the process of drafting new formal contracts for the stalls and has held a meeting involving the County Legal Team to guide the creation of contracts for tenants, thereby strengthening governance and compliance for future periods.

### **Committee Observation**

The Committee noted the nil revenue recognition from rent of facilities (Note 12), with no rent collections, no formal contract agreements, and no evidence of market-based assessments contravening Regulation 63(1) of the Public Finance Management (County Governments) Regulations, 2015, which holds the accounting officer personally liable for prompt revenue collection and safeguards. This opportunity loss undermines hospital operations and exposes public funds to leakage through unauthorized occupancy.

### **Committee recommendation**

**The Committee recommends that the Governor directs hospital management to fast-track collaboration with the County Legal Team to execute formal tenancy contracts for all kiosks and stalls, and submit the executed agreements along with Q1 rent collection schedules and receipts to the County Assembly within 30 days.**

### **B. Lack of Efficiency Analysis Reports for Motor Vehicle Maintenance**

The statement of financial performance and Note 19 to the financial statements reflect amount of Kshs.16,207,064 in respect to repairs and maintenance, out of which Kshs.724,500 is in respect to maintenance of motor vehicles. However, the amount includes payments totaling Kshs.710,600 which were not supported by efficiency analysis reports, motor vehicle logbooks and work tickets indicating when the vehicles were repaired.

In the circumstances, the regularity of motor vehicle maintenance cost of Kshs.710,600 could not be confirmed.

#### **Management Response**

Find attached the supporting documentation

#### **Committee Observations**

The Committee observed that Note 19 reports repairs and maintenance expenses of Kshs 16,207,064, including Kshs 724,500 for motor vehicle maintenance, of which Kshs 710,600 lacked supporting efficiency analysis reports, motor vehicle logbooks, and work tickets showing repair dates and odometer readings.

#### **Committee recommendations**

**The Committee recommended that the governor ensures that hospital management provides analysis reports, motor vehicle logbooks and work tickets in regards to the expenditure of Kshs.710,600.**

### **C. Irregularities in Management of Imprests**

The statement of financial performance and Note 21 to the financial statements reflects Ksh.26,434,328 in respect of general expenses. Included in this amount is Ksh.800,000 relating to advertising and publicity expenses. The following observations were made:

- i. The amount comprises of surrender of Imprest of Kshs.600,000. However, imprest advances totalling to Ksh.300,000 were issued without a formal application of an imprest through a warrant. This was contrary to Regulation 91(2) of the Public Finance Management (County Governments) Regulations, 2015 which states that, ‘the officer authorized to hold and operate an imprest shall make formal application for the imprest through an imprest warrant’;
- ii. In addition, examination of imprest records revealed that staff were issued with multiple imprests amounting to Kshs.189,150 despite having un-surrendered or unaccounted for balances from previously issued imprests. This was contrary to Regulation 93(8) of the Public Finance Management (County Governments) Regulations, 2015 which requires

an accounting officer or AIE Holder to ensure that no second imprest is issued to an officer before the first imprest is surrendered or recovered in full;

- iii. Further, the imprests totalling Kshs.189,150 had been outstanding for more than six (6) months as per the imprests register provided for audit review, in contravention of Regulation 93(5) of the Public Finance Management (County Governments) Regulations, 2015 which requires a holder of a temporary imprest to account or surrender the imprest within seven (7) working days after returning to duty station.

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

### **Management Response**

All Imprests issued by the Hospital are supported by approved imprest warrants in accordance with established procedures.

The instances cited as multiple imprests relate to standing imprests, which are operational in nature and distinct from temporary imprests issued for specific activities.

### **Committee Observation**

The Committee observed irregularities in imprest management within general expenses, including KShs 800,000 under advertising and publicity where KShs 600,000 in surrenders lacked formal imprest warrants, breaching Regulation 91(2) of the Public Finance Management (County Governments) Regulations, 2015. These lapses signal systemic non-compliance, exposing public funds to misuse and undermining accountability.

This is a case where management failed to provide documents within the statutory timelines. They were however provided later thereby explaining any discrepancies noted.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures management submits documents for audit within the statutory timelines.**

### **D. Non-Compliance with Kenya Quality Model for health Policy Guidelines**

Review of records and interviews on verification of services offered, equipment used and medical specialists at the Hospital at the time of audit in November, 2025 revealed that the Hospital did not meet the requirements of Kenya Quality Model for Health policy guidelines due to staff deficits as analyzed below:

<b>Personnel</b>	<b>Level 4 Standard</b>	<b>Actual Number</b>	<b>Deficit</b>
Medical Officers	16	10	6
Anesthesiologists	2	1	1
Neurologist	1	0	1

Optometrist	1	0	1
Radiologists	2	0	2

Audit inspection of equipment within the Hospital indicated non-availability of Computed Topography (CT) scan, Magnetic Resonance Imaging (MRI) machine, Mammography machine, patient ventilators, Dental X-Ray machine, Intensive care unit (ICU), high dependence unit (HDU) and Support vehicle, Renal unit with at least five (5) dialysis and CCTV camera system. It was also noted that the issuing and receipt of medicine in the pharmacy was not automated.

The Hospital also had four (4) working incubators as opposed to the required five (5), the mortuary did not have water and the two fridges divided into twelve (12) compartments were worn out.

These deficiencies contravene the First Schedule of Health Act, 2017 and imply that accessing the highest attainable standard of health, which includes the right of health care services, including reproductive health care as required by Article 43(1) of the Constitution of Kenya, 2010 may not be achieved.

In the circumstances, the Hospital may not be able to deliver on its mandate.

### **Management Response**

The facility infrastructure is not in a position to accommodate all cadres as per the KQMH standards due to infrastructural gaps. At the same time the hospital shares its staff needs and attrition reports to advice on recruitment.

The facility has submitted requests for specialized equipment under the NESP Programme and is awaiting delivery and installation of the same based on availability of infrastructure and human resource.

The facility has partially installed CCTV cameras and is in the second phase of installation in some areas of the facility (photographic evidence attached as Appendix P), and proposals have been submitted for additional coverage. Minor repairs to mortuary facilities and procurement of an additional incubator have been addressed within the hospital's recurrent budget.

### **Committee Observation**

The Committee observed that the hospital fails to meet Level 4 Kenya Quality Model for Health (KQMH) standards, evidenced by critical staff shortages and the absence or deficiency of key equipment and infrastructure, contravening the First Schedule of the Health Act, 2017. These persistent gaps signal broader weaknesses in the county health

system, potentially hindering Universal Health Coverage implementation and patient safety.

### **Committee recommendations**

**The committee recommends that the governor ensures that hospital management-**

- 1. Has an optimal staff complement to deliver health services efficiently.**
- 2. Fast-track NESP-funded equipment (CT scan, MRI, etc.) delivery and installation within 120 days, ensuring infrastructure readiness (e.g., ICU/HDU construction). Procure missing items like dialysis machines, ventilators, and automated pharmacy systems via emergency tenders if needed.**

### **E. Failure to Provide DuroMED Software Licenses and Service Level Agreement**

The facility Management did not provide Service Level Agreement (SLA) for the DuroMED ERP Software. Discussion with the ICT personnel revealed that they were not issued with an SLA by the vendor. Instances of system downtime or operational failures were not recorded in the log book nor were there provisions for compensation at the SLA level. This was contrary to Standard 6.2.2.6 of the ICT Authority Systems and Applications Standards Second Edition of 2019 which states that

- a) Licenses for commercial operating system are provided upon acquisition, duly registered and subsequently renewed as per the requirements of the copyrights
- b) Service level agreements are signed with the vendors.

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

### **Management Response**

The facility was not issued a Service Level Agreement for the DuroMED ERP Software, as the system was rolled out and managed by the National Government. Consequently, the facility was not in a position to provide an SLA. Efforts are underway to engage relevant stakeholders and the vendor to address this gap and ensure proper system oversight.

### **Committee Observation**

The Committee noted the absence of a Service Level Agreement (SLA) for the DuroMED ERP Software, with ICT personnel confirming no issuance by the vendor and no logs of system downtimes or compensation mechanisms this exposes the hospital to operational risks, unmitigated failures, and potential copyright non-compliance in a nationally managed system.

### **Committee recommendation**

**The Committee recommends that the Governor ensures the hospital management obtains the DuroMED SLA from the national vendor for maintenance of the software.**

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

### **Basis for Conclusion**

#### **1. Inadequate Inventory Management Records**

The statement of financial position and Note 31 to the financial statements reflect inventories balance of Kshs.20,299,328. Review of the stores ledger and stock control cards revealed quantities with no closing balances and values of various pharmaceutical and non-pharmaceutical stocks as at 30 June, 2025. Further, there was no evidence of participants involved in the annual stock take, signed attendance sheets, roles assignment records, or supervision reports to confirm that the stock take was carried out in accordance with established procedures.

In addition, weekly returns to the main stores on food consumption for reconciliation with patients' register from the nurse in-charge and diet sheet from the nutritionist were not provided for audit.

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

### **Management Response**

The gaps identified arose from staffing constraints and a wide scope of responsibilities. Management is currently verifying the records against stock cards to ensure accurate reporting.

In addition, internal controls have been strengthened to prevent recurrence of such variances. The pharmacy operates on duty rotas so the stock taking is done by the staff on duty that month. For food consumption, daily consumption sheets are maintained and are available for review.

### **Committee Observation**

The Committee observed inadequate inventory management controls for the KShs 20,299,328 balance (Note 31), with stores ledger and stock cards showing quantities lacking closing balances/values for pharmaceutical/non-pharmaceutical items as at 30 June 2025, no evidence of annual stock-take participants and missing weekly food consumption

returns reconciled against patient registers and diet sheets undermining IPSAS 12 inventory valuation accuracy and internal control effectiveness.

### **Committee recommendations**

**The Committee recommends that the Governor ensures the hospital management submits stock records with closing balances and implement automated inventory systems, mandatory bi-annual blind stock counts with independent supervision, weekly reconciliations bridged to patient data.**

## **2. Weaknesses in Revenue Collection and Recording**

The statement of financial performance reflects Kshs.94,865,195 in respect to rendering of services - medical service income as disclosed in Note 11 to the financial statements. However, review of internal controls over collection of revenue revealed that there was no segregation of duties in revenue collection as the person who receives the payment confirmation details, confirms the receipt of funds in the account, issues the receipts and records the transaction in the cash register book.

In the circumstances, effectiveness of internal control over revenue could not be confirmed.

### **Management Response**

The facility currently operates under staffing constraints, which limit full segregation of duties in billing, invoicing, payment confirmation, and receipting. In addition, the existing DuroMED(Afya-IT) system is not fully integrated with the revenue paybill and bank platforms, necessitating certain manual processes.

To strengthen revenue controls, Management is implementing system-based solutions, including awaiting the rollout of the Taifa Care system and Implementation of Integrated HIMS for Mombasa County. These measures are intended to enhance automation, improve reconciliation, and strengthen segregation of duties to reduce the risk of error or loss of funds.

### **Committee Observation**

The Committee observed weaknesses in revenue collection controls for medical service income of KShs 94,865,195 (Note 11) which compromises the effectiveness of revenue safeguards, particularly amid staffing constraints and incomplete DuroMED (Afya-IT) integration with paybill/bank systems requiring manual processes. Management acknowledges limitations and plans system upgrades via Taifa Care rollout and Mombasa

County Integrated HIMS for automation and segregation, but current gaps indicate urgent control deficiencies.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures the county departments of health and hospital management strengthens revenue supervision and monitoring as well fast-track Taifa Care/HIMS integration with bank Application Programming Interfaces (APIs), conduct monthly revenue audits with dual verifications.**

### **3. Lack of Board of Management**

As previously reported, the Hospital operated without a functional Board of Management. Therefore, functions such as approving plans, programs, estimates and any other functions assigned to the Hospital Board were either not undertaken or were done by the Management Team.

In the circumstances, the effectiveness of internal controls, risk management and governance in the Hospital during the year under review could not be confirmed.

### **Management Response**

During the year under review, the Hospital did not have a constituted Hospital Management Board in place, and consequently board-related reports and approvals were not included in the financial statements.

A list of proposed members for the Hospital Management Board has since been submitted to the Governor for approval. Upon appointment of the Board, governance structures and reporting requirements will be operationalized in line with applicable regulations.

### **Committee Observation**

The Committee observed that the Governor was yet to constitute Hospital Board of Management as at the time of meeting with the Committee.

### **Committee Recommendation**

**The Committee recommends that, within 60 days of the adoption of this report, the Governor constitutes the Hospital Board of Management as in accordance with the Health Act, 2017 to enhance governance, oversight, and strategic decision-making at the facility, aligning with county health policy standards for improved accountability and service delivery and provide evidence of the Same to the Senate.**

#### **4. Lack of Risk Management Strategy**

As previously reported, the Hospital Management had not developed risk management strategy to guide the identification, assessment, mitigation, and monitoring of risks affecting its operations. In addition, the Hospital lacked key components such as a risk register, risk appetite statement, documented mitigation plans, and periodic risk reporting mechanisms. This indicates that risk management activities were not being carried out in line with best governance practices.

In the circumstances, the effectiveness of risk management could not be confirmed.

##### **Management Response**

The Hospital had not formalized a risk management strategy during the year under review. Measures have been initiated in FY 2025/2026 to establish a risk management framework, including a risk register, risk appetite statement, mitigation plans, and risk reporting mechanisms.

##### **Committee Observation**

The Committee observed that there was no risk management strategy in place for the hospital as the time of the meeting with Committee.

##### **Committee Recommendation**

**The Committee recommends that, within 60 days of the adoption of this report, the Governor ensures that the hospital risk management strategy so as to implement quarterly risk assessments with independent reviews, integrate risks into IFMIS reporting and provide update to the Senate.**

#### **5. Failure to Conduct an Internal Audit on the Hospital**

As previously reported, internal audit engagements were not conducted during the year under review as no internal audit reports, risk-based audit plans, follow-up reports, or evidence of audit assignments were provided for audit.

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

##### **Management Response**

The Hospital relies on the centralized Internal Audit Department under the County Executive's Department of Finance, which provides audit services across the County. Due to the wide scope of responsibilities handled by the Department, internal audit coverage at the facility level during the year under review was limited.

The FY 2024/2025 internal audit is scheduled to be conducted within the current year, and the County Executive Committee Member has formally requested the assignment of a dedicated internal auditor to the Level 4 and Level 5 facilities to strengthen internal audit oversight going forward.

**Committee Observation**

The Committee observed the persistent failure to conduct internal audit engagements during FY 2024/2025, as previously reported, with no internal audit reports, risk-based audit plans, follow-up reports, or evidence of assignments provided compromising verification of governance, risk management, and internal control effectiveness per PFM Act Section 165 requirements for public entities.

**Committee Recommendation**

**The Committee recommends that the Governor ensures that the hospital regularly internally audited by either its internal audit unit or the county audit unit going forward.**

**6. Reliance on Manual Accounting System**

The Hospital relies on manual accounting system to record, process, and report its transactions. The system is prone to errors, inconsistencies, lack of control over data, confidentiality, integrity, and availability, and lack of audit trail of transactions. The Hospital also lacked an approved disaster management or business continuity plan in the eventual case of a disaster. This exposes the Hospital to service delivery interruptions in case of loss of crucial data.

In the circumstances, the effectiveness of the accounting system could not be confirmed.

**Management Response**

The facility is awaiting the rollout of the Taifa Care system and is engaging stakeholders to implement the Funsoft Hospital System. A disaster management and business continuity plan will also be developed and implemented in the current financial year to mitigate the risk of service interruptions in the event of loss of critical data. These initiatives will strengthen financial management, enhance data integrity, and provide robust controls to safeguard continuity of operations.

**Committee Observation**

The Committee observed the Hospital's reliance on a manual accounting system for recording, processing, and reporting transactions during FY 2024/2025, exposing

operations to errors, inconsistencies, data control weaknesses, confidentiality breaches, and absent audit trails undermining financial reporting reliability under IPSAS and PFM Act requirements.

**Committee recommendation**

**The Committee recommends that the Governor should ensure that the hospital implements an Integrated Hospital Management Information System with integrated billing capabilities that allows for seamless patient registration, billing, and discharge processes. This would minimize manual errors and ensure that each patient is billed accurately and promptly upon discharge.**

**7. Irregularities in DuroMED (Afya IT) ERP Software**

**7.1 Under-Utilization of DuroMED ERP Software**

Audit walkthrough of DuroMED (Afya IT) revealed that only the outpatient module was in use out of the eight (8) modules disclosed in the draft (unsigned) contract. The modules not utilized by the facility were Inpatient, Health records, Laboratory, Radiology, Pharmacy, Stock Management System and Accounting package. This brought about incompleteness in data captured in the system and a challenge to obtain/generate financial, accounting and procurement reports from the software.

Discussion with staff in departments not utilizing the system revealed that the system was not fully supportive of their operations and so opted to go the manual way. This was contrary to the objective of acquiring the software which was to make the Hospital operations seamless and paperless in all departments.

In the circumstances, the facility did not get value for money on the software acquired.

**Management Response**

The system has not been fully rolled out across all departments due to infrastructure gaps and limited capacity, which has led to reliance on manual processes in some areas. To address this, steps are underway to enhance ICT infrastructure, build staff capacity, and progressively increase utilization of the existing modules. In addition, the facility is preparing for the rollout of the Taifa Care system, which is anticipated to provide comprehensive support across all departments and achieve the intended goal of seamless, paperless hospital operations.

**Committee Observation**

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

The Committee observed the under-utilization of the DuroMED (Afya IT) ERP Software, with only the outpatient module operational out of eight contracted modules (Inpatient, Health Records, Laboratory, Radiology, Pharmacy, Stock Management, Accounting) resulting in incomplete data capture, manual workarounds in non-supportive departments, and inability to generate essential financial, accounting, and procurement reports. This contravenes the software's core objective of seamless, paperless operations, yielding no value for money and perpetuating inefficiencies. Management attributes gaps to infrastructure limitations and staff capacity, with plans for ICT upgrades, training, and Taifa Care rollout, but limited progress indicates poor contract enforcement and implementation oversight.

### **Committee recommendation**

**The Committee recommends that the Governor should ensure the hospital management submit and fast-track full installation and use of the software, alongside infrastructural development.**

#### **7.2 Disconnect in the Registration, Billing and Receipting and Financial Reporting in the DuroMED ERP System.**

DuroMED ERP Software was used by the facility in registration of new patients and patient revisits, billing/invoicing and receipting. However, reports of revenue from new patient registrations, patient revisits, revenue billing and receipting reports within the financial year 2024/2025 were not provided for audit reconciliation with the bank statements. In addition, revenue billing reports to establish the revenue earned in rendering of services – medical service income per patient was in a format that lacked details of the patient invoiced and the service paid for.

Further, audit interrogation of DuroMED (Afya IT) ERP Software revealed that the system was not integrated nor automatically synced to the revenue paybill account or bank account to automatically reflect payments made by the patients. Manual billing/invoicing was done by the Cashier who confirmed payments in M-pesa paybill account and manually printed and issued receipts. This was indicative of lack of segregation of duties of billing/invoicing, confirmation of payments and receipting, thereby exposing the Hospital to high risk of misappropriation and/or loss of funds.

In the circumstances, the effectiveness of internal controls in revenue billing, receipting and management of patients with accumulated bills could not be confirmed.

### **Management Response**

The facility is currently constrained by limited staffing, which affects segregation of duties in billing, invoicing, payment confirmation, and receipting. Additionally, the DuroMED (Afya-IT) system is not fully integrated with the revenue paybill or bank accounts, requiring manual processes. To address these challenges, the facility is awaiting the rollout of the Taifa Care system and is exploring adoption of the Funsoft Hospital System as alternative solutions to strengthen revenue management, ensure proper reconciliation, and reduce the risk of misappropriation or loss of funds.

### **Committee Observation**

The Committee observed critical disconnects in the DuroMED(Afya IT) ERP Software for FY 2024/2025 revenue processes, which prevent revenue verification of medical service income (Note 11). This exposes the hospital to high risk of fraud/misappropriation as well as ineffective internal controls over accumulated patients' bills.

### **Committee recommendation**

**Hospitals should implement an Integrated Hospital Management Information System with integrated billing capabilities that allows for seamless patient registration, billing, and discharge processes. This would minimize manual errors and ensure that each patient is billed accurately and promptly upon discharge.**

## **2.5 REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR COAST GENERAL TEACHING AND REFERRAL HOSPITAL (CGTRH) FOR THE FINANCIAL YEAR 2024/2025.**

The Governor of Mombasa County, Hon. Abdulswamad Sharrif Nassir, appeared before the Committee on Tuesday, 20<sup>th</sup> January, 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on the Financial Statement for the Coast General Teaching and Referral Hospital for the Financial Year 2024/2025.

The Governor was accompanied by the following officers—

1. Mr.Evans Oanda CECM Finance
2. Mr.Jeizan Faruk -County Secretary
3. Dr.Noah Akala-Chief of staff

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

The Auditor-General did not submit a report on the financial statements of Coast General Teaching and Referral Hospital in Mombasa, citing the lack of an audit of the facility.

#### **Committee Observations**

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

- i. The query had had been recurrent and despite numerous interventions by the Committee requiring the Accounting Officer to comply with the provisions of the Public Finance Management Act and Public Audit Act on submission of financial statements to the Auditor-General for audit, no action has been taken. Failure to submit highlights potential governance gaps, delayed accountability, and risks to public funds oversight in Mombasa County's health sector; and
- ii. The 2024/2025 was however submitted in December 2025, outside the timelines contemplated under the Public Audit Act constituting an offense under the Act, and will be audited alongside the 2025/2026 financial statements.

#### **Recommendations to Governor**

**The Committee recommends that the Governor and the Board of the CGTRH takes administrative action against the accounting officer of the CGTRH for failure to prepare and submit financial statements for audit within the statutory timelines. Further, The Office of the Auditor-General audits the 2024/2025 Financial Statements in arrears during the 2025/2026 audit.**

## **CHAPTER THREE: FUND**

### **3.1 REPORT OF THE AUDITED FINANCIAL STATEMENTS ON MOMBASA ALCOHOLIC DRINK CONTROL FUND FOR THE FINANCIAL YEAR 2024/2025**

Through written submission, the Governor of Mombasa County, Hon. Abdulswamad Sharrif Nassir, responded to audit queries raised in the report of the Auditor-General on the Financial Statements on Mombasa County Elimu Scheme for the Financial Year 2024/2025 as follows:

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

The Auditor-General rendered an adverse Opinion on the financial statements of the on Mombasa Alcoholic drink Fund for the financial year 2024/2025 on the following basis—

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

##### **1. Inaccurate Statement of Financial Performance**

The statement of financial performance reflects total expenses of Kshs.23,190,658 which differs with the recalculated amount of Kshs.22,424,486. The resulting variance of Kshs.766,172 was not explained or reconciled. In the circumstances, the accuracy of the total expenses of 23,190,658 could not be confirmed.

##### **Management Response:**

The difference arose from an error adjustment disclosed under Note 12, which was not adequately reconciled to the total expenses figure presented in the Statement of Financial Performance at the time of audit. Management has since prepared a detailed reconciliation and a draft restated Statement of Financial Performance, which has been submitted to the audit team for review. The necessary corrections will be fully disclosed in the notes to the financial statements, and the adjusted figures will be reflected appropriately in the final accounts. Management confirms that, upon correction and restatement, the comparative figures will fairly present the entity's financial position and financial performance in accordance with applicable accounting standards.

##### **Committee observation**

The Committee observed that the Fund's statement of financial performance contained an unexplained variance of Kshs.766,172 between reported expenses and the recalculated

figure, indicating material inaccuracies in financial reporting contrary to Section 81(3) of the Public Finance Management Act, 2012. The Committee further noted that the issue was not fully addressed by management.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures the Accounting Officer puts in place robust measures to detect and correct financial statement errors on a timely basis, and that prior year adjustments are made to correct the variance of Kshs.766,172 and align reported figures with verified amounts, in compliance with Section 81(3) of the Public Finance Management Act, 2012. Evidence of correction to be submitted to the Auditor-General within sixty (60) days**

### **2. Inaccurate Statement of Changes in Net Assets**

The statement of changes in net assets reflects a balance as at 30 June, 2025 of Kshs.150,121,524 which includes prior year adjustment of Kshs.11,434,100 which is explained as an arithmetical error in the financial year 2023/2024. However, no explanation was provided for failure to make the adjustment in prior year and restate the financial statements as required under IPSAS 3. Further, the statement reflects opening balance of funds received during the year of Kshs.39,054,155 and a Nil balance of surplus for the period which differ with prior year audited balances of Nil and Kshs.37,264,996 respectively. No explanation was provided for the variances.

In the circumstances, the accuracy and completeness of the net assets balance of Kshs.150,121,524 could not be confirmed.

### **Management response**

A review of the Statement of Changes in Net Assets confirms that the opening balance as at 1 July 2024 of Kshs. 154,572,514 was correctly carried forward from the audited closing balance as at 30 June 2024. The opening balance was therefore already accurate and did not require any prior year adjustment. Consequently, the adjustment relating to the alleged

arithmetical error in the financial year 2023/2024 should not have been recognized in the 2024/2025 financial statements.

Management has since corrected this misstatement by removing the prior year adjustment and aligning the Statement of Changes in Net Assets to reflect the correct movements, comprising the opening balance brought forward and the surplus for the year of Kshs. 6,983,110, resulting in a closing net assets balance of Kshs. 161,555,624 as at 30 June 2025. With regard to the variances noted in the opening balances and surplus for the period, management has clarified that the amounts of Kshs.37,264,996 is for financial year 2022-2023 and Kshs.39,054,155 is for financial year 2023-2024 represent revenue collected in financial periods.

#### **Committee observation**

The Committee observed that management did not adequately address the issue of inaccurate opening balances and omitted prior year adjustments in the Statement of Changes in Net Assets. The Committee noted that the issue remained unaddressed and that failure to restate prior year balances undermines the reliability and comparability of financial statements.

#### **Committee recommendation**

The Committee recommends that—

- i. the Governor ensures the Accounting Officer makes the requisite prior year adjustments to align reported fund receipts and net asset balances with the audited figures, and submits restated financial statements to the Auditor-General within sixty (60) days of the adoption of this report; and**
- ii. the Auditor-General verifies the restated financial statements and provides a status update in the subsequent audit cycle, failure to comply with which the provisions of Section 199 of the Public Finance Management Act, Cap.412A on penalties shall apply.**

### **3. Inaccurate Trade and Other Payables from Exchange Transactions**

The statement of financial position and Note 25 to the financial statements reflects Kshs.12,200,272 in respect of trade and other payables from exchange transactions. However, the opening balance of Kshs.11,314,100 differs with the prior year audited balance of Kshs.11,434, 100 resulting to a variance of Kshs.120,000. Further, recalculation

of the closing balance shows Kshs.11,314, 100 resulting in unexplained variance of Kshs.766, 172.

In the circumstances, the accuracy, completeness and existence of the trade and other payables from exchange transactions balance of Kshs.12,200,272 could not be confirmed.

### **Management response**

Management confirms that the correct opening balance of trade and other payables as at the beginning of the financial year was Kshs. 11,434,100, which is consistent with the prior year audited financial statements.

The difference noted between the recalculated closing balance and the opening balance relates to payables incurred during the current financial year amounting to Kshs. 766,172.

These arose from goods and services received but not settled as at 30 June 2025. Consequently, the closing balance of trade and other payables from exchange transactions of Kshs. 12,200,272 represents the opening balance brought forward plus the current ear payables.

### **Committee observation**

The Committee observed that there were material discrepancies in the trade and other payables from exchange transactions, with both the opening and closing balances containing unexplained variances. The Committee noted that management's partial explanation does not fully account for the reporting irregularities, which indicate weaknesses in accounts payable management and financial reporting controls.

## **COMMITTEE RECOMMENDATION**

**The Committee recommends that—**

- i. the Governor ensures the Accounting Officer corrects all errors in trade and other payables through prior year adjustments and submits reconciled accounts payable balances to the Auditor-General within sixty (60) days of the adoption of this report; and**
- ii. the Governor ensures the Accounting Officer strengthens internal controls over payables management, including mandatory reconciliations at each reporting period.**

#### **4. unsupported Changes in Social Benefits Liabilities Balance**

The statement of financial position and Note 29 to the financial statements reflect Nil Balance for social benefit liabilities as 30<sup>th</sup> June, 2025 in respect of current liabilities and non-current liabilities which differ with audited prior year balances of Kshs. 38,233,155 and 104,905,259 respectively. However, the changes in these balances were not explained or adjusted in the statements.

In the circumstances, the accuracy and completeness of the liabilities balance of Kshs.12,200,272 could not be confirmed.

#### **Management response**

Management has corrected the omission of social benefits liabilities in the Statement of Financial Position and Note 29 to the financial statements as of 30 June 2025. The variance which resulted in the prior year balances of Kshs. 38,233,155 (current liabilities) and Kshs. 104,905,259 (non-current liabilities).

The reconciled balance will be appropriately recognized and disclosed under Note 29 to the financial statements in accordance with IPSAS requirements.

#### **COMMITTEE OBSERVATION**

The Committee observed that social benefit liabilities of Kshs.38,233,155 (current) and Kshs.104,905,259 (non-current) from prior year audited accounts were reported as Nil in the financial statements for the year under review without explanation or adjustment. This represents a significant omission that misstates the Fund's financial position. The Committee noted that the issue was not addressed in the year under review.

#### **COMMITTEE RECOMMENDATION**

**The Committee recommends that—**

- i. the Governor ensures the Accounting Officer passes the requisite prior year adjustments to reinstate social benefit liabilities of Kshs.38,233,155 (current) and Kshs.104,905,259 (non-current) in the financial statements and submits evidence of the corrections to the Auditor-General within sixty (60) days of the adoption of this report; and**
- ii. the Auditor-General verifies the accuracy and completeness of the restated balances in the subsequent audit cycle and provides a status update, failure to**

**comply with which the provisions of Section 199 of the Public Finance Management Act, Cap.412A shall apply.**

## **5. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final budget and actual amounts on comparable basis of Kshs.105,001,417 and Kshs.30, 175, 185 respectively, resulting in under-funding of Kshs. 74,826,232 or 71 % of the budget. Similarly, the entity spent Kshs.23,074,064 against actual receipts of Kshs.30,175, 185 resulting in over-absorption of Kshs.7,101,121 or 24 % of the budget.

The under-funding affected the planned activities of the Fund and may have impacted negatively on services delivery to the public while over-expenditure indicates unrealistic budgeting

### **Management Response:**

Management acknowledges the observation regarding budgetary control and performance.

The Statement of Comparison of Budget and Actual Amounts reflect a final approved budget of Kshs.105,001,417, comprising transfers from the County Treasury amounting to Kshs.70,000,000 and own-source revenue of Kshs.35,001,417. During the period under review, no funds were received from the County Treasury. This was due to the inability of the Office of the Controller of Budget to approve the transfers arising from gaps identified in the Mombasa County Alcoholic Drinks Control Act, 2014.

Management notes that the County Treasury has since drafted the necessary amendments to the Act and submitted them to the County Assembly for consideration and approval. The lack of exchequer releases significantly contributed to the under-funding of the budget and affected the implementation of planned activities during the year.

### **Committee observation**

The Committee observed that the Fund recorded severe budget underfunding of 71% (Kshs.74,826,232), arising from legislative gaps in the Mombasa County Alcoholic Drinks Control Act, 2014, which prevented the Office of the Controller of Budget from approving exchequer releases. The Committee further observed that the resulting under-absorption of 24% (Kshs.7,101,121) significantly impaired the Fund's ability to deliver on its mandate during the year under review.

### **Committee recommendation**

**The Committee recommends that—**

- 1. the Governor ensures that the necessary amendments to the Mombasa County Alcoholic Drinks Control Act, 2014 are expeditiously enacted by the County Assembly to address the legislative gaps identified by the Office of the Controller of Budget, within ninety (90) days of the adoption of this report, and submits evidence of the enacted amendments to the Auditor-General and the Senate; and**
- 2. the Governor ensures the Accounting Officer reviews all budget requests before submission to the Controller of Budget for approval to eliminate errors and ensure compliance with applicable legislation, and submits a compliance report to the Auditor-General within sixty (60) days of the adoption of this report.**

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

### **Basis of Conclusion**

#### **1. Irregular Direct Procurement of Goods and Services**

The statement of financial performance and Note 12 to the financial statements reflects Kshs.23,654,647 in respect of use of goods and services which includes Kshs.14,500,200 incurred on advertising, awareness, and publicity campaigns.

Included in the expenditure of advertising, awareness and publicity campaigns is Kshs. 8,381,250 paid to service providers and suppliers during the year. However, Management did not provide procurement records for audit to show how the suppliers and service providers were identified, procured and contracted without justification as required under section 103 of Public Procurement and Asset Disposal Act, 2015, which require procurement processes to be conducted competitively and supported by adequate documentation.

### **Management response**

We did not do direct procurement.

The procurement files have been submitted to the Office of the Auditor General for audit verification.

## **Committee recommendation**

**The Committee recommends that—**

- 1. the Governor ensures the Accounting Officer submits all procurement records relating to the Kshs.8,381,250 expenditure on advertising, awareness, and publicity campaigns to the Auditor-General for verification within thirty (30) days of the adoption of this report, failure to which the matter shall be referred to the Director of Public Prosecutions and the Ethics and Anti-Corruption Commission for further action; and**
- 2. the Governor ensures the Accounting Officer ensures that all future procurement activities strictly comply with the Public Procurement and Asset Disposal Act, 2015, and that complete procurement records are maintained and made available for audit review at all times, failure to comply with which the provisions of Section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply.**

## **2. Non-Compliance with Data Protection Act**

Management collects and manages liquor outlet data using the Fingerprint Revenue Management System, which captures sensitive personal information such as name, phone number, and location of licensees. However, the entity did not provide a certificate of registration from the Office of the Data Protection Commissioner (ODPC) to confirm that it is registered as a data controller or data processor as required. This is contrary to Section 18(1) of the Data Protection Act, 2019, which prohibits any person from acting as a data controller or processor without registration by the Data Commissioner.

## **Management response**

An application for registration for data processor was duly completed and is awaiting approval by the Office of the Data Protection Commissioner (ODPC)

## **Committee observation**

The Committee observed that the Fund operated without registration as a data controller or processor under Section 18(1) of the Data Protection Act, 2019. While management had applied for registration and provided evidence of the application and payment, the issue was only partly addressed as the certificate of registration had not yet been obtained.

## **Committee recommendation**

**The Committee recommends that—**

- 1. the Governor ensures the Accounting Officer follows up with the Office of the Data Protection Commissioner to obtain the certificate of registration as a data controller or processor and submits a copy of the certificate to the Auditor-General within sixty (60) days of the adoption of this report; and**
- 2. the Auditor-General verifies full compliance with the Data Protection Act, 2019 and provides a status update in the subsequent audit cycle.**

REPORT ON EFFECTIVENESS OF INTERNAL CONTROL, RISK MANAGEMENT AND GOVERNANCE.

### **Basis of conclusion**

#### **1. Failure to Prepare and Approve the Board Annual Work Plan**

Review of Board activities revealed that no annual work plan was prepared and approved for the financial year to guide its activities, oversight functions, and strategic activities. In addition, the Fund did not have an approved organizational structure (organogram) to define reporting lines, hierarchy, and accountability relationships among departments and staff. This is contrary to Paragraph 1.9 of the Mwongozo Code of Governance, which requires every Board to develop and implement an annual work- plan that, at minimum, covers Management's implementation of strategies and policies, risk assessment ~and management, budgeting and financial oversight, quality assurance, Board evaluation, strategic planning, and governance compliance.

### **Management response**

The Board approved the work plan and budget in its sitting held on 30<sup>th</sup> September, 2024 for activities to be carried out during the year under review. The entity was established by the Mombasa County Liquor Licensing Act, 2014 which also outlines its staffing. We have an approved Organogram from the County Public Service Board.

### **Committee observation**

The Committee observed that the Fund did not have an approved annual work plan in place at the commencement of the financial year under review, and lacked a formally approved organizational structure (organogram). The Committee noted that the issue was only partly addressed, as management provided evidence of a work plan approved in September 2024

but could not produce an approved organogram. The absence of these governance instruments undermines accountability and effective oversight.

## **COMMITTEE RECOMMENDATION**

**The Committee recommends that—**

- 1. the Governor ensures the Fund’s Board prepares, approves, and operationalizes a comprehensive annual work plan before the commencement of each financial year, in compliance with Paragraph 1.9 of the Mwongozo Code of Governance for State Corporations, and submits evidence of the approved work plan for FY 2025/2026 to the Auditor-General within thirty (30) days of the adoption of this report; and**
- 2. the Governor ensures that an approved organizational structure (organogram) defining reporting lines, hierarchy, and accountability relationships is developed, approved by the Board, and implemented within sixty (60) days of the adoption of this report, and submitted to the Auditor-General for review.**

### **3. Gaps in Board Skills and Statutory Compliance**

Review of board members’ academic and professional profiles revealed that the board lacked members with expertise in legal or regulatory, law enforcement, county inspectorate, or NACADA and adequate capacity in education and public advocacy. This is contrary to the Mwongozo Code of Governance for State Corporations (2015) which requires Boards to be properly constituted with an appropriate mix of skills, experience and professional backgrounds to effectively discharge their mandate. It is also inconsistent with Governance Parameter 8.4 of Mwongozo which mandates boards to ensure that legal compliance audits are conducted annually to assess conformity with applicable laws, regulations and standards.

#### **Management response**

Pursuant to Section 4 of the Mombasa County Liquor Licensing Act, 2014, six members are appointed from nominees of the following bodies and organizations:

- a) The association of Hotel Keepers and caterers within the county
- b) The Pubs, Entertainment and Restaurants Association of Kenya
- c) Coast Tourism Association

- d) Registered neighbourhood Association in the County
- e) The Civil Society and non-governmental organization
- f) Association representing the private sector in the county

By virtue that this organizations appoint them in a presumption they have the skills to represent them in the Board.

Further, county departments are represented by senior officials as per section 4 i.e.

- a) Finance
- b) Health
- c) Public works
- d) Land and environment
- e) Education
- f) Planning

#### **Committee observation**

The Committee observed that the Board lacked members with expertise in legal and regulatory affairs, law enforcement, county inspectorate, and NACADA-related public advocacy, contrary to the Mwongozo Code of Governance for State Corporations (2015). The Committee noted that management's reliance on the statutory nomination process does not adequately address the identified skills gaps, and that the issue remained unaddressed.

#### **Committee recommendation**

**The Committee recommends that—**

- 1. the Governor ensures the development and implementation of a formal board skills matrix that maps required competencies against current board composition, identifies gaps, and guides the nomination and selection of future board members, in compliance with the Mwongozo Code of Governance for State Corporations (2015), and submits the skills matrix to the Auditor-General within sixty (60) days of the adoption of this report; and**
- 2. the Governor ensures that the Fund conducts an annual legal compliance audit in accordance with Governance Parameter 8.4 of Mwongozo to assess conformity with applicable laws, regulations, and standards, and submits**

**evidence of the audit to the Auditor-General within ninety (90) days of the adoption of this report.**

#### **4. Incomplete Asset Register**

Records reviewed revealed that the Fund owns various items of property, plant, and equipment; however, the fixed asset register provided for audit was incomplete. The register lacked key details such as date of purchase, asset description, cost, location, responsible officer, asset class, condition, and tagging information. This is contrary to Regulation 132(2) of the Public Finance Management (County Governments) Regulations, 2015, which requires accounting officers to establish both electronic and manual processes to ensure effective, efficient, economical, and transparent management of assets

##### **Management response**

The assets of the Fund are captured in the overall County Register by an asset verification committee. However, an asset register of the Fund has been created.

##### **Committee observation**

The Committee observed that the Fund's fixed asset register was incomplete, lacking critical details including date of purchase, asset description, cost, location, responsible officer, asset class, condition, and tagging information, contrary to Regulation 132(2) of the Public Finance Management (County Governments) Regulations, 2015. The Committee noted that management's response only partially addressed the issue.

##### **Committee recommendation**

**The Committee recommends that—**

- 1. the Governor ensures the Accounting Officer prepares and maintains a complete fixed asset register containing all details required under Regulation 132(2) of the Public Finance Management (County Governments) Regulations, 2015, and submits the updated register to the Auditor-General before the next reporting cycle, failure to comply with which the provisions of Section 199 of the Public Finance Management Act, Cap.412A on penalties shall apply; and**
- 2. the Auditor-General verifies the completeness and accuracy of the updated asset register in the subsequent audit cycle and provides a status update to the Committee.**

#### **5. Lack of Risk Assessment Revenue Management and Risk Management Policy**

During the year under review, the Fund collected Kshs.30, 173 768 against a budgeted revenue of Kshs.35,000,000, resulting in an under-collection of Kshs.4,826,232 (14%). Audit enquiries revealed that the Fund had not developed a formal risk management policy and had not undertaken any risk assessments on its revenue streams to identify vulnerabilities, threats, or control gaps. Further, there were no mechanisms or automated systems in place to enhance revenue collection or prevent losses. This is contrary to Regulation 158(1) of the Public Finance Management (County Governments) Regulations, 2015, which requires accounting officers to develop risk management strategies, including fraud prevention mechanisms, and to establish systems of internal control to support robust operations.

### **Management response**

Management acknowledges the audit observation regarding the absence of a formal risk management policy and revenue risk assessments during the year under review. To address this gap, the County Directorate of Policy, Economic Planning, and Digital Transformation has developed the Mombasa County ICT & Innovation Policy, which is currently awaiting approval by the County Assembly.

Paragraph 5.4.4 of the draft policy provides for Data Protection, CyberSecurity, and Risk Management, and specifically envisages the establishment of a Risk Management Register. This register will serve as a structured tool to identify, assess, and monitor potential threats to ICT infrastructure, revenue streams, and service delivery.

Once approved, the policy will guide the implementation of risk management strategies, strengthen internal controls, and enhance fraud prevention mechanisms in line the Public Finance Management (County Governments) Regulations, 2015.

### **Committee observation**

The Committee observed that the Fund operated throughout the financial year without a formal, Fund-specific risk management policy and without conducting revenue risk assessments, contrary to Regulation 158(1) of the Public Finance Management (County Governments) Regulations, 2015. The Committee noted that management's proposed ICT policy does not address the Fund's specific risk management needs, particularly with regard to revenue collection risks and operational vulnerabilities, and that the issue was not addressed.

### **Committee recommendation**

**The Committee recommends that—**

- 1. the Governor ensures the Accounting Officer develops and adopts a comprehensive, Fund-specific risk management policy that addresses all identified revenue, operational, and governance risks, and submits the Board-approved policy to the Auditor-General within sixty (60) days of the adoption of this report; and**
- 2. the Governor ensures the Accounting Officer undertakes a formal revenue risk assessment covering all Fund revenue streams, identifies vulnerabilities and control gaps, and implements automated or enhanced revenue collection mechanisms to prevent losses and improve revenue performance, with a progress report submitted to the Auditor-General within ninety (90) days of the adoption of this report, failure to comply with which the provisions of Section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply.**

### **3.2. REPORT ON THE AUDITED FINANCIAL STATEMENTS ON MOMBASA COUNTY ELIMU SCHEME FOR FINANCIAL YEAR 2024/2025**

Through written submission, the Governor of Mombasa County, Hon. Abdulswamad Sharrif Nassir, responded to audit queries raised in the report of the Auditor-General on the Financial Statements on Mombasa County Elimu Scheme for the Financial Year 2024/2025 as follows:

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

The Auditor-General rendered a Qualified Opinion on the financial statements of the on Mombasa Alcoholic Drink Fund for the financial year 2024/2025 on the following basis—

#### **Unsupported Receivables from Exchange Transactions**

The statement of financial position and Note 17 to the financial statements reflects long term receivables from exchange transactions of Kes. 160,986,240. However, the balance was not supported by a detailed analysis or schedule. Further, no aging analysis was prepared as required by the reporting template.

In the circumstances, the accuracy, completeness and recoverability of long-term receivables from exchange transactions of Kes. 160,986,240 could not be confirmed.

#### **Management Responses**

This balance relates to accrued amounts from the fiscal years 2017/2018 and 2018/2019, totaling Kshs.160,286,240, as detailed below:

<b>FY</b>	<b>Final Budget</b>	<b>Received Amount</b>	<b>Variance</b>
2017-2018	37,589,205	40,427,560	97,553,351
2018-2019	164,260,631	101,527,742	2,732,889
<b>Total Amount</b>			<b>160,286,240</b>

In order to reconcile and substantiate the outstanding balances, the Elimu Scheme Board resolved that the referenced amount be written off from the books. The Board determined that these funds were not realized during the 2017–2018 and 2018–2019 financial years and therefore should be removed from the records for accurate financial reporting.

The figures will be removed in the current fiscal year 2025-2026.

#### **Committee Observations**

### **The committee observed that**

1. The reported long-term receivables from exchange transactions of KES 160,986,240 lack supporting detailed schedules, aging analysis, or reconciliation as required by financial reporting templates, raising doubts on their accuracy, completeness, and recoverability.
2. The Elimu Scheme Board's resolution to write off the full amount indicates these were unrealized budgeted funds, not actual receivables, suggesting prior misclassification in the statement of financial position and Note 17.

### **Committee recommendations**

**The Committee recommends that the governor should ensure that:**

1. **There is immediate provision of a detailed schedule, ageing analysis, and reconciled ledger for all receivables, with independent verification by internal audit to confirm balances before any adjustments are made.**
2. **The implementation of robust controls is mandated, including monthly reconciliations of exchange transactions and automated aging reports in the ERP system, to prevent recurrence and ensure compliance with the Public Finance Management Act and IPSAS standards.**

### **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 Kes. 401,877,250 and Kes. 342,177,250, respectively, resulting in under-utilization in revenue of Kes. 59,700,000 or 15% of the budgets. Similarly, Management spent Kes. 221,334,791 out the total receipts of Kes. 342,177,250 resulting to under absorption of Kes. 120,842,459 or 35% of the receipts.

The underfunding and under absorption affected implementation of planned activities and impacted negatively on service delivery to the citizens.

#### **Management Responses**

The variance arose from factors largely beyond the County's immediate control, as outlined below:

The County did not achieve its projected own-source revenue targets for FY 2024/2025, resulting in the receipt of approximately 85% of the approved budget. In line with the Public Finance Management Act, expenditure was correspondingly rationalized to match available resources to avoid incurring unsupported expenditures and budget overruns.

The release of funds was delayed following a directive from the Controller of Budget requiring counties to execute an intergovernmental agreement with the National Government on the administration of bursaries and scholarships. Mombasa County complied with the directive and finalized the agreement on 27 May 2025.

### **Committee Observations**

The committee observed the following:

- a) **Significant Revenue Shortfall:** The County achieved only 85% of its projected revenue budget (Kes. 342,177,250 out of Kes. 401,877,250), leading to a Kes. 59,700,000 under-utilization or 15% variance. This reflects persistent challenges in own-source revenue collection, undermining financial self-reliance.
- b) **High Expenditure Under-Absorption:** Management utilized just 65% of actual receipts (Kes. 221,334,791 out of Kes. 342,177,250), resulting in a Kes. 120,842,459 shortfall or 35% under-absorption. This indicates inefficiencies in cash flow management and program execution.
- c) **Adverse Impact on Service Delivery:** The combined underfunding and under-absorption directly hampered planned activities, negatively affecting healthcare and public services for citizens, contrary to Universal Health Coverage (UHC) goals and Public Finance Management Act (PFMA) requirements for prudent resource use.

### **Committee Recommendations**

**The committee recommends that; -**

- a) **The Governor should ensure that the CECM for Finance strengthens revenue mobilization by developing and implementing a robust own-source revenue enhancement strategy, targeting at least 95% collection in FY 2025/2026 through automated billing, taxpayer education, and anti-leakage audits, with quarterly progress reports submitted to the County Assembly;**
- b) **The Governor should ensure that expenditure absorption is improved by instituting monthly budget monitoring committees involving Finance, Health, and Procurement departments to expedite fund utilization, prioritize high-impact health programs (e.g., facility upgrades and UHC rollout), and address bottlenecks such as procurement delays; and**
- c) **The Governor should ensure that cash flow planning is enhanced by directing management to prepare quarterly cash flow forecasts aligned with Section 63 of the Public Finance Management Act, incorporating buffers for national**

**delays, and proactively negotiating intergovernmental agreements to pre-empt funding disruptions.**

#### **OTHER MATTER-UNRESOLVED PRIOR YEAR**

All unresolved matters have been forwarded to the Office of Auditor General for their approval and recommendations.

#### **Report on lawfulness**

##### **1. Non-compliance with the Data Protection Act**

Review of financial and operational records revealed that the Scheme collects and manages personal information of students and their parents or guardians, including names, phone numbers, photographs, and location details in the course of processing bursary applications and payments. However, it was established that the entity had not been registered with the Office of the Data Protection Commissioner as a data controller or data processor, contrary to Section 18(1) of the Data Protection Act, 2019, which requires that no person shall act as a data controller or data processor unless registered with the Data Commissioner.

##### **Management Responses**

The Scheme has started the process of registration with Office of Data Protection Commissioner.

##### **Committee Observation**

The Committee observed the Scheme's non-compliance with the Data Protection Act, 2019 a direct violation of Section 18(1) which exposes sensitive personal data to risks of breach, misuse, or unauthorized access, thereby eroding public trust in the county's health and education support schemes.

##### **Committee recommendations**

**The committee recommends that the Governor should ensure that the Scheme's management completes registration as a data controller/processor with the Office of the Data Protection Commissioner within 60 days, and fast-track development and implementation of a comprehensive data protection policy.**

##### **2. Acting Beyond the Stipulated Period**

Review administrative records revealed that the Scheme Administrator was serving in an acting capacity for a period exceeding six (6) months, contrary to the provisions of Section

34(3) of the Public Service Commission Act, 2017. The officer was appointed effective 1 September 2024 and continued to hold the position beyond the stipulated period. Further, it was observed that the County Public Service Board had not regularized the appointment or initiated substantive recruitment process for the position. In the circumstances, management was in breach of law.

**Management Responses**

The County Public Service Board has commenced the process of filling the position substantively. The vacancy has been duly advertised, and the recruitment process is currently ongoing.

**Committee observations**

The Committee observed that the Scheme Administrator has been serving in an acting capacity since 1 September 2024, exceeding the six-month limit stipulated under Section 34(3) of the Public Service Commission Act, 2017. Review of administrative records confirmed that the County Public Service Board failed to regularize the appointment or initiate a substantive recruitment process within the required timeframe.

**Committee recommendations**

1. **The Governor should ensure that the County Public Service Board expedites the ongoing substantive recruitment process for the Scheme Administrator position, ensuring completion within 60 days and strict adherence to all legal timelines under the Public Service Commission Act, 2017, and**
2. **submit a compliance report to the Senate and a copy to the Auditor General within 60 days, detailing the recruitment outcome, regularization actions taken, and preventive mechanisms to enforce Section 34(3) in future acting appointments.**

PAPERS LAID	
DATE	28/2/2026
TABLED BY	Sen Cherankey
COMMITTEE	CPSC
CLERK AT THE TABLE	Belinda

# ANNEXTURES

Minutes

PAPERS LAID	
DATE	26/3/2026
TABLED BY	sen cherancy
COMMITTEE	CP & SIF
CLERK AT THE TABLE	Behidah



**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.)**