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REPORT OF THE SELECT COMMITTEE ON COUNTY PUBLIC INVESTMENTS AND SPECIAL FUNDS ON THE CONSIDERATION OF THE AUDIT REPORTS OF KAKAMEGA WATER COMPANIES, MUNICIPALITIES, HOSPITALS, FUNDS AND CORPORATION FOR THE FINANCIAL YEAR 2024/25 (1st JULY, 2024 TO 30th JUNE, 2025):

SECTOR	NO.	ENTITY
WATER COMPANIES	2	KAKAMEGA COUNTY WATER AND SEWERAGE COMPANY LIMITED
		KAKAMEGA COUNTY RURAL WATER AND SEWERAGE COMPANY LIMITED
MUNICIPALITIES	2	MUMIAS MUNICIPALITY
		KAKAMEGA MUNICIPALITY
HOSPITALS	6	NAVAKHOLO SUB- COUNTY HOSPITAL
		MALAVA SUB- COUNTY HOSPITAL
		MATUNGU SUB- COUNTY HOSPITAL
		BUTERE COUNTY HOSPITAL
		KAKAMEGA COUNTY REFERRAL HOSPITAL
		MANYALA SUB- COUNTY HOSPITAL
FUNDS	3	KAKAMEGA COUNTY CLIMATE CHANGE FUND
		KAKAMEGA COUNTY ALCOHOLIC DRINKS CONTROL FUND
		KAKAMEGA COUNTY EMERGENCY FUND
CORPORATION	1	KAKAMEGA COUNTY INVESTMENT AND DEVELOPMENT AGENCY

MARCH, 2026

DC-EG
Forwarded as recommended for approval
31/03/2026

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ACRONYMS/ABBREVIATION

BQ	Bill of Quantities
CECM	County Executive Committee Member
CPAIC	County Public Accounts and Investments Committee
CPISFC	County Public Investments and Special Fund Committee
CPSB	County Public Service Board
CRF	County Revenue Fund
ERP	Enterprise Resource Planning
FIF	Facilities Improvement Financing
FLLOCCA	Financing for Locally-Led Climate Change Action
GAAP	Generally Accepted Accounting Principles
ICT	Information and Communication Technology
MOH	Ministry of Health
NESP	National Equipment Service Program
NHIF	National Health Insurance Fund
NRW	Non-Revenue Water
PPE	Property Plant and Equipment
PSASB	Public Sector Accounting Standards Board
SHA	Social Health Authority
SO	Standing Orders
UHC	Universal Health Coverage
WASREB	Water Services Regulatory Board

DEFINITION OF TERMS

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

PREFACE

Parliamentary Committees are a creation of the Constitution through Article 124(1) of the Constitution, which empowers each House of Parliament to establish Committees and make Standing Orders (SO) for the orderly conduct of its proceedings, including the proceedings of its committees. 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 the 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 Kakamega County water company, Municipalities, Hospitals, funds and County Corporation for the Financial Year 2024/2025. The entities considered include Kakamega County Water and Sewerage Company Limited Kakamega County Rural Water and Sewerage Company Limited, Mumias and Kakamega Municipalities, Navakholo Sub- County Hospital, Malava Sub- County Hospital Matungu Sub- County Hospital, Butere County Hospital Kakamega County Referral Hospital, and Manyala Sub- County Hospital, Kakamega County Climate Change Fund, Kakamega County Alcoholic Drinks Control Fund, Kakamega County Emergency Fund and Kakamega County Investment And Development Agency.

The Governor of Kakamega County, accompanied by relevant officials, appeared before the Committee to respond under oath to audit queries raised by the Auditor-General for the water companies and municipalities while for the hospitals, funds and corporation, the county received written submissions.

COMMITTEE MEMBERSHIP

The membership of the Committee comprises of the following Senators-

- | | |
|---|---------------------------|
| 1. Sen. Godfrey Atieno Osotsi, CBS, MP. | - Chairperson |
| 2. Sen. Eddy Gicheru Oketch, MP. | - Vice-Chairperson |
| 3. Sen. 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'enh | - Media Relations officer. |
| 15. Mr. Victor Kimani | - Audio officer |
| 16. Mr. Fredick Okola | - Serjeant-at-arms |

ESTABLISHMENT OF THE COMMITTEE

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

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 executing its mandate, the Committee relied on the Reports of the Auditor-General on the Audited Accounts of the Kakamega Water Companies, Municipalities, hospitals funds and the County Corporations for the Financial Year 2024/2025 (1st July, 2024 to 30th June 2025). These reports constituted the primary reference documents for the Committee's examination. The Committee invited the Governor of Kakamega as the Chief Executive Officer pursuant to Article 179(4) of the Constitution as witnesses to respond to the audit queries raised in the reports under consideration.

The Committee received both written and oral evidences from the Governor in response to the various audit queries raised by the Auditor-General in the reports under consideration on various dates. The Committee considered and concluded its inquiry onto the reports of the Auditor-General on the financial operations of the water company, municipalities and the county corporation for the Financial Year 2024/2025.

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 fourteen (14) entities in Kakamega County for the Financial Year 2024/25. The entities covered are: two (2) water companies-Kakamega County water and sewerage company and Kakamega county Rural water company, two (2) municipalities- Mumias and Kakamega municipalities, six (6) hospitals- Navakholo Sub- County Hospital, Malava Sub- County Hospital Matungu Sub- County Hospital, Butere County Hospital Kakamega County Referral Hospital and Manyala Sub- County Hospital, Three (3)-Kakamega County Climate Change Fund, Kakamega County Alcoholic Drinks Control Fund and Kakamega County Emergency Fund and one (1) county corporation- Kakamega County Investment And Development Agency.

During its examination of the Reports of the Auditor-General on the financial statements of the fourteen entities under review, the Committee identified several cross-cutting issues of concern. These included: the doubtful sustainability of service delivery and the continued existence of the water Companies as a going concern due to accumulated losses, negative working capital, and overreliance on the County Government; persistently high levels of non-revenue water exceeding sector regulatory benchmarks; weaknesses in the management of receivables and payables; unresolved prior-year audit matters; deficiencies in budgetary control; and challenges in the operationalization of municipalities as envisaged under the Urban Areas and Cities Act, Cap. 275. The hospitals in the county exhibited non-Compliance with Kenya Quality Model for Health Policy Guidelines on Staffing of Health Workers, issues of asset managements and weak internal controls arising from non-functional internal audit units.

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 Kakamega water companies 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 the municipalities of Mumias and Kakamega 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 Hospitals in Kakamega for the Financial Year 2024/2025 and observations and recommendations of the Committee on each audit query.

CHAPTER FOUR is a record of the audit queries raised in the report of the Auditor-General for Kakamega funds for the Financial Year 2024/2025 and observations and recommendations of the Committee on each audit query.

CHAPTER FIVE is a record of the audit queries raised in the report of the Auditor-General for Kakamega County Investment and Development Agency for the Financial Year 2024/2025 and observations and recommendations of the Committee on each audit query.

GENERAL OBSERVATIONS FOR THE WATER COMPANY

1. **Material Uncertainty Related to Going Concern-** The Committee observed that Kakamega Water and Sewerage company reported a negative working capital. This condition raises significant doubt about the company's ability to continue operating as a going concern, as its survival is heavily dependent on continued financial support from the County Government of Kakamega and its creditors. The presence of material uncertainty relating to going concern further indicates that the company is technically insolvent and may be unable to meet its short-term obligations as they fall due. Moreover, the company did not disclose any measures undertaken to mitigate this adverse financial position.
2. **Non-Revenue Water (NRW)** – The Committee observed that water Companies in Kakamega county recorded very high levels of Non-Revenue Water (NRW) significantly exceeding the sector benchmark of 25% prescribed by the Water Services Regulatory Board (WASREB). The elevated NRW levels were attributed to structural deficiencies in the water infrastructure leading to physical losses, as well as commercial losses arising from inaccurate meter reading and billing, and the prevalence of illegal connections.
3. **Bookkeeping, Preparation & Accuracy of the Financial Statements** - The Committee observed inaccuracies and errors in the preparation and presentation of the water Companies' financial statements. Such errors indicate weaknesses in financial reporting processes and raise concerns regarding the reliability of the Company's financial records.

GENERAL RECOMMENDATIONS FOR THE WATER COMPANY

1. **Financial Oversight and Liability Management** - The Governor should ensure that the County Executive Committee Member responsible for water monitors the financial performance of the Companies and submits regular quarterly reports to the CECM for Finance on its financial and non-financial status in accordance with the Public Finance Management Act, Cap. 412A.
2. **Financial Recovery** – The Governor ensures that within 90 days of the adoption of this report the Accounting Officers responsible for the water companies puts in place strategic and innovative measures for recovery and to boost the financial health of the water company for self-sustainability.
3. **Reduction of Non-Revenue Water (NRW)** - The Governor should ensure that Boards and Accounting Officers implement measures to reduce NRW by addressing both physical and commercial losses. Management should report the proportion of physical and commercial losses in their financial statements.
4. **Record-Keeping, Financial Reporting, and Internal Controls** - The Governor should ensure that the Accounting Officers enforce proper record-keeping and timely submission of all supporting documents to the Auditor-General, as required under section 62 of the Public Audit Act and the

Accountants Act. Continuous capacity building should be provided to finance officers to improve competency in financial management. Compliance with the National Treasury financial reporting template must be ensured. The Board should strengthen internal controls to improve the accuracy and reliability of financial statements.

GENERAL OBSERVATIONS FOR MUNICIPALITIES

1. **Lack of Operational Autonomy** – The Committee observed that the municipalities lacked independence in management, functions, and finances. Decisions on staffing, operations, and finances were largely controlled by the County Executive, contravening sections 12 (management), 20 (functional), 45 and 46 (financial) of the Urban Areas and Cities Act, 2011. This limited municipalities' ability to make timely operational decisions.
2. **Inaccurate Financial Statements** – The Committee observed recurring errors in financial statements across the municipalities, including unsupported prior year adjustments, misstatements of receivables, payables, and opening balances. These inaccuracies indicated weak bookkeeping, limited capacity of finance officers, and challenges in applying IPSAS for proper financial reporting.
3. **Weak Budgetary Control and Performance** – The Committee observed that municipalities either under-utilized or over-utilized appropriated funds. Budget execution was inconsistent with approved ceilings, and revenue targets were often under-realized due to delayed or inadequate disbursement of funds from the National Treasury, negatively affecting service delivery.

GENERAL RECOMMENDATIONS FOR MUNICIPALITIES

1. **Operational Autonomy and Adequate Funding** - The Governor ensures that the operation of municipalities is undertaken according to the functions delegated as gazetted by the County Government. Further, the Governor should ensure that municipalities are adequately funded in accordance with section 172 of the Public Finance Management Act, 2012, to enhance their operational independence and enable effective service delivery. The Governor should further ensure that all municipalities in the county are operationalized to undertake their delegated functions in line with law by the commencement of the Financial Year 2026/2027.
2. **Accurate Financial Reporting and Capacity Building** - The Governor ensures the Accounting Officers makes accurate preparation of financial statements, provide timely supporting documents to auditors, and strengthen capacity in IPSAS compliance. Continuous training should be provided to finance officers to improve competence, and internal controls should be enhanced to ensure reliable reporting.
3. **Budgetary Control and Timely Disbursement** - The Governor ensures Accounting Officers s enforce strict budgetary control measures, ensuring that appropriated funds are used within approved ceilings and that under- or over-expenditure is avoided. The National Treasury should ensure timely disbursement of funds in accordance with the Senate-approved cash flow schedule.

4. **Record Keeping and Timely Submission of Audit Documents** - The Governor ensures the Accounting Officers maintains proper records and submit all supporting documents to the Auditor-General promptly, as required under Section 62 of the Public Audit Act and the Accountants Act, to facilitate accountability and improve the audit process.

GENERAL OBSERVATIONS FOR HOSPITALS

The Committee observed that-

1. **Non-Compliance with Kenya Quality Model for Health Policy Guidelines -**
The Committee observed that the hospitals did not fully comply with the Universal Healthcare standards, as they were inadequately staffed and were not equipped with all the medical equipment for the hospitals to be fully operational.
2. **Inaccuracies of the Financial Statements -** The Committee observed that there were inaccuracies and errors in regards to the preparation and presentation of financial statements in almost all hospitals. Further, the Accountants and the Medical Superintendents faced challenges in submitting supporting documents to the auditors on time, contrary to Section 62 of the Public Audit Act, Cap. 412B. This impedes the accountability and audit process. The persistent delays in preparing complete financial statements indicate a lack of requisite competencies and experience within hospital finance departments.
3. **Non-Compliance with Ethnic Inclusivity Requirements -** The Committee observed that some hospitals are non-compliant with Section 7(1) and (2) of the National Cohesion and Integration Act, Cap. 7N, which requires that all public offices seek to represent the diversity of the people of Kenya in staff employment and that no public institution shall have more than one-third of its establishment from the same ethnic community. Additionally, Section 65(1)(e) of the County Government Act, Cap. 265 requires that at least 30% of vacant posts at the entry level be filled by candidates who are not from the dominant ethnic community in the county.
4. **Weak Budgetary Control and Performance-** The Committee observed that hospitals exhibit weaknesses in budget execution and did not adhere to approved budget ceilings for programs. Hospitals were observed to either over-utilize or under-utilize appropriated funds. In some instances, funds were reallocated to items that were not budgeted for without prior approval by the management board. Additionally, hospitals experience high revenue shortfalls attributable to unrealistic budgeting and poor revenue forecasting.

GENERAL RECOMMENDATIONS FOR HOSPITALS

The Committee recommends that-

1. **Compliance with Kenya Quality Model for Health Policy Guidelines -** The Governor submits to the Senate a comprehensive plan outlining the specific measures being taken to address the hospital's staffing shortages. Further ensures the hospital develops and implements a comprehensive plan with appropriate budgetary provision to acquire the necessary equipment and encourage the ongoing training and prioritize new recruitments to fill gaps in medical personnel, ensuring specialized services can be offered in-house.

2. **Capacity Building on Financial Reporting Standards** - The Governor ensures the hospital management team, in consultation with the Public Sector Accounting Standards Board (PSASB), facilitates continuous capacity building on financial reporting standards for finance officers and management in hospitals to improve the quality of reporting and enhance compliance. The hospital management team should ensure that accountants possess the requisite competency and experience in financial management as required by the Accountants Act. Furthermore, the Accounting Officer should ensure compliance with the financial reporting template prescribed by the National Treasury.
3. **Compliance with Ethnic Inclusivity Requirements** - The hospital management team and County Government should make deliberate and progressive efforts to comply with Section 7(1) and (2) of the National Cohesion and Integration Act, Cap. 7N, and Section 65(1)(e) of the County Governments Act, Cap. 265, regarding diversity, the realization of the one-third rule in public sector recruitment, and ethnic inclusivity. To this end, the Board and County Governments should develop and adopt a formal diversity policy aimed at achieving full compliance with the law. Compliance status shall be reviewed in the subsequent audit period.
4. **Preparation of Realistic Budgets and Revenue Projections** - The Governor ensures the hospital management team and Accounting Officers prepare realistic budgets and revenue projections to avert revenue shortfalls that negatively impact hospitals' service delivery. Additionally, the hospital management team should seek the necessary approvals by forwarding budget estimates to the County Executive Committee Member for Health, who shall then submit them to the County Treasury as required by law. Further, hospitals should automate their billing systems to enhance revenue collection and financial control.

GENERAL OBSERVATION FOR FUNDS

Budgetary Control and Performance-Underfunding of the fund revenue budget due to late disbursement of funds from the county treasury resulting to underutilization of the budget in the respective financial year. The full disbursement of the funds was received towards the close of the financial year, hence the under absorption of the budget as per the time of audit. The under-expenditure may have negatively affected the service delivery to the public.

GENERAL RECOMMENDATIONS FOR FUNDS

- 1. Timely and Predictable Disbursement of Funds** - The Governor should ensure that the County Treasury effects timely and predictable disbursement of funds to the fund account in accordance with approved budgetary provisions. This will enable the fund to execute its planned programs and activities within the stipulated timelines, thereby ensuring that intended public benefits are realized without delay. The County Treasury shall provide a disbursement schedule to the fund's Accounting Officer at the commencement of each financial year and adhere to the same, barring exceptional circumstances duly communicated.
- 2. Budgetary Control and Compliance Enforcement** - The Governor should direct the Accounting Officer to ensure strict compliance with Regulation 42(1)(b) of the Public Finance Management (County Governments) Regulations, 2015, on the exercise of budgetary control measures. This includes regular monitoring of budget performance, timely reporting of variances, and implementation of corrective actions to prevent overspending or under-absorption. The Accounting Officer is hereby notified that failure to comply with these statutory requirements shall attract the application of the penalties prescribed under Section 199 of the Public Finance Management Act, Cap. 412A, including personal liability and disciplinary action against officers found culpable. A quarterly budget performance report shall be submitted to the County Executive Committee and the Auditor-General for review.

ACKNOWLEDGEMENTS

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

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

SIGNED:.....


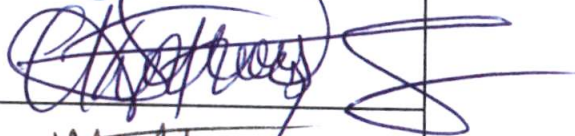
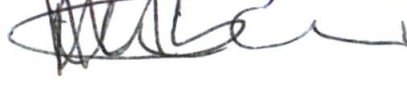
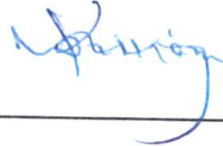


DATE:.....

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

ADOPTION OF THE REPORT OF THE SELECT COMMITTEE ON COUNTY PUBLIC INVESTMENTS AND SPECIAL FUNDS ON THE CONSIDERATION OF THE AUDIT REPORTS OF KAKAMEGA COUNTY WATER COMPANIES, MUNICIPALITIES, HOPSITALS, FUNDS AND CORPORATION FOR THE FINANCIAL YEAR 2024/25 (1st JULY, 2024 TO 30th JUNE, 2025)

SECTOR	NO.	ENTITY
WATER COMPANIES	2	KAKAMEGA COUNTY WATER AND SEWERAGE COMPANY LIMITED KAKAMEGA COUNTY RURAL WATER AND SEWERAGE COMPANY LIMITED
MUNICIPALITIES	2	MUMIAS MUNICIPALITY KAKAMEGA MUNICIPALITY
HOSPITALS	6	NAVAKHOLO SUB- COUNTY HOSPITAL MALAVA SUB- COUNTY HOSPITAL MATUNGU SUB- COUNTY HOSPITAL BUTERE COUNTY HOSPITAL KAKAMEGA COUNTY REFERRAL HOSPITAL MANYALA SUB- COUNTY HOSPITAL
FUNDS	3	KAKAMEGA COUNTY CLIMATE CHANGE FUND KAKAMEGA COUNTY ALCOHOLIC DRINKS CONTROL FUND KAKAMEGA COUNTY EMERGENCY FUND
CORPORATION	1	KAKAMEGA COUNTY INVESTMENT AND DEVELOPMENT AGENCY

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

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

CHAPTER ONE: WATER COMPANIES

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

The Governor of Kakamega County, Hon. FCPA Fernandes Barasa, OGW, appeared before the Committee on Monday, 23rd January, 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Kakamega Water and Sewerage Services Company Limited (KACWASCO) for the Financial Year 2024/2025. The Governor was accompanied by—

1. Dr. Lawrence Omuhaka - County Secretary
2. Ms. Vivianne Mmbaka - County Attorney
3. Mr. Benjamin Andama -CECM for Finance
4. Ms. Angela Muchai - CECM for Lands, Housing and Urban planning
5. Ms. Mariam Were - Chief Officer, Water
6. Mr. Michael Ogol - MD, KACWASCO
7. CPA Wycliffe Wabuche - Head of Financial Reporting Unit

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified Opinion** on the financial statements of the Kakamega Water and Sewerage Services Company Limited for the financial year on the following basis

1. Unsupported Loan Balance

The statement of financial position reflects long-term payables balance of Kshs.34,034,921 as disclosed in Note 27 to the financial statements. The balance includes Kfw Nil balance, World Bank-Mumias Nil balance, World Bank-Lumakanda Nil balance, Motor Vehicles balance of Kshs.4,422,372 and Lake Victoria North Water Works Development Agency (LVNWWDA) balance of Kshs.29,612,549. The previous year audited financial statements for the year ended 30 June, 2024 indicates loan balance totaling Kshs.408,678,432 as 30 June, 2024. However, the reduction of the loan balance by Kshs.374,643,511 from the opening balance of Kshs.408,678,432 as at 1 July, 2024 and the closing balance of Kshs. 34,034,921 as at 30 June, 2025 has not been supported by relevant documentation.

In the circumstances, the accuracy and completeness of long-term payables balance of Kshs.34,034,921 could not be confirmed.

Management Response

Management submitted to the National Treasury that the obligation to repay these loans lied with the National Treasury and not the Kakamega County Water and Sanitation Company (KACWASCO) based on the following aspects:

1. Vide Legal Notice no. 102 dated 21st July 2023, the assets in regards to the outstanding loans have been designated as Public Water Works under the management and maintenance of Lake Victoria North Water Works Development agency. Ownership of assets acquired from the loans still vests with Lake Victoria North, Water Works Development Agency, yet the liability was purportedly passed to the Company. In this scenario, the assets cannot be recognized in the company's books of account without the corresponding assets.
2. In accordance with the Water Act 2016, it is the mandate of the National Government to provide bulk water infrastructure and it therefore borrowed the loans to fulfill this mandate.
3. The National Treasury signed the existing loan agreement as the borrower and LVNWWDA as the executing agency to the agreement. The company was not a party to the agreement.
4. The PFM Act requires that before a loan is acquired by a devolved unit, there has to be an approval from the County Assembly and a guarantee from the National Treasury. These important procedures were not undertaken in this case.
5. There is no clarity from LVNWWDA, the receiving agency, regarding the outstanding loan balances and the corresponding assets, including the determination of asset ownership upon settlement of the loans.
6. Because of the huge outstanding loan, the Company's going concern remains in issue. The ability to pay the loans is therefore in doubt.

The Board of Directors considered the above grounds and passed a resolution for a proposal to derecognize the outstanding loan interest of Kshs.374, 643,511 from the Company's books of accounts. The resolution was presented to the County Executive Committee for further deliberation where the County Executive Committee approved the proposal for de-recognition, providing a basis for adjusting the accrued interest from the company's books.

Committee Observation

The Committee observed that the management has not supported loan reduction of Kshs.374,643,511 with evidence of repayment or write off supporting documents and the nature of adjustment mad.

Committee Recommendation

The Committee recommends that ensures that the process of derecognition of loan balances from the Company's books of accounts is done within the laid down legal procedures and provide status update of actions taken on the matter within 90 days of the adoption of this report.

2. Unsupported Loan Revaluation Balance

The statement of financial position reflects loan revaluation balance of Kshs.376, 941,840 which, as disclosed in Note 25 to the financial statements includes KfW balance of Kshs.38,387,465, World Bank-Mumias balance of Kshs.275,541,203 and World Bank Lumakanda balance of Kshs.63,013,172. Information available indicate that the balances are in respect of the three loans balances excluded from the financial statements for the year ended 30 June, 2025. However, no supporting evidence or basis was provided which informed Management to exclude these loans from the financial statements. Further, no documentary evidence was provided for audit review indicating the loans had been waived or repayment obligation transferred to another entity.

In the circumstances, the accuracy and completeness of the loan revaluation balance of Kshs.376, 941,840 could not be confirmed.

Management Response

Management of the KACWASCO through the full board meeting passed a resolution to revalue the loan balances of Kshs.376, 941,840 from the books of accounts. The resolution was presented to the cabinet for further deliberation where the cabinet also approved the adjustment, providing a basis for adjusting the accrued interest from the company's books

The Government of the Republic of Kenya, borrowed a loan of Kes.1, 654,992,498 from World Bank for infrastructure development of the Mumias water supply/Nambacha treatment works and a further Kshs. 302,463,225 for infrastructure development of the Lumakanda water supply/Kipkaren treatment works. In total the outstanding loan amount is Kes. 4,296,194,094(Four Billion, Two Hundred and Ninety-Six Million, One Hundred and Ninety-Four Thousand, and Ninety Four Shillings).

Management submitted to the National Treasury that the obligation to repay these loans lied with the National Treasury and not the Kakamega County Water and Sanitation Company (KACWASCO) based on the following aspects:

1. Vide Legal Notice no. 102 dated 21st July 2023, the assets in regards to the outstanding loans have been designated as Public Water Works under the management and maintenance of Lake Victoria North Water Works Development agency. Ownership of assets acquired from the loans still vests with Lake Victoria North, Water Works Development Agency, yet the liability

- was purportedly passed to the Company. In this scenario, the assets cannot be recognized in the company's books of account without the corresponding assets.
2. In accordance with the Water Act 2016, it is the mandate of the National Government to provide bulk water infrastructure and it therefore borrowed the loans to fulfill this mandate.
 3. The National Treasury signed the existing loan agreement as the borrower and LVNWWDA as the executing agency to the agreement. The company was not a party to the agreement.
 4. The PFM Act requires that before a loan is acquired by a devolved unit, there has to be an approval from the County Assembly and a guarantee from the National Treasury. These important procedures were not undertaken in this case.
 5. There is no clarity from LVNWWDA, the receiving agency, regarding the outstanding loan balances and the corresponding assets, including the determination of asset ownership upon settlement of the loans.
 6. Because of the huge outstanding loan, the Company's going concern remains in issue. The ability to pay the loans is therefore in doubt.

The Board of Directors considered the above grounds and passed a resolution for a proposal to derecognize the outstanding loan interest of Kshs.376, 941,840 from the Company's books of accounts. The resolution was presented to the County Executive Committee for further deliberation where the County Executive Committee approved the proposal for de-recognition, providing a basis for adjusting the accrued interest from the company's books.

Committee Observation

The Committee observed that

- i. The financial statements reflected a loan revaluation balance of Kshs. 376,941,840 as at 30 June, 2025, relating to KfW, World Bank–Mumias and World Bank–Lumakanda loans which had been excluded from the Company's financial statements, without adequate supporting documentation to justify the exclusion
- ii. The management and the Board of Directors resolved to derecognize the loan revaluation balance based on the assertion that the loans were obligations of the National Government, yet no documentary evidence was provided to confirm that the loans had been waived, settled or that the repayment obligation had been formally transferred to another entity
- ii. The Company was not a party to the loan agreements and there was no evidence of approval by the County Assembly or a guarantee by the National Treasury as required under the Public Finance Management Act, 2012, to

support the assumption or derecognition of the loan balances by the Company.

Committee Recommendation

The Committee recommends that—

- i. The Governor of Kakamega County within sixty (60) days of the adoption of this report engages the National Treasury and the Lake Victoria North Water Works Development Agency to obtain written confirmation on the status of the loans, including responsibility for repayment, asset ownership and treatment of accrued interest and submit the same to the Auditor-General for verification; and
- ii. The Governor ensures that any revaluation or derecognition of loan balances and related accrued interest from the Company's books of accounts is supported by legally binding agreements, approvals and confirmations in compliance with the Public Finance Management Act, 2012 and applicable accounting standards, and provides evidence of the same to the Auditor-General in the subsequent audit cycle.

3. Unsupported Refundable Customers Deposits

Review of water management records indicated that the Company charges water connection fee at a rate of Kshs.2,500, implying that the refundable customers deposits balance only represented approximately 2,500 customers. However, the Company's customer listing indicated that the Company had 37,744 customers during the year under review. Further, Note 20 to the financial statements indicates deposit account bank balance of Kshs.1, 448,610 resulting to unexplained variance of Kshs.4,801,032.

Management responses

At inception when the company was formed in 2006, the Company inherited a customer database from the defunct Municipal Council, the majority of which lacked Personally Identifiable Information. During the time, majority of the customers were connected with no deposit. The deposit requirement of Ksh.2,500 came in effect with the 2021 approved tariff. The company has onboarded 2407 new customers since then translating to Kshs 6,249,642. Of this amount Kshs. 3,465,770 was deposited into a fixed deposit account. As of 30th June 2025, Ksh.10, 600 was in the M-Pesa deposit account, while the balance of Kshs. 1,324,662 was retained in the expenditure account as refund facilitation for terminated accounts.

Committee Observation

The Committee observed that the management has addressed the matter adequately.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

4. Material Uncertainty Related to Going Concern

The statement of profit or loss and other comprehensive income reflects a net operating loss of Kshs.316, 430 and Kshs.5, 400,381 for the current and previous financial year 2023/2024. In addition, the statement of changes in equity reflects a negative retained earnings amount of Kshs.381, 408,228. This state of affairs indicates a severe financial challenge facing the Company which raises significant doubt on its ability to operate as a going concern.

In the circumstances, the Company's continued existence as a going concern is dependent on the financial support from its creditors and the Government.

Management Response

The negative retained earnings are due to accrued interest from World Bank loans amounting to Ksh. 376, 941,840. This accumulation arose from year-to-year provision for interest on the loans since 2016 when the company was established. The net accumulated losses without this provision stands at Ksh. 4,466,388. To reverse the loss-making trend, the Company, in collaboration with the Department of Water, County Government of Kakamega, is currently implementing several flagship projects aimed at expanding the revenue base and enhancing profitability. These include:

1. Performance Contracting: Management has developed a corporate balance score card that has been cascaded to all staff to help enhance staff productivity and target achievement
2. Rehabilitation of Savona Water Treatment Plant: Rehabilitation works at the Savona Water Treatment Plant are ongoing and are expected to inject an additional 6,000 m³ per day into the water supply for Kakamega residents. The project is scheduled for completion by the end of FY 2025/2026 and is anticipated to increase water volumes and, consequently, the Company's revenue.
3. Expansion through Last-Mile Connectivity: The Company is progressively achieving last-mile connectivity through the takeover of new water schemes. Feasibility studies indicate that these schemes are likely to expand the Company's revenue base and improve cost absorption by spreading fixed costs over a larger customer base.
4. Reduction of Non-Revenue Water: The Company is undertaking timely repairs of damaged pipelines and bursts, which are expected to reduce Non-Revenue

Water from 37% to 35%. This initiative is projected to expand the Company's revenue base by approximately KSh 3 million in FY 2025/2026

Committee Observation

The Committee observed that the Company reported net operating losses of Kshs. 316,430 and Kshs. 5,400,381 for the current and previous financial years respectively, and a negative retained earnings balance of Kshs. 381,408,228 as at the end of the period under review, indicating a weakened financial position.

The accumulated deficit significantly impaired the Company's liquidity and solvency position, thereby casting material uncertainty on its ability to continue operating as a going concern without sustained financial support from creditors and the Government

Committee Recommendation

The Committee recommends that-

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

current financial position. Further, management to determine and ascertain their commercial viability as required by the Public Sector Accounting Standards Board (PSASB).

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects receipts final budget and actual on comparable basis of Kshs.418, 510,278 and Kshs.380, 163,212 respectively, resulting to under-funding of Kshs.38, 347,066 representing 9% of the budget. Similarly, the statement reflects recurrent actual expenditure totalling to Kshs.380, 479,642 against a budget of Kshs.403, 466,598 resulting to under absorption of kshs.22, 986,959 or 6% of the budget. Further, the statement reflects final capital expenditure budget of Kshs.15, 043,680 and actual on comparable basis of Kshs.10, 295,518 resulting to under-expenditure of Kshs.4,748,162 representing 32% of the budget.

The under-funding and under-expenditure affected the planned activities and may have impacted negatively on service delivery to the public. My opinion is not modified in respect of this matter.

Management Response

The underfunding of Kshs.38, 836,920 arose from the following factors:

1. A decline in new connections due to the decision by several major customers and institutions to drill their own boreholes, resulting in foregone anticipated revenue estimated at Kshs 12 million.
2. Loss of revenue attributable to Non-Revenue Water, estimated at Kshs 13 million.
3. Destruction of pipelines by road contractors, leading to revenue losses estimated at Kshs. 6 million.
4. Stop work order by USAID for the Juakali–Kefinco project that had outstanding project funding of Kshs.7,000.000.

Under absorption of Kshs.22,986,959 and under-expenditure of Kshs.4,748,162 was due to the austerity measures taken by management to address the underfunding experienced during the period

Committee Observation

The Committee observed that the the under-funding and under-expenditure negatively affected the implementation of planned activities and affected service delivery to the public.

Committee Recommendation

The Committee recommends that—

- i. The Governor ensures the Accounting Officer complies with regulation 42(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 by strengthening budgetary control measures and aligning expenditure to actual and realistic revenue projections**
- ii. The Board of Directors should institute proper and realistic budget planning as well as measures to enhance its own generated revenue, such as review of tariffs, connection of more customers and automation to address revenue leakages.**
- iii. The Auditor-General to confirm the effectiveness of the mitigating measures put in the water company and report in the subsequent audit cycle.**

Other Matters

1. Unresolved Prior Year Matters

In the report for the previous year, several issues were raised under the Report on the Financial Statements, Emphasis of Matter, Report on Lawfulness and Effectiveness in the Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management has not resolved the issues or given any explanation for the delay in resolving the issues. Resources have not been applied lawfully and in an effective way.

Management Response

Management prepared a status report for previous audit findings to the office of the Auditor General. The outstanding findings are being addressed progressively. They include excess wage bill, lack of ethnic representation, non-revenue water above acceptable sector levels.

Committee Observation

The Committee observed that Several issues raised in the previous audit reports remained unresolved as at the time of the current audit.

Committee Recommendation

The Committee recommends that —

- i. the Governor ensures that the Accounting Officer resolves all outstanding prior year audit matters as required by Section 149(2)(l) of the Public Finance Management Act, Cap.412A, failure to which the**

provisions of Section 199 of the Public Finance Management Act on penalties for offences may apply; and

- ii. the Governor ensures that the Accounting Officer submits a comprehensive status report on all mitigation measures taken to resolve all prior year matters, to the Senate and copies the Auditor-General for verification within 90 days of the adoption of this report.**

2. Non-Compliance with Law on Staff Ethnic Diversity

During the year under review, the audit revealed that one hundred and thirty-three (133) staff or 80% of the total staff population of one hundred and sixty-seven (167) were from one ethnic community. This is contrary to Section 7(2) of the National Cohesion and Integration Act, 2008 which provides that no public establishment shall have more than one third of its staff from the same ethnic community.

In the circumstances, Management was in breach of the law

Management Response

Most of the staff were employed before the enactment of section 7(2) of the National Cohesion and Integration Act 2008. Since enactment and coming into force of the above section of the law, management has endeavored to ensure compliance while recruiting staff of the company. Kakamega County Water and Sanitation Company was established under the Kakamega County Water and Sanitation Services Act 2021 and incorporated under the Companies Act 2015 after devolution. Majority of staff were inherited from the National Water Corporation and were on permanent and pensionable terms. Management has adopted fair and equitable recruitment practices as showcased in the advertised positions in the recent past.

Committee Observation

The Committee observed that

- i. The water company had one hundred and thirty-three (133) staff, representing 80% of the total workforce of one hundred and sixty-seven (167), drawn from a single ethnic community, contrary to the provisions of section 7(2) of the National Cohesion and Integration Act, 2008.**
- ii. The prolonged non-compliance with the statutory requirement on ethnic diversity exposed the Company to legal and reputational risks and undermined the principles of inclusivity and national cohesion in public service**

Committee Recommendation

The Committee recommends that—

- i. **the Governor ensures management comes up with deliberate measures to ensure staff diversity at entry level when filling vacant positions, in full compliance with Section 7(2) of the National Cohesion and Integration Act, 2008;**
- ii. **all future recruitment vacancies are advertised in newspapers of national circulation and on the Company's website to attract applicants from diverse ethnic backgrounds; and**
- iii. **the Auditor-General monitors compliance with the National Cohesion and Integration Act, 2008 and provides a status update in the subsequent audit cycle.**

3. Non-Allowable Loss of Non-Revenue Water

The statement of profit or loss and other comprehensive income reflects operating revenue of Kshs.371, 285,595 which, as disclosed in Note 6 to the financial statements includes water sales amounting to Kshs.282, 780,318. During the year under review, records from the Company revealed that it produced 4,707,678 cubic meters (M3) of water out of which 2,946,820 cubic meters (M3) or approximately 63% was distributed and billed to customers. However, the balance of 1,760,858 cubic meters (M3) or approximately 37% of the total volume produced was not billed, which represent non-revenue water. This is contrary to the Water Services Regulatory Board (WASREB) guidelines which provides an allowable maximum loss of 25%.

In the circumstances, the ineffective management of water negatively impacted on the Company's profitability and resulted in unallowable loss of non-revenue water of 1,760,858 M3.

Management response

The major cause of Non-Revenue Water is the old dilapidated infrastructure, non-functional meters, and destruction of pipelines during road construction works, illegal water connections and vandalism. In the Company's 2021-2026 Strategic Plan, Non-Revenue Water Management is a key thematic pillar. Further, the company has developed a non-revenue water reduction policy and strategy, which is being implemented and monitored regularly by management and the Board of Directors. During the year under review, upgrading of murrum roads to tarmac road by both National and County governments resulted to the destruction of the following water pipelines by road work contractors;

1. Kakamega area:- Muslim Primary-Fesbeth Academy- St. Joseph Primary- 0.3 Km done by KURA, Amalemba-Majengo-1.5 Km done by KISIP, Shitaho road-1.5 Km, Joyland -Tulivu suites road -0.7 Km, Lurambi-Musikoma Road -3.2 Km done by KeRRA

2. Shitoli Area- Ilala-Musutsu line-1km,Masiyenze -0.21 Km,Irobo 0.125Km,Likhobero-0.2Km,Ikuywa-0.5 Km,Shidodo -0.2Km.
3. Mumias area :- Musanda Road -1.2Km done by KeRRA,St.Joseph School road 0.6 Km done by KISIP,Shibale 0.6 Km done by KISIP ,Lukoye 1.3Km done by KISIP,Mjini 0.4 Km done by KIPIP and Ichinga Road 1.2Km done by KURA
4. Shinyalu area :- Itenyi line, Galilaya line, Lirhanda line-Shinyalu(1.2km)
5. Lumakanda Scheme: Boaz Line, Munyuki-Kavuluka line, Lumakanda Boys line(4km) Malava Scheme :-Malava market-Malanga Center 2Km done dby KeRRA,Malava Shitirira 2Km done by KeRRA.

A total distance of approximately 23km was destroyed 402,190M3 of water was lost and 1,450 customers were affected

Committee Observation

The Committee observed that the NRW was at 37%, 12% above the allowable sector benchmark of 25%.

Committee Recommendation

The committee recommends that-

- i. **The Governor should ensure that the Accounting Officer monitors and oversees the implementation of measures to mitigate Non-Revenue Water (NRW), addressing both physical and commercial losses, and reports progress to the Auditor-General for review in the subsequent audit cycle.**
- ii. **the Governor ensures that the Accounting Officer segregates NRW to both Physical or Commercial so that the water company can ascertain and identify specific mitigating measures to effectively address and reduce the NRW levels; and**
- iii. **the County Government to collaborate with the Ethics and Anti-Corruption Commission to ensure pre-emptive measures are put place to reduce cases of theft and illegal connections.**

4. Excess Wage Bill

The statement of profit or loss and other comprehensive income reflects staff costs amounting to Kshs.180, 064,098 as disclosed in Note 10 to the financial statements. The amount is equivalent to 47% of the total revenue of the Company of Kshs.380, 163,212 against the required ratio of 30%. Additionally, the current staff numbers are one hundred and sixty-seven (167) staff which differs from the recommended industry requirement for the water company of ninety (90) staff resulting in excess staffing of seventy-seven (77) staff.

This was contrary to Table 3.2 of WASREB Impact Performance Report No.16/2024 of Kenya Water Sector in 2022/2023 financial year which classified Kakamega County Water and Sanitation Company as a very large water service provider and provides that the acceptable sector bench mark for staff productivity to be 5 per 1,000 active connections.

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

Management response

After transfer of service of 38 staff to Rural Company in the year 2022 January, KACWASCO reorganized its staff and appointed various staff in certain positions for continuity of service delivery. The County Executive Committee recalled the transfer of the 38 staff and reinstated them in the existing ranks of the company which caused high wage bill. The wage bill has reduced from 49% in FY 2023/2024 to 47% in FY 2024/2025 following the following measures implemented within the Financial Year. Management takes note of the high staff cost-to-revenue ratio is influenced not only by staff numbers but also by revenue constraints, which are currently being addressed through water supply expansions.

Management has also developed a NRW policy and NRW strategy to boost own source revenues. The current staff establishment reflects the operational realities of a very large water service provider serving a wide geographical area with dispersed infrastructure, assets, and increased compliance requirements under sector regulations. These operational demands necessitate staffing beyond the purely numerical benchmark to ensure uninterrupted water service delivery, water quality assurance, customer support, billing, and infrastructure maintenance. As a long term measure, the Board of Management has approved implementation of the restructuring report to increase staff productivity and management has frozen new hires and replacement of vacant positions.

Management strives to enhance the revenue collection to help reduce the high wage bill.

Committee Observation

The Committee observed that:

- i. The Company incurred staff costs amounting to Kshs. 180,064,098 during the year under review, representing 47% of the total revenue of Kshs. 380,163,212, which exceeded the acceptable sector benchmark of 30% as prescribed under the Water Services Regulatory Board (WASREB) guidelines
- ii. The Company had a staff complement of one hundred and sixty-seven (167) employees against the recommended industry requirement of ninety (90) staff, resulting in excess staffing of seventy-seven (77) employees and low staff productivity.

Committee Recommendation

The Committee recommends that

- i. The Auditor-General to carry out audit of staff of Kakamega Water and Sanitation Company Limited to confirm that there is no existence of ghost workers and provide a status report on the same within 90 days of the adoption of this report;**
- ii. The Company adheres with the provisions of regulation 25(1) of the Public Finance management (County Government) Regulations, 2015 which limits the wage bill to thirty -five percent (35%) of the total revenue and establish a lean staff.**
- iii. The Governor through the accounting Officer and the Board of Directors, within sixty (60) days of the adoption of this report, fully implement the approved restructuring report to rationalize staffing levels, enhance staff productivity and progressively reduce the wage bill to the acceptable sector benchmark of 35%, and submit a status report to the Auditor-General and the Senate**
- iv. The Governor through the Board of the water ensures strict adherence to the freeze on recruitment and replacement of vacant positions, except where critical skills gaps are justified and approved in line with applicable laws and sector guidelines**
- v. The Governor through the County Executive Committee Member in charge of Water and Finance continuously monitors the Company's staff costs and revenue performance, and supports implementation of revenue-enhancing measures to sustainably reduce the staff cost-to-revenue ratio, with progress to be verified by the Auditor-General in the subsequent audit cycle.**

5. Delayed Implementation of Projects

- i. Construction Works for a 5,000 Cubic Meters Reinforced Concrete Water Storage Tank**

Management awarded tender number KACWASCO/CON/5/2019-2020 to a local contractor for construction works for a 5,000m³ reinforced concrete water storage tank in Milimani-Kakamega town at a contract sum of Kshs.84,124,460. The contract agreement was signed on 6 September, 2019 with a contract completion period of eight (8) months ending May, 2020.

The project was later relocated to Lirhanda - Shinyalu Subcounty, and the contract sum was revised upwards by an amount of Kshs.12,924,488 to Kshs.97,045,948, representing 15% variation of the original contract sum of Kshs.84,121,460. The change

was formalized through a contract agreement signed on 7 August, 2020. The contract completion period was six (6) months with initial date of completion being January 2021.

The contract completion period was further revised to April, 2023. Physical inspection of the project on 11 August, 2025 revealed that the project was incomplete with overall works certified progress at 98% complete and was not in use. The contract period had lapsed with no evidence of contract extension. Further, details of payments made to the contractor were not provided for audit review. In the circumstances, the Company did not achieve value for money in respect of the delayed project.

Management Response

The Lirhanda Water Project was initially sited in Kakamega Town, within Milimani, on land donated by the National Intelligence Service (NIS). This location was ideal as it was adjacent to the existing Milimani Tanks. However, after mobilization of materials, machinery, and the official launch of the project, NIS withdrew its consent, citing security concerns. Specifically, they indicated that a public project within their premises would require uncontrolled access to the NIS compound, which was not permissible. Consequently, all materials and equipment on site had to be demobilized. Following this development, company management initiated the search for an alternative site.

This process involved conducting geotechnical surveys across various potential locations, engaging with landowners willing to sell, and ensuring the site selected would provide the required elevation to enable gravity-fed water supply to the existing Milimani distribution tanks. After comprehensive evaluation, Lirhanda was identified as the most suitable site.

The delays experienced arose primarily from:

Change of project site following NIS withdrawal.

Land acquisition processes for the new site.

Mobilization and subsequent demobilization of contractors' machinery and personnel.

Increased project costs, which rendered the initial budget inadequate.

Requirement for Public Participation to all stakeholders.

As a result of the funding shortfall, the contractor suspended works, despite having already completed approximately 95% of the project. The Contract was extended and the company has engaged the contractor towards completion of the project.

Committee Observation

The Committee observed that the water treatment plant was yet to be delivered, installed and operationalized as at the time of meeting.

Committee Recommendation

- i. The Governor within sixty (90) days of the adoption of this report, submits the Senate and a copy to the Auditor-General a comprehensive status report on the project detailing payments made to the contractor, outstanding contractual obligations, and timelines for completion and commissioning of the water storage tank;**
- ii. The Board of Directors ensures that all contract variations, extensions of time and project relocations are adequately documented, approved and implemented in strict compliance with the Public Procurement and Asset Disposal Act; and**
- iii. The Governor ensures that adequate funding is mobilized to complete and operationalize the project without further delay and reports to the Senate on the utilization and impact of the project on service delivery within the subsequent audit cycle.**

6. Unprocedural Provision of Security Services

Company continued to pay the security firm for the provision of security services without a valid contract agreement in force.

Management responses

The payments made were relating to arrears for security services rendered. However, the contract for security was extended as per the attached addendum.

Committee Observation

The Committee observed that the management has provided evidence of contract extension hence mitigating the matter.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

7. Unremitted Statutory Deductions

Review of the payroll and other supporting documents revealed that during the year under review, the Company deducted Kshs.11, 010,298 from employees salaries in respect to National Social Security Fund (NSSF), out of which Kshs.3,406,832 was paid resulting to unremitted NSSF deductions totalling Kshs.7,603,466. Further, LAPTRUST dues totalling Kshs.6,015,329 for both employees deductions and employer contribution had not been remitted as at 30 June, 2025. Additionally, review

of the Kenya Revenue Authority iTax portal revealed that the Company had arrears of Pay-As-You-Earn (PAYE) dating back to December, 2023 amounting to Kshs.766,627.

In the circumstances, the Company risks penalties and interest charges arising from the non-remittance of statutory deductions.

Management Response

Unremitted NSSF deductions of Kshs.7,603,466 and LAPTRUST dues of Kshs.6,015,329

Management acknowledges the auditors' observation regarding cumulative statutory remittances. Management is committed to ensuring timely remittances and has instituted daily standing orders of Ksh. 30,000 to NSSF and Ksh. 100,000 to LAPTRUST to progressively address the outstanding balances.

PAYE Arrears

The outstanding balance of Ksh. 766,627 in PAYE Returns on the Income Tax ledger relates to penalties and interest. These were expected to be waived by the Kenya Revenue Authority (KRA) following compliance with the payment of the principal tax under the Tax Amnesty, which ran until 30th June 2025. Management has contacted the Kakamega KRA office to waive the outstanding amount from the ledger.

Committee Observation

The Committee observed that—

- i. The Company deducted a total of Kshs. 11,010,298 from employees' salaries in respect of National Social Security Fund (NSSF) contributions during the year under review, of which only Kshs. 3,406,832 was remitted, leaving unremitted NSSF deductions of Kshs. 7,603,466
- ii. LAPTRUST contributions, comprising both employee and employer portions totaling Kshs. 6,015,329, had not been remitted as at 30 June, 2025
- iii. Review of the Kenya Revenue Authority (KRA) iTax portal revealed arrears of Pay-As-You-Earn (PAYE) amounting to Kshs. 766,627 dating back to December 2023

Committee Recommendation

The Committee recommends that—

- i. **The Governor to ensure the Accounting Officer, within sixty (60) days of the adoption of this report, ensures full remittance of the outstanding NSSF deductions of Kshs. 7,603,466 and LAPTRUST contributions of Kshs. 6,015,329, and submits evidence of the same to the Senate and a copy to the Auditor-General;**

- ii. **The Governor through the Accounting Officer engages with the Kenya Revenue Authority to regularize the PAYE arrears of Kshs. 766,627 and ensure that any penalties or interest charges are resolved in accordance with applicable tax regulations;**
- iii. **The Governor through the Board of Directors puts in place robust internal controls to ensure timely and complete remittance of all statutory deductions in future, including monitoring and reporting mechanisms to prevent recurrence**
- iv. **The Governor through the Accounting Officer submits a status report to the Senate on the implementation of the above measures within sixty (60) days of adoption of this report.**

8. Inadequate Information and Communication Technology (ICT) Internal Controls and Governance

Audit review of the Company's ICT function revealed major gaps in governance and operational management. The Company lacks a formal ICT strategic plan, which is essential for aligning technology initiatives with its overall goals. Key governance structures, which includes the ICT Strategy Committee and Steering Committee were also not in place. In addition, it was observed that the Company was in the process of acquiring ownership of an Enterprise Resource Planning (ERP) system valued at Kshs.44,981,000.

As at the time of audit in October, 2025 a total Kshs.42, 450,000 representing 94% of the total cost had been paid. However, lack of a clearly empowered and independent ICT function may limit the ICT department to effectively manage the ERP infrastructure and ensure its full operational functionality.

Management Response

ICT currently is a section that reports to the Managing Director as provided for under the ICT governance standards adopted by the BOD for KACWASCO. Further, the company has an established ICT section with a qualified team that are facilitated with refresher training on an annual basis.

The Board has approved an ICT policy that aligns to the national standards and provides for all the governance protocols. The Company is undertaking implementation of the policy and has established an ICT strategy and steering committee as provided for under the Committee Charter for Corporate Services (ICT, HR) Resources mobilization, Legal and Governance Committee.

Committee Observation

The Committee Observed that the management has not provided evidence of existence of ICT strategic plan, ICT strategy and steering committee and existence of independent ICT function.

Committee Recommendation

The Committee recommends that

- i. The Governor through the County Executive Committee Member (CECM) - Finance ensures that the water company puts in place all internal control systems such as the ICT policy as provided under section 155 (5) of the Public Finance Management Act, 2012;**
- ii. The Governor through the Board of Directors ensures that the ICT strategic plan is finalized, approved, and fully implemented to provide clear direction for ICT initiatives and alignment with the Company's objectives;**
- iii. The ICT Strategy Committee and Steering Committee are formally established, operationalized, and empowered to provide strategic oversight, monitor ICT performance, and report to the Board on all ICT matters;**
- iv. The Company fully operationalizes the ERP system, ensuring that the ICT section is adequately empowered, resourced, and trained to manage and maintain the system effectively; and**
- v. The Governor submits evidence of the operationalization of ICT governance structures and full functionality of the ERP system to the Senate and a copy to the Auditor-General within sixty (60) days of adoption of this report.**

1.2. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR KAKAMEGA COUNTY RURAL WATER AND SEWERAGE SERVICES COMPANY LIMITED FOR THE FINANCIAL YEAR 2024/2025

The Governor of Kakamega County, Hon. FCPA Fernandes Barasa, OGW, appeared before the Committee on Monday, 23rd January, 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on the Financial Statement for the Kakamega County Rural Water and Sewerage Services Company Limited (KACRUWASCO) for the Financial Year 2024/2025. The Governor was accompanied by-

1. Dr. Lawrence Omuhaka - County Secretary
2. Ms. Vivianne Mmbaka - County Attorney
3. Mr. Benjamin Andama -CECM for Finance
4. Ms. Angela Muchai - CECM for Lands, Housing and Urban planning
5. Ms. Mariam Were - Chief Officer, Water
6. Mr. Fred Alwa - Ag. MD, KACRUWASCO
7. Ms. Stacy Nekoy - Accountant, KACRUWASCO
8. CPA Wycliffe Wabuche - Head of Financial Reporting Unit

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified Opinion** on the financial statements of the Kakamega County Rural Water and Sewerage Services Company Limited for the financial year on the following basis

1. Inaccuracy of Operating Revenue

The statement of profit or loss and other comprehensive income reflects Kshs.16,498,339 for operating revenue and as disclosed in Note 6 to the financial statements. However, the billing ledgers do not include meter numbers, previous reading, current reading and rates applied in billing. Further, it was observed that some customers do not have water meters and therefore are charged a monthly flat rate. These consumers were estimated to consume 20% of the Company's water.

In the circumstances, the accuracy and completeness of operating revenue of Kshs.16,498,339 could not be confirmed.

Management Response

Explanation as to why the billing ledgers do not include meter numbers, previous reading, current reading and rates applied in billing.

The system report provided during audit was not able to produce consolidated billing ledgers for all customers in the format including components like previous reading and the current reading, management provided a separate report on the missing information for individual customers which included current reading and previous reading. The current billing system still provides all the required information including meter numbers, previous and current readings. The ledger reports are in the format of: meter number, account number, customer name, consumption in cubic meters, and billing amount in Kenyan shillings. The report on previous and current readings is provided on individual customer basis.

Management has provided the billing ledgers, meter reading reports and a detailed tariff structure indicating the rates applied.

Explanation as to why some customers lack water meters and therefore are charged a monthly flat rate.

Some customers lack water meters because the company has not procured enough meters due to budgetary constraints. Currently the company has 5,180 customers out of which 1,191 are missing the meters. The management confirms that revenue reported in the financial statements is complete and justified, because of the following reasons; Operational Constraints on metering A section of the Company's customer base is billed on approved flat-rate tariffs due to the inadequacy of water meters, arising from historical infrastructure gaps and financial constraints that have limited the Company's ability to procure and install meters for all customers.

Revenue Recognition Basis Revenue from flat-rate customers is recognized based on approved billing policies and service availability, which is an accepted practice in the water sector where metering is incomplete. This approach ensures revenue is neither arbitrary nor overstated. Controls in Place-All flat-rate customers are maintained in the billing system and subject to regular billing cycles. Management has developed a phased metering program aimed at gradually increasing meter coverage as financial resources allow. Priority is given to high consumption areas to improve accuracy, efficiency, and revenue assurance.

Management therefore confirms that the revenue reported in the financial statements is reasonably stated and supported, given the operational realities and regulatory framework under which the Company operates.

Committee Observation

The Committee observed that the management admitted to the query and acknowledged the inability of the water company to meter all its customers.

Committee Recommendation

The Committee recommends that the Governor ensures the County Executive extends financial support to the water company so that it can meter its customers and the Auditor-General to review the matter in subsequent audit cycle.

2. Inaccuracy of Staff Costs

The statement of profit or loss and other comprehensive income reflects staff costs amounting to Kshs.10,353,265, and as disclosed in Note 8 to the financial statements. However, the supporting payrolls and expenditure vouchers provided for audit indicate a total cost of Kshs.9,647,227, resulting in an unexplained and unreconciled variance of Kshs.706,037.

Management responses

Management acknowledged the audit query and provided staff costs detailed schedule and reconciliation.

Committee Observation

The Committee observed that the balance was disclosed under trade payables and that the evidences and explanations addressed the matter.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

3. Unconfirmed Property, Plant and Equipment Balance

The statement of financial position reflects property, plant and equipment balance of Kshs.5, 597,831 and as disclosed in Note 14 to the financial statements. However, the assets include two (2) motor vehicles and twelve (12) motor cycles donated by County Government of Kakamega whose log books were not provided for audit review. Further, the disclosure Note reflects a Nil balance for land including land on which the Company and its twenty-eight (28) water schemes were located. In addition, the title deeds for the parcels of land were not provided for audit.

In the circumstances, the accuracy, completeness and ownership status of property, plant and equipment balance of Kshs.5,597,831 could not be confirmed.

Management Response

Explanation as to why management failed to provide logbooks for two (2) motor vehicles and twelve(12) motor cycles donated by County Government.

The company has two motor vehicles. KDM 940E acquired in FY 2023/2024. During the time of audit the log book was not ready and available since management was in the process of acquiring it from NTSA. Currently the log book has been processed and is now available for audit review. The second motor vehicle KBG 917C was donated from Lake Victoria North water works development agency to support the company in its operations. During the time of audit management was unable to access the logbook from the Lake Victoria North water works Development agency. Currently a copy of the logbook has been accessed and provided for audit review. The 12 Motorcycles were allocated by the County Government through the Department of water, Environment, Natural Resources and climate change to support the company. The ownership is still with the County Government Executive.

Explanation as to why management disclosed a nil balance for land and non-provision of the title deeds for the parcel of land.

The land that is used by Kakamega County Rural Water and Sanitation Company spread across all sub-Counties is either in the ownership of the County Government or public institutions. Out of the 28 water schemes the county has purchased 5 parcels of land from private ownerships and management is in the process of acquiring the title deeds. Management has provided supportive documents to show that it is still in the process of acquiring ownership.

Committee Observation

The Committee observed that

- iii. The property, plant and equipment balance of Kshs.5,597,831, as reflected in the statement of financial position, could not be fully verified due to missing documentation, including logbooks for two (2) motor vehicles and twelve (12) motor cycles donated by the County Government of Kakamega.
- iv. The disclosure Note reflects a nil balance for land, despite the Company operating on land for its headquarters and twenty-eight (28) water schemes, and title deeds for the parcels of land were not provided.

Committee Recommendation

The Committee recommends that—

- i. **The Governor, within sixty (90) days of the adoption of this report, ensures that the Logbooks of the Two (2) vehicles are processed to safeguard the company's assets;**
- ii. **The Governor ensures that the water company maintains an up-to-date asset register in the format prescribed by the Public Sector Accounting Standards Board (PSASB) and the company to carry out a valuation of**

- all its assets and submit the same to the Office of the Auditor-General within 60 days from the adoption of this report; and
- iii. The Auditor-General to monitor the progress of the project and provide a status update of the same to the Senate within 60 days of the adoption of this report.

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects receipts final budget and actual on comparable basis amounts of Kshs.84,000,000 and Kshs.28,864,870 respectively, resulting to an under-funding of Kshs.55,135,130 or 66% of the budget. Similarly, the Company spent Kshs.28, 579,564 against an expenditure budget of Kshs.61, 200,000, resulting to an under-performance of Kshs.34, 503,416 or 53% of the budget.

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

Management Response

Explanation on under-funding of Kshs.55, 135,130 or 66% of the budget.

The underfunding of Ksh. 55,135,130 was occasioned by the County Government of Kakamega Treasury not releasing Kshs.35, 000,000 grants due to a short fall in collection of its Own Source Revenue, failure to receive conditional grants from USAID of Kshs.10, 000,000 and the company not meeting target by Kshs.10, 135,130 which was attributed to lack of capacity to ensure consistent water supply.

Under-performance of Kshs.34, 503,416 or 53% of the budget.

The underperformance was caused by the underfunding.

Committee Observation

The Committee observed that:

- i. The statement of comparison of budgeted and actual amounts reflects total receipts of Kshs.28,864,870 against a final budget of Kshs.84,000,000, resulting in an under-funding of Kshs.55,135,130 or 66% of the budget
- ii. Actual expenditure of Kshs.28,579,564 was incurred against a budgeted amount of Kshs.61,200,000, leading to under-performance of Kshs.34,503,416 or 53% of the budget

- iii. The under-funding and under-performance significantly affected the implementation of planned activities and may have adversely impacted service delivery to the public

Committee Recommendation

The Committee recommends that—

- i. **The Governor to ensure strict compliance with regulation 42(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 by strengthening budgetary control measures and aligning expenditure to actual and realistic revenue projections;**
- ii. **The Governor ensures the Board of Directors institute a proper and realistic budget planning as well as measures to enhance its own generated revenue, such as review of tariffs, connection of more customers and automation to address revenue leakages;**
- iii. **The Auditor-General to confirm the effectiveness of the mitigating measures put in the water company and report in the subsequent audit cycle.**

Other Matters

6. Unresolved Prior Year Matters

In the previous year audit, issues were raised under Report on the Financial Statements, Report on Lawfulness and Effectiveness in the Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. The Management had indicated under the progress on follow up of Auditor's recommendations section of the financial statements that all the issues were awaiting Senate clearance. However, no reasons were given for not resolving the issues.

Management Response

Explanation as to why management failed to give reasons for not resolving the issues.
In the financial year 2023/2024 there were seven audit issues that were outstanding as provided in the prior year audit report. Management has implemented the recommendation issued by the auditor on this issues and most of the issues have been cleared and a waiting recommendations from the Senate. Provided is the current progress report on prior year matters for your audit review.

Committee Observation

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

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures that the Accounting Officer resolves all outstanding prior year audit matters as required by Section 149(2)(I) of the Public Finance Management Act, Cap.412A, failure to which the provisions of Section 199 of the Public Finance Management Act on penalties for offences may apply; and**
- ii. the Governor submits a comprehensive status report on all mitigation measures taken to resolve all prior year matters, to the Senate and copies the Auditor-General for verification within 90 days of the adoption of this report.**

7. Use of Un-recommended Tariff Structure

The statement of profit or loss and other comprehensive income reflects operating revenue amounting to Kshs.16, 498,339 in respect to water sales, and as disclosed in Note 6 to the financial statements. However, the Company was billing customers using a tariff that was meant for Busia Water and Sanitation Company Limited contrary to Regulation 45(1) of the Water Act, Regulations, 2016 which states that a licensed water service provider shall implement the tariff approved and gazetted by the Regulatory Board for the prescribed period.

In the circumstances, Management was in breach of the law

Management Response

Management acknowledges the auditors observation, however the tariff in use is not for Busia Water and Sanitation Company Limited but for the defunct Kakamega-Busia Water Company, which gave birth to Kakamega Urban Water and Sanitation Company, Kakamega Rural Water and Sanitation Company and Busia Water and Sanitation Company. Management is in the process of acquiring a new tariff and has been dully initiated in accordance with the applicable regulatory requirements based on the license conditions. However, the subsequent implementation processes have not been fully undertaken due to financial constraints currently facing the Company.

In the interim, the Company continues to engage relevant stakeholders and is exploring alternative financing options and internal cost-control measures to enable phased implementation without compromising service delivery. Management remains committed to completing the outstanding processes once the financial position improves.

Committee Observation

The Committee observed that the management acknowledged and admitted that the Company was billing customers using a tariff that was originally designed for the defunct Kakamega-Busia Water Company, rather than a tariff specifically approved for Kakamega County Rural Water and Sanitation Company

Committee Recommendation

The Committee recommends that the Governor ensures that the water company has its tariff approved by WASREB within 90 days of adoption of this report in compliance with Section 73(5) of the Water Act, 2016 and submit status update to the Senate within the same period.

8. Excess Non-Revenue Water

During the year under review, the total volume of water produced for distribution was 333,536 cubic meters of water, out of which 221,157 cubic meters was billed for Kshs.16, 498,339. The balance of 112,378 cubic meters or approximately 34% of the total production volume represents non-revenue water valued at approximately Kshs.5, 558,781. The loss of 34% of water was above the 25% threshold allowed by the Water Service Regulatory Board (WASREB), and no explanation was provided for the failure to attain twenty-five percent (25%) threshold of non-revenue water. This was contrary to Schedule 'E' and the KPI's impact No.13 of WASREB benchmarks which provide for a Non-Revenue Water level of under 20% as 'good'; 20-25% as 'acceptable'; while above 25% is 'not acceptable'.

In the circumstances, Management was in breach of law.

Management response

Explanation as to why excess non-revenue water is beyond the 25 percent allowable limit.

In our rural operational context, high NRW is attributed to aged infrastructure, limited metering coverage, water theft, manual billing and inadequate resources for NRW control. The company is addressing these challenges progressively by enhancing metering, improving leak detection and repair, engaging communities to report illegal usage, and upgrading systems. Due to financial constraints the implementation phased based on available resources and support from development partners and County Government. Management has taken the following measures to reduce Non-Revenue Water losses which include but not limited to,

1. Training/capacity building of staff.

2. Re-engineered water conveyance piping materials and stocking of Operation and Maintenance consumables.
 3. Intensified water supply inspection to root out illegal connections.
 4. Increasing metering for Production points (master meters) and Consumer points
 5. Development and implementation of a Non-Revenue Water Management Policy.
- The Non-Revenue Water loss for the current year has reduced to 32% from 34% following the above interventions by management.

Committee Observation

The Committee observed that the NRW for the water company stood at 34%, 9% above the sector benchmark of 25%.

Committee Recommendation

The committee recommends that-

- i. **The Governor should ensure that the Accounting Officer monitors and oversees the implementation of measures to mitigate Non-Revenue Water (NRW), addressing both physical and commercial losses, and reports progress to the Auditor-General for review in the subsequent audit cycle;**
- ii. **the Governor ensures that the Accounting Officer segregates NRW to both Physical or Commercial so that the water company can ascertain and identify specific mitigating measures to effectively address and reduce the NRW levels; and**
- iii. **the County Government to collaborate with the Ethics and Anti-Corruption Commission to ensure pre-emptive measures are put place to reduce cases of theft and illegal connections.**

9. Long Outstanding Receivables

The statement of financial position reflects trade receivables balance of Kshs.15,814,747 and as disclosed in Note 16 to the financial statements which relates to outstanding water bills. However, the Company holds water bills totaling to Kshs.12,765,324 which have been outstanding for more than 120 days as shown in the ageing analysis.

This was a clear indication that the Company has not been recovering debts when due. This was contrary to Regulation 83(2)(f) of the Public Finance Management (County Governments) Regulations, 2015 which states that for purposes of this regulation sound cash management includes pursuing debtors with appropriate sensitivity and vigour to ensure that amounts receivable by the county government are collected and banked promptly.

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

Management response

Explanation for long outstanding water bills totaling to Kshs.12, 765,324.

The long outstanding water bills of Kshs.12,765,324 largely stems from legacy billing issues, and delayed payments by major institutional and government clients due to budgetary and processing constraints. In response, management has taken deliberate.

steps to address and prevent further accumulation of uncollected receivables as outlined below:

1. Enhanced Debt Recovery Initiatives A Revenue Recovery Taskforce was constituted to follow up on outstanding accounts through structured engagements, issuance of demand notices, and disconnections where necessary. The team is also coordinating with local administrators like the sub-county water officers to encourage compliance.
2. Institutional Engagement and Payment Plans The Company has held consultative meetings with key institutional and government clients especially schools, to agree on settling arrears.
3. Policy and System Strengthening: The Company is reviewing its Finance policy to include Credit Control and Debt Management Policy to tighten enforcement mechanisms, including suspension of services for chronic defaulters and ensuring that reconnections are only approved upon settlement of arrears. The review will also include a guideline on writing off irrecoverable debts.

With the above measures put in place the Company expects a significant reduction in outstanding receivables going forward.

Committee Observation

The Committee observed that:

- iii. The Company has not been effectively recovering debts when due, contrary to Regulation 83(2)(f) of the Public Finance Management (County Governments) Regulations, 2015, which requires sound cash management and prompt collection of amounts receivable
- iv. Management explained that the long outstanding receivables arose mainly from legacy billing issues and delayed payments by major institutional and government clients, and has instituted measures including a Revenue Recovery Taskforce, consultative engagements with institutional clients, and revision of the Finance Policy to include Credit Control and Debt Management mechanisms.

Committee Recommendation

The Committee recommends that-

- i. the Governor through the Accounting Officer should ensure that the water company undertakes debtor's circularization to confirm the authenticity of the receivables and provide a status update on the same to the Senate within sixty (60) days of the adoption of this report;**
- ii. the Governor ensures the Accounting Officer should, within 90 days of the adoption of this report, submit a debtors' ageing schedule to the Auditor-General for review and verification and update the Committee in the subsequent audit cycle;**
- iii. the Governor ensures that the Accounting Officer, within 90 days of the adoption of this report, submit an approved copy of the Debt Management Policy to the Auditor-General for verification. The Auditor-General to verify the policy and submit a status update on the same in the subsequent audit cycle;**
- iv. the Governor ensures the Accounting Officer should, within 90 days of the adoption of this report, put 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 the Committee on the matter in the subsequent audit cycle; and**
- v. the Governor ensures the Accounting Officer to undertake a detailed 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.**

10. Long Outstanding Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.14, 551,271 and as disclosed in Note 24 to the financial statements. Review of the ageing analysis revealed that debts amounting to Kshs.395,400 were for a period of more than twelve (12) months, and no reason was given for failure to pay debts when due. This was contrary to Regulation 150(1) of the Public Procurement and Assets Disposal Regulations, 2020 which states that subject to availability of funds and certification of goods, works or services payments are made within 60 days from date of receipt of invoice. The accumulation of pending bills exposes the company to potential legal suits and avoidable costs in terms of interest and penalties. In the circumstances, Management was in breach of the law.

Management Response

Explanation on non-provision of reasons for delayed payment of debts when due Worth Kshs.395, 400.

The balances mainly relate to trade creditors and statutory obligations accumulated over previous financial years due to cash flow challenges arising from delayed revenue inflows and inadequate budgetary support. During the period under review, the company's liquidity position was constrained by:

- Rising operation and maintenance costs (notably electricity and chemical costs); and
- Delayed settlement of water bills by key institutional customers, including public entities.
- Low revenue collection due to inconsistent water supply.

Despite these challenges, management has continued to prioritize payments based on cash availability while ensuring continuity of critical operations such as water production and distribution.

To address the issue, the following corrective measures have been implemented:

1. **Creditor Reconciliation:** All outstanding payables have been reconciled to verify accuracy and validity of claims.
 2. **Revenue Enhancement:** Ongoing initiatives to improve billing efficiency, collections, and debt recovery from institutional customers are being implemented.
 3. **Cost Control:** The Company has strengthened expenditure controls, reduced non-essential spending, and renegotiated key supplier contracts to ease the cash flow burden.
- Engagement with County Treasury:** Discussions are ongoing with the County Government to support settlement of long term debts through grant support.

Committee Observation

The Committee observed that the query remains unresolved as the company had long outstanding trade and other receivables amounting to Kshs. 14, 551,271 which remained outstanding for over for over 12 Months.

Committee Recommendation

The Committee recommends that-

- i. **the Governor to ensures the water company makes budgetary provision to clear the outstanding payables by the end of the FY 2026/2027 and provide a status update to the Senate within 90 days of the adoption report; and**
- ii. **the Governor ensures that the County Executive Committee Member in charge of water continuously monitors the financial performance of the water company in line with section 184 of the Public Finance**

Management Act, 2012 and report on the same to the County Executive Committee, making recommendations on how the water company can improve its performance.

11. Failure to Comply with Law on Reservation of Thirty Percent of Procurements to Youth, Women and Persons with Disabilities

Review of the procurement plan for the year ended 30 June, 2025 revealed that the Company did not reserve a minimum of thirty per cent of the budgetary allocations for enterprises owned by women, youth, persons with disabilities and other disadvantaged groups in accordance with Section 53(6) of the Public Procurement and Asset Disposal Act, 2015 which states that all procurement and asset disposal planning shall reserve a minimum of thirty per cent of the budgetary allocations for enterprises owned by women, youth, persons with disabilities and other disadvantaged groups.

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

Management Response

During the period under review, the company implemented this requirement through the performance contract where a minimum reserve of thirty per cent of the budget was allocated for enterprises owned by women, youth, persons with disabilities and other disadvantaged groups. This is well demonstrated in the procurement plan of FY 2024/2025 and have been provided for your audit review. The current year's procurement plan has clearly indicated the reservation for budgetary allocation for enterprises owned by women, youth, persons with disabilities and other disadvantaged groups.

Committee Observation

The Committee observed that the management attained 24% award to special groups instead of 30%.

Committee Recommendation

The Committee recommends that the Governor ensures that the water company strictly adheres to the provisions of section 53(2) of the Public Procurement and Asset Disposal Act and the Auditor-General verifies the same and provides a status update in the subsequent audit cycle.

12. Vulnerability of Digital Signatures

Review of the annual report and financial statements of the Company revealed that the report and financial statements were not personally signed by the chairman, Managing Director and head of finance, instead digital signatures were printed on the statements.

Management responses

Management acknowledged the observation raised by the Auditor regarding the use of printed digital signatures on the Company's Annual Report and Financial Statements. The use of digital signatures arose due to operational constraints during the period under review, including the geographical dispersion of Board members and Management at the time of finalization and approval of the financial statements.

Committee Observation

The Committee observed that management addressed the matter by providing an e-signature policy and authority to use electronic signature from the Board.

Committee Recommendation

The Committee recommends that the matter be marked as addressed.

13. Appointment of the Managing Director

The reasons for the suspension of former Managing Director, the disciplinary process undertaken, and the outcome of the process were not provided for audit review. Further, the Managing Director was suspended without payment of house allowance and half salary

Management Responses

The management responded as follows-

- a. The disciplinary process has since been concluded, and the Board determined to reinstate the officer
- b. The officer has been **paid all the pending dues**
- c. Management remains committed to upholding due process, ensuring compliance with applicable laws, company policies, and maintaining high standards of governance. please find annexed the letter for his reinstatement.

Committee Observation

The Committee observed that MD was reinstated and redeployed as head of finance and commercial services.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

14. Lack of Scheme of Service

During the year under review, it was observed that the Company did not have an approved schemes of service detailing the job grading structure, job descriptions and appointment specifications across the cadres of staff in the establishment. In the circumstances, the effectiveness of human resources management could not be confirmed.

Management Response

Explanation as to why the Company was missing the approved schemes of service. Management is still in the process of developing a scheme of service. Currently the company has a draft scheme of service. However, the company has an approved Human Resource manual which is being applied to ensure effectiveness in human resource management.

Committee Observation

The Committee Observed that the management was in process of developing the scheme of service.

Committee Recommendation

The Committee recommends that—

- i. The Governor ensures that within sixty (90) days of the adoption of this report, the Board of Directors of the company ensure that a scheme of service is developed and approved to provide clear job descriptions and specifications/qualifications for all job levels for the various careers and professions in the Company in line with Clause 2.7 of the Company Human Resource Policy and Procedures Manual, 2023 within sixty (90) days of the adoption of this report; and
- ii. The Auditor-General to provide a status update on the same to the Senate during the subsequent audit cycle.

15. Failure to Provide Board Charter and Board Work Plan

During the year under review, the Board did not have a charter and operated without an annual work plan contrary to mwongozo requirement.

Management Response

Management has noted the auditor's observation and has since provided the board charter and work plan.

Committee Observation

The Committee observed that the management provided board minutes approving work plan and board charter for water company.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

CHAPTER TWO: MUNICIPALITIES

2.1.REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR MUMIAS MUNICIPALITY FOR THE FINANCIAL 2024/2025

The Governor of Kakamega County, Hon. FCPA Fernandes Barasa, OGW, appeared before the Committee on Monday, 23rd January, 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Mumias Municipality for the Financial Year 2024/2025. The Governor was accompanied by—

1. Dr. Lawrence Omuhaka - County Secretary
2. Ms. Vivianne Mmbaka - County Attorney
3. Mr. Benjamin Andama -CECM for Finance
4. Ms. Angela Muchai - CECM for Lands, Housing and Urban planning
5. Ms. Mariam Were - Chief Officer, Water
6. CPA Wycliffe Wabuche - Head of Financial Reporting Unit

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified Opinion** on the financial statements of the Mumias Municipality for the year under review on the following basis

1. Unconfirmed Cash Flow Generated from Operating Activities

The statement of cash flows reflects net cash flows from operating activities amounting to Kshs.8, 685,300 and as disclosed in Note 17 to the financial statements. The disclosure Note reflects an increase in payables from exchange transacts by an amount of Kshs.3, 997,451 which differs with Note 15 to the financial statements which indicates an increase in payables by Kshs.2, 616,529. This results in a variance of Kshs.1, 380,922 that has not been explained or reconciled. In the circumstances, the accuracy and completeness of cash flow generated from operations amounting to Kshs.8, 685,300 could not be confirmed.

Management Response

Explanation of the variance of Kshs.1, 380,922.

Mumias Municipality had a trade payables balance brought forward from F/Y 2023/24 of kshs 8,952,716 out of which Kshs 1,380,922 was paid in the course of the FY 2024/25 leaving a residual balance of Kshs 7,571,794.

During the year 2024/25 Municipality accrued new accounts payables amounting to Kshs 3,997,451 which when added to the residual balance of Kshs 7,571,794 gives a total of kshs 11,569,245 as reported.

Table 2 Reconciliation on Trade payables

Detail	Amount Kshs
Balance brought forward from FY 23/24	8,952,716
Less FY 23/24 payable paid in FY 24/25	(1,380,922)
Balance from FY 23/24	7,571,794
Add: Increase in payables FY 24/25	3,997,451
Total Payable for FY 24/25	11,569,245

Committee Observation

The Committee observed that the explanations by the management did not address the variances as queried by the Auditor-General.

Committee Recommendation

The Committee recommends that—

- i. **The Governor, through the Accounting Officer should ensure compliance with section 149(2) of the Public Finance Management Act, Cap. 412A regarding preparation and management of financial and accounting records failure to which provisions of section 199 of the Public Finance Management Act on penalties for offenses may apply;**
- ii. **The Governor, through the Accounting Officer, should strengthen internal audit controls and ensure proper record keeping;**
- iii. **The Governor, through the Accounting Officer, should enhance the capacity of officers preparing financial statements to comply with the accounting standards and should further invest in technology and processes that reduce inaccuracies in the preparation of financial statements; and**
- iv. **The Governor, through the Accounting Officer, to take administrative action on the officers within the Accounts and Finance department who fails to keep complete financial records in accordance with their terms and conditions of appointment or employment and as required by the Accountants Act, Cap. 534.**

2. Unsupported Adjustment

The statement of changes in net assets reflects adjustment for pending bill paid for financial year 2023/2024 amounting to Kshs.1, 380,922. However, journal entries and supporting documents were not provided for audit review. In the circumstances, the

validity and accuracy of the adjustment amounting to Kshs.1, 380,922 could not be confirmed.

Management Response

On provision of journal entries and supporting documents of 1,380,922.

During the audit process management provided a schedule and other supporting documents worth kshs.1, 380,922. The expenditure was reported under use of goods- Contracted cleaning services in Audited financial statements of FY 2023/2024. Management has resubmitted the supporting documents and the Extract of the financial statements of FY 2023-2024 for your audit review.

The submitted for review Payment voucher for uptime Limited of Kshs.1, 380, Extract of the financial statements for FY 2023/2024 under use of goods and its schedule.

Committee Observation

The Committee observed that the matter arose from anomalies in the Financial Statement and management did not provided journal entries in relation to the adjustment.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures that the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences may apply;**
- ii. the National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties;**
- iii. the Governor ensures the Accounting Officer strengthens internal audit controls and ensures proper record keeping in line with section 155 of the Public Finance Management Act, Cap.412A and submit a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences may apply;**

- iv. **the Governor ensures that the Accounting Officer enhances the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements; and**
- v. **the Accounting Officer ensures that prior year adjustments are carried out in the company's financial statements of the subsequent year to correct the errors to reflect the true financial position of the company.**

Emphasis of Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on a comparable basis amounts of Kshs.75,115,831 and Kshs.53,434,035 respectively, resulting to an under-funding of Kshs.21,681,796 or 29% of the budget. Similarly, the Municipality expended Kshs.57, 436,849 against an approved budget of Kshs.75, 115,831 resulting to an under-expenditure of Kshs.17, 678,982 or 24% of the budget. The under-funding and under-expenditure affected the planned activities and may have impacted negatively on service delivery to the public. Management should ensure that all the budgeted projects are implemented.

Management Response

Under-funding of Kshs.21, 681,796 or 29% of the budget

The County Executive of Kakamega was to disburse funds to Mumias Municipality and make payments on behalf totaling to Kshs.75, 115,831. During the year the County Executive transferred and made payments on behalf totaling to Kshs.53, 434, 035 resulting to a deficit of Kshs.21,681,796, the deficit was caused by a short fall in collection of own source of revenue under the Kakamega County Revenue Agency. Under-expenditure of Kshs.17, 678,982 or 24% of the budget and the under expenditure of Kshs.17, 678,982 was occasioned by the underfunding.

The management provide the breakdown of underfunding of Kshs. 21, 681,796 and the Extract of the Receiver of Revenue Financial Statements showing under collection of own source revenue.

Committee Observation

The Committee observed that there was underfunding of 29% of the budget of the municipality.

Committee Recommendation

The Committee recommends that the Governor ensures the Accounting Officer complies with regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures and further ensure that the municipality is resourced in accordance section 172 of the PFM Act.

2. Non-Collection of Own Generated Revenue.

The statement of financial performance indicates that the Municipality was financed Management Responses to the Report of the Auditor General on the report of Mumias Municipality for the year ended 30th June, 2025 solely through revenue allocated by the County Government. Section 9 (3)(c) of the Urban Areas and Cities Act, 2011 requires that Municipality status be conferred after satisfying criteria which include demonstrable revenue collection or revenue collection potential. However, it is probable that the conferment of Municipal status may have been made to Mumias Municipality without satisfying criterion of demonstrable revenue collection or revenue collection potential. In the circumstances, the Municipality may not achieve its objectives and goals as outlined in the Charter.

Management Response

Mumias Municipality revenue collection potential is well demonstrated in the Kakamega County revenue Agency plan where municipalities have been given mandates and targets to collect revenues within their jurisdiction. Currently Kakamega County Revenue Agency has seconded staff to Mumias municipality for revenue collection and are supervised by the municipal manager. The county executive in collaboration with the Council of Governors is working on a framework that will guide Municipalities own source revenue collection and retention as guided by section 173 of the PFM act.

The management submitted for review the Extract of Kakamega County Revenue Agency budget for FY 2024/2025 showing revenue targets for Mumias Municipality, Full revenue report for FY 2024/2025 in 14 regions including Mumias Municipality, Staff establishment under the Mumias municipality.

Committee Observation

The Committee observed that the municipality did not collect its own revenue during the period under review.

Committee Recommendation

The Committee recommends that—

- i. the Governor should ensure by the commencement of the financial year 2026/2027 that the municipality is fully operationalized in line with its delegated functions as gazetted by the county government; and**
- ii. the municipality is adequately funded in accordance with section 172 of Public Finance Management Act, 2012 and the Auditor to keep this matter in view and report in the subsequent audit cycle.**

Other Matter

1. Unresolved Prior Year Matters

In the audit of the previous year, several issues were reported under the Report on the Financial Statements, Emphasis of Matter and Report on Lawfulness and Effectiveness in Use of Public Resources, as detailed in appendix 1. However, Management has not resolved the issues or given reasons for the delay in resolving the issues.

Management Response

Explanation on why management failed to provide the evidence for resolved issues for audit review. Management prepared the responses and submitted to senate on 11th March 2025 for interrogation by the committee of PIC. Management is yet to receive the final recommendations to ascertain the resolved and outstanding ones. However management has worked on audit recommendation raised on the specific prior year issues and has provided the current status of the implementation for your audit review. Explanation on the delay in resolving the other issues. Management is in the process of resolving the outstanding issues through implementation of the recommendations made by the auditor. Management has provided a detailed status report of the prior year issues and the current status of implementation of the audit recommendations.

Committee Observation

The Committee observed that Several issues raised in the previous audit reports remained unresolved as at the time of the current audit.

Committee Recommendation

The Committee recommends that —

- i. **the Governor ensures that the Accounting Officer resolves all outstanding prior year audit matters as required by Section 149(2)(l) of the Public Finance Management Act, Cap.412A, failure to which the provisions of Section 199 of the Public Finance Management Act on penalties for offences may apply; and**
- ii. **the Governor ensures that the Accounting Officer submits a comprehensive status report on all mitigation measures taken to resolve all prior year matters, to the Senate and copies the Auditor-General for verification within 90 days of the adoption of this report**

Basis for Conclusion

1. Lack of Operational Autonomy for Mumias Municipality

Mumias Municipality was granted a Municipal Charter on 6 February, 2019 which grants the municipality an operational independence from the County Executive of Kakamega. However, the statement of financial performance and Note 8 to the financial statements reflects use of goods and services amounting to Kshs.47, 314,206. Included in the expenditure are contracted professional services and other expenses amounting to Kshs.42,814,206 which were incurred by the County Executive of Kakamega through Department of Lands, Housing, Urban Areas Development and Physical Planning on behalf of Mumias Municipality resulting in a balance of Kshs.4,500,000 in respect to direct expenditure by the municipality. This is contrary to Section 21(1)(a) of the Urban Areas and Cities Act, 2011 which gives Municipalities executive authority as delegated by County Executives. In the circumstances, Management was in breach of the law.

Management Response

The County Executive is making strides towards granting Municipality Operational autonomy. The management has committed itself to ensure Municipalities are on full autonomy by the end of the FY 2025/2026. The following are the steps taken towards achieving full autonomy.

- i. Constituted a cabinet committee to oversee the granting of autonomy to Municipalities
- ii. Convened meetings for Municipality Managers and Board Chairpersons to present their roadmap to autonomy
- iii. The county executive in collaboration with the Council of Governors is working on a framework that will guide Municipalities own source revenue collection and retention as guided by section 173 of the PFM act.

Committee Observation

The Committee observed that the Department of Lands, Housing, Urban Areas Development and Physical Planning undertook the expenditure activities that were ought to be done by the municipality raising doubts on its operational independence.

Committee Recommendation

The Committee recommends that—

- i. the Governor should ensure by the commencement of the financial year 2026/2027 that the municipality is fully operationalized in line with its delegated functions as gazetted by the county government; and**
- ii. the municipality is adequately funded in accordance with section 172 of Public Finance Management Act, 2012 and the Auditor to keep this matter in view and report in the subsequent audit cycle.**

2. Non-Compliance with Law on Ethnic Diversity

Review of records maintained by Management revealed that the Municipality had a total of sixty-nine (69) employees out of which sixty-eight (68) or 99% were members of the dominant ethnic community. This was contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that all public offices shall seek to represent the diversity of the people of Kenya in employment of staff and that no public institution shall have more than one third of its staff establishment from the same ethnic community. In the circumstances, Management was in breach of the law.

Management Response

Majority of County employees were employed before Section 65(1)(e) of the County Governments Act 2012 came into operation and were later inherited from the defunct Local Authorities and Devolved Ministries by the County Government. The staff turnover rate has been relatively low since inception of devolution. However, the County Public Service Board takes into account Section 65(1)(e) in current recruitments.

Committee Observation

The Committee observed that 99% of the staff of the municipality was from one ethnic community.

Committee Recommendation

The Committee recommends that the Governor in collaboration with the Embu County Public Service Board ensure the municipality progressively complies with

Section 65 of the County Governments Act, 2012 and Section 7(1) and (2) of the National Cohesion and Integration Act, 2008, by filling vacant posts in a manner that promotes ethnic diversity and represents the people of Kenya. The Auditor-General should monitor progress and keep this matter under review in the subsequent audit cycle.

3. Wasteful Expenditure on Cleaning and Garbage Collection

The statement of financial performance and as disclosed in Note 8 to the financial statements reflects use of goods and services amounting to Kshs.47,314,206 which includes outsourced contracted professional services in respect to cleaning and garbage collection amounting to Kshs.40,171,737 being payments to four (4) contracted firms. However, the Municipality owns a refuse truck which is in a working condition purchased for Kshs.18,100,000 as recorded in its fixed assets register. The refuse truck remained idle for most parts of the year without been used and explanations were not provided for outsourcing the services for which the refuse truck was meant to be used for.

Management Response

Explanation on outsourcing the services allocated for the refuse truck.

The truck is used to cover garbage collection in residential areas and commercial areas within the municipality's jurisdiction which are not covered by the cleaning companies. It also serves other departments and municipalities upon request. The contracted cleaning companies have been contracted to perform works that the refuse trucks cannot perform. The following are the terms of reference of the cleaning companies which cannot be done with the refuse truck thus the need to have them contracted.

- a. Street/road open spaces cleaning
- b. Cleaning of storm water drainage channels
- c. Cleaning of office, markets and slaughter house
- d. Maintenance of landscaped areas
- e. Emptying of public litter bins
- f. Garbage collection

Explanation on why the refuse truck remained idle for most parts of the year save for few occasions when it was hired.

The refuse trucks are used only at the time of collection of garbage that is already collected which is not done regularly also the cleaning companies hires their own trucks

to collect and deposit garbage at the dumb sites which reduces the work to be performed by the refuse trucks.

Management was working on proper modalities in future cleaning contracts to ensure the TORs of the cleaning companies includes a clause which compels them to use the refuse truck at a hired fee.

The management provided a copy of the Cleaning companies contract showing the TORs, List of areas covered by cleaning companies and zones

Committee Observation

The Committee Observation that the evidence and explanations provided by the management addressed the matter.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

4. Long Outstanding Trade and Other Payables from Exchange Transactions

The statement of financial position and as disclosed in Note 15 to the financial statements reflect trade and other payables from exchange transactions balance of Kshs.11,569,245. Out of this amount, an amount of Kshs. 7,571,794 was indicated to be above 1 to 2 years old. However, Management did not provide explanations for non-settlement of the debts. This was contrary to Regulation 41(2) of the Public Finance Management (County Governments) Regulations, 2015 which states debt service payments shall be a first charge on the County Revenue Fund and the Accounting Officer shall ensure this is done to the extent possible that the County Government does not default on debt obligations. In the circumstances, Management was in breach of the law.

Management Response

On why the payables were not paid as the first charge during the year under review
During the year under review, Mumias municipality had payables which were to be paid on behalf by the mother ministry. The County Government of Kakamega experienced delays in exchequer disbursement which affected payments for services rendered, however, an accounts payables settlement plan has been prepared by the County Treasury to ensure that all accounts payables are paid.

Committee Observation

The Committee observed that an amount of Kshs. 7,571,794 of pending bills remained unsettled for long period and the management has not provided documentary evidence showing payment plans for the amount.

Committee Recommendation

The Committee recommends that the Governor to ensures the CECM for Finance makes budgetary provision to clear the outstanding payables by the end of the FY 2025/2026 and provide a status update to the Senate within 90 days of the adoption report.

5. Delayed Renovation of Mumias Slaughter House

The statement of financial position reflects property, plant and equipment balance of Kshs.295, 945,130 as disclosed in Note 14 to the financial statements. The balance includes capital work in progress balance of Kshs.14, 321,371 which includes renovation of Mumias slaughter house balance of Kshs.6, 321,443. The contract for renovation of the slaughter house was awarded to a local contractor on 3 March, 2023 at a contract sum of Kshs.19, 649,884 and for a contract period of six (6) months from the date of signing the contract. However, a physical verification of the slaughter house on 7 August, 2025 revealed that the project was incomplete but had already been put to use. In the circumstances, value for money may not have been realized on the expenditure incurred on this project.

Management Response

Why the slaughter house is in use before completion of the renovations

The delay in completion of the project was majorly as a result of delay in getting approval from state agencies, specifically, NEMA licenses. This is the only slaughter house serving the entire region of Mumias. It has been in existence over time and the contract awarded was meant to renovate it to a more modern abattoir. Because of this, majority of the scope of works were to be undertaken externally without interfering with the daily operations of the abattoir. This explains why it is in use despite the fact that some external works are yet to be completed.

Committee Observation

The Committee observed that the slaughter was incomplete though in use.

Committee Recommendation

The Committee recommends that the Governor takes immediate actions to make budgetary provisions in the first quarter of FY 2026/2027 to complete all the

remaining works of the slaughter house. The Auditor-General to review the matter in the subsequent audit cycle.

6. Lack of Independence of the Audit Committee

Review of the audit committee minutes revealed that the Municipal Manager who is the accounting officer attends audit committee meetings as a secretary to the committee contrary to the Public Finance Management Regulation, 2015. In the circumstances, the effectiveness of the audit committee could not be confirmed.

Management Response

The municipality Board has appointed the internal auditor as the secretary to the audit committee.

Committee Observation

The Committee observed that the management appointed internal auditor and provided evidence appointment letter of the Secretary to the Audit committee

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

2.2.REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR KAKAMEGA MUNICIPALITY FOR THE FINANCIAL 2024/2025

The Governor of Kakamega County, Hon. FCPA Fernandes Barasa, OGW, appeared before the Committee on Monday, 23rd January, 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Kakamega Municipality for the Financial Year 2024/2025. The Governor was accompanied by—

1. Dr. Lawrence Omuhaka - County Secretary
2. Ms. Vivianne Mmbaka - County Attorney
3. Mr. Benjamin Andama -CECM for Finance
4. Ms. Angela Muchai - CECM for Lands, Housing and Urban planning
5. Ms. Mariam Were - Chief Officer, Water
6. CPA Wycliffe Wabuche - Head of Financial Reporting Unit

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered **unqualified Opinion** on the financial statements of the Kakamega Municipality for the financial year on the following basis

Basis for unqualified.

Emphasis of Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget of Kshs.100,334,945 and actual on comparable basis of Kshs.76,783,313 resulting to a budget under-funding of Kshs.23,551,632 representing 23% of the budget. Similarly, the Municipality spent Kshs.76,789,812 against final expenditure budget of Kshs.100,334,945 resulting to under expenditure of Kshs.23,545,133 or 23% of the budget. The under-funding and under-absorption affected the planned activities and may have impacted negatively on service delivery to the public.

Management Response

Explanation on under-funding of Kshs.23,551,632 representing 23% of the budget

The underfunding of Kshs. 23,551,632 23% on the budget was as a result of non-disbursement of Kshs. 17,409,485 from the County Treasury and unpaid services worth Kshs. 6,142,147 by the County Treasury on behalf of the municipality. The non-disbursement of Kshs. 17,409,485 and non-payment of services rendered worth Kshs. 6,142,147 was caused by under collection of own source revenue by the County Government of Kakamega.

Explanation of under expenditure of Kshs.23, 545,133 or 23% of the budget

The under expenditure of Kshs.23, 545,133 or 23% of the budget was caused by underfunding.

Management has provided breakdown of outstanding transfers of Kshs. 17,409,485, outstanding payments of Kshs.6, 142,147 and evidence of under collection of own source revenue for your review.

The management provided breakdown of outstanding transfers of Kshs. 17,409,485, Outstanding payments as at 30th June 2025 worth Kshs.6, 142,147 and Extract of the Receiver of Revenue Financial Statements showing under collection of own source revenue.

Committee Observation

The Committee observed that the municipality had underfunding of 23% of its budget for the Financial Year and management attributed this to delayed exchequer releases.

Committee Recommendation

The Committee recommends that the Governor ensures the Accounting Officer complies with regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures and further ensure that the municipality is resourced in accordance section 172 of the PFM Act.

2. Non-Collection of Own Generated Revenue

As previously reported, the statement of financial performance indicates that the Municipality was financed solely through revenue allocated by the County Government, contrary to Clause 7.1.1 (d) of the Municipal Charter for Kakamega Municipality dated 16 August, 2019 that requires the Municipality to retain a portion of revenue collected for purpose of defraying its costs in providing services as anchored on Section 172(a) of the Public Finance Management Act, 2012. Further, conferment of municipal status may have been made without satisfying criterion of demonstrable revenue collection or revenue collection potential, contrary to Section 9 (3)(c) of the

Urban Areas and Cities Act, 2011. In the circumstances, the Municipality may not achieve its objectives and goals as outlined in the Charter.

Management Response

Explanation as to why Municipality was financed solely through revenue allocated by the County Government.

The County Executive of Kakamega is in arrangement with the Kakamega Municipality for collection of own source revenue on its behalf through the kakamega County Revenue Agency. The agency has subdivided County into 14 regions which kakamega municipality is part of .The Agency has seconded 29 revenue clerks, 4 revenue officers, 1 senior revenue officer, who do revenue collection on behalf of kakamega municipality . Management has put in place the following measures to ensure full adherence to Clause 7.1.1 (d) of the County Government Municipal Charter for Kakamega Municipality dated 16 August, 2019.

- a. Municipality has an approved budget by the County Assembly under the ministry of Lands, Housing and Urban development.
- b. Municipality is getting grants from the World Bank under the Kenya urban support programme (KUSP) and the Kenya Informal settlement Improvement programme (KISIP)
- c. Management is working on a legal framework on the retainer percentage on own source of revenue as per the PFM act section 173 (1).

Explanation on the municipal status which is satisfying criterion of demonstrable revenue collection or revenue collection potential which comply with Section 9 (3)(c) of the Urban Areas and Cities Act, 2011.

Kakamega Municipality revenue collection potential is well demonstrated in the Kakamega County Revenue Agency plan where Municipalities have been given mandates and targets to collect revenues within their jurisdiction.

Kakamega County Revenue Agency has seconded staff to the Kakamega Municipality for revenue collection who are supervised by the Municipal Manager.

The management submitted for review the Kakamega County Revenue agency plan for FY 2024-2025, Extract of Kakamega County Revenue Agency budget for FY 2024/2025 showing revenue targets for Kakamega Municipality, Full revenue report for FY 2024/2025 in 14 regions including Kakamega Municipality and Staff establishment under the Kakamega municipality.

Committee Observation

The Committee observed that the municipality did not collect its own revenue during the period under review.

Committee Recommendation

The Committee recommends that—

- i. the Governor should ensure by the commencement of the financial year 2026/2027 that the municipality is fully operationalized in line with its delegated functions as gazetted by the county government; and**
- ii. the municipality is adequately funded in accordance with section 172 of Public Finance Management Act, 2012 and the Auditor to keep this matter in view and report in the subsequent audit cycle.**

Other Matters

1. Unresolved Prior Year Matters

In the previous year audit report, several issues were raised under Report on the financial statements, Emphasis of Matter, Report on Lawfulness and Effectiveness in Use of Public Resources and the Report on Effectiveness of Internal Controls, Risk Management and Governance, as detailed in Appendix 1. The Management has indicated under the progress on follow up of auditor's recommendations section of the financial statements that some issues have been resolved and others have not been resolved. However, no evidence was provided for audit review indicating that the issues were resolved and no explanation was provided for the delay in resolving the other issues. In the circumstances, the issues remain unresolved.

Management response

Explanation on why management did not provide the evidence for resolved issues for audit review.

Management prepared the responses and submitted to senate on 11th March 2025 for interrogation by the Public Investment and Special Funds Committee. Management is yet to receive the final recommendations to a certain the resolved and outstanding ones. However, management has worked on audit recommendation raised on the specific prior year issues and has provided the current status of the implementation for your audit review.

Explanation on the delay in resolving the other issues.

Management is in the process of resolving the outstanding issues through implementation of the recommendations made by the auditor. Management has provided a detailed status report of the prior year issues and the current status of implementation of the audit recommendations.

Committee Observation

The Committee observed that the management was in the process of addressing prior year issue. However, no evidence was provided to demonstrate progress made was not provided for audit review.

Committee Recommendation

The Committee recommends that —

- i. the Governor ensures that the Accounting Officer resolves all outstanding prior year audit matters 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 shall apply; and**
- ii. the Governor ensures that the Accounting Officer submits a comprehensive status report on all mitigation measures taken to resolve all prior year matters, to the Senate and copies the Auditor-General for verification within 90 days of the adoption of this report.**

2. Wasteful Expenditure on Cleaning and Garbage Collection

The statement of financial performance and as detailed in Note 7 to the financial statements reflect use of goods and services totaling to Kshs.105,311,170 which includes outsourced contracted professional services in respect to cleaning and garbage collection totaling to Kshs.96,765,088 which further includes an amount of Kshs.61,226,964 being payments to various contractors. However, the Municipality owns a refuse truck Registration Number 37CG204A manufactured in 2020 purchased for Kshs.16, 800,000 which is in working condition as recorded in its fixed assets register. The refuse truck remained idle for most parts of the year save for few occasions when it was hired. There were no explanations for outsourcing the services allocated for the refuse truck. In the circumstances, value for money used to purchase the truck may not be realized if it is not optimally used.

Management Response

Explanation on outsourcing the services allocated for the refuse truck and also the refuse truck remaining idle for most parts of the year save for few occasions when it was hired.

The truck is used to cover garbage collection in residential areas and commercial areas within the municipality's jurisdiction which are not covered by the cleaning companies. It also serves other departments and municipalities upon request. The contracted cleaning companies have been contracted to perform works that the refuse trucks

cannot perform. The following are the terms of reference of the cleaning companies which cannot be done with the refuse truck thus the need to have them contracted.

- a. Street/road open spaces cleaning
- b. Cleaning of storm water drainage channels
- c. Cleaning of office, markets and slaughter house
- d. Maintenance of landscaped areas
- e. Emptying of public litter bins
- f. Garbage collection

Explanation on why the refuse truck remained idle for most parts of the year save for few occasions when it was hired.

The refuse trucks are used only at the time of collection of garbage that is already collected which is not done regularly also the cleaning companies hires their own trucks to collect and deposit garbage at the dumb sites which reduces the work to be performed by the refuse trucks.

Management is working on proper modalities in future cleaning contracts to ensure the TORs of the cleaning companies includes a clause which compels them to use the refuse truck at a hired fee.

Committee Observation

The Committee Observation that the evidence and explanations provided by the management addressed the matter.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

3. Stalled Sichirai Market Construction Project

The annual report and financial statements on page xx in respect of management discussion and analysis indicates that the Municipality had an ongoing project for Sichirai market. Review of contract documents revealed that Sichirai market and access road construction project was initiated in 2021 with a scheduled completion period of twelve (12) months. The initial contract amount was Kshs.178, 111,050.44, which was later increased by Kshs.5, 333,486.47 due to contract variations, bringing the total to Kshs.183, 444,536.91. Despite the contractor receiving the full contract amount, including retention funds of Kshs.17, 662,660.09, the project remains incomplete and non-operational. Following site visit on 3 September, 2025 structural issues which included damp walls with peeling paint, vandalized electrical wiring, incomplete toilet facilities, and open manholes that pose significant safety risks were observed. The

facility has not been commissioned for public use and continues to deteriorate, making it vulnerable to further damage and requiring additional resources to restore functionality. A snag list dated 7 March, 2025 confirmed multiple outstanding items that need to be addressed for the project to meet its intended objectives. In the circumstances, the public did not get the value for money spent on the project

Management Response

Explanation as to why despite the contractor receiving the full contract amount, including retention funds of Kshs.17, 662,660.09 and the project has remained incomplete and non-operational. The contractor completed the works as per the signed Contract. However, on completion it was noted that some works were not included in the Bills of quantity thus remaining undone. Way forward Management has enlisted the services of a quantity surveyor who has evaluated all the pending works. Bills of quantities for pending works have been prepared and the municipality is planning to initiate procurement process for completion of pending works.

The management submitted a copy of the schedule of completion of sichirai market and access road and BQ's for review.

The facility has not been commissioned for public use and continues to deteriorate, making it vulnerable to further damage and requiring additional resources to restore functionality.

The facility will be commissioned as soon as the remaining works have been completed and the site handed over to the county.

Committee Observation

The Committee observed that the management has admitted to the poor project idea conception, planning, execution and implementation and indicated that part of the pending works were not planned for.

Committee Recommendation

The Committee recommends that the Governor ensures the CECM for Finance makes budgetary provision for the project completion in 2026/2027 and put into use. The Auditor- General review the matter in the subsequent audit cycle and provides status update.

4. Lack of Operational Autonomy of the Municipality

The Kakamega Municipality was granted Municipal Charter on 16 February, 2019 which was supposed to grant operational independence from the County Government of Kakamega. However, review of the operations of the Municipality and as reported

previously, revealed lack of autonomy contrary to Section 9(1) and Section 12(1) of the Urban Areas and Cities Act, 2011 as detailed below:

- I. The Municipality's budget was prepared and controlled by the County Executive and there was no budget approval by the Municipality Board.
- II. Except for the project accounts with joint signatories from the County Executive, the Municipality's expenditure was controlled by the County Executive and did not have independent operations account as evidenced by Note 6 to the financial statements which reflects payments by County made on behalf of the Municipality totaling Kshs.70, 783,313
- III. The County Government has continued to perform a number of functions which were transferred to the Municipality.

In the circumstances, Management was in breach of the law

Management Response

The County Executive is making strides towards granting Municipality Operational autonomy. The management has committed itself to ensure Municipalities are on full autonomy by the end of the FY 2025/2026.

The following are the steps taken towards achieving full autonomy-

- a. Constituted a cabinet committee to oversee the granting of autonomy to municipalities
- b. Convened meetings for Municipality managers and Board Chairpersons to present their roadmap to autonomy.

The management submitted for review a letter of invitation for Municipal managers and Board chairperson to discuss the autonomy roadmap. Road map to Semi-Autonomous for Municipalities and Cabinet memo approving roadmap to autonomy by 1st January 2026.

Committee Observation

The Committee observed that the Department of Lands, Housing, Urban Areas Development and Physical Planning of the County Executive undertook the expenditure activities that were ought to be done by the municipality raising doubts on its operational independence.

Committee Recommendation

The Committee recommends that—

1. **the Governor should ensure by the commencement of the financial year 2026/2027 that the municipality is fully operationalized in line with its delegated functions as gazetted by the county government; and**

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

5. Unmarked Parking Slots in Kakamega Municipality

Physical verification of the Kakamega town and verification of parking slots on 2 September, 2025, revealed that Kakamega town had no streets with designated or marked parking slots. The total parking slots available could not be ascertained and therefore the expected revenue from parking could not be determined. No explanation was provided on how the County was collecting parking fees and what was collectable. The basis for parking fees revenue estimates were therefore unrealistic. Further, it was observed that in the absence of marked parking slots in the major towns of Kakamega Municipality, vehicles, motor cycles and tuk-tuk were parked haphazardly hence occupying large spaces which were not commensurate with the amounts paid. In the circumstances, parking spaces within the Municipality were ineffectively utilized and managed.

Management Response

Management has taken steps by gazetting parking slots vide gazette notice no 2087. The management is also working on implementation of the U.I.G (Urban Institutional Grant) work plan as approved by the municipal board that has marking of the parking slots as an item.

Committee Observation

The Committee observed that despite the Gazettement in February 2024, the marking of the parking slots has not been done as at the time of the meeting.

Committee Recommendation

The Committee recommends that the Governor takes immediate measures to ensure the parking slots are marked, utilized and used to determine the accuracy of parking fees during budget making processes within 90 days of the adoption of this report and provide status update on the mitigation measures taken to the Senate.

6. Non-Compliance with the Public Sector Accounting Standards Reporting Requirements

Review of the annual report and financial statements revealed that the names of the Chairperson of the Board and Accounting Officer of the Board are not indicated as

signatories of the statement of management's responsibilities and approvers of the financial statements. In the circumstances, the presentation and disclosure of the annual report and financial statements does not comply with the reporting template prescribed by the Public Sector Accounting Standards Board.

Management Response

Management has noted the oversight for not indicating the names of the Chairperson of the Board and Accounting Officer of the Board, management has made sure that in the subsequent financial reports the names will be well indicated. Management has provided quarter one financial statements for FY 2025/2026 to show the progress of the subsequent reports.

Committee Observation

The Committee observed that the management did not adhere to the report template as required.

Committee Recommendation

The Committee recommends that the Governor ensures through the CECM for Finance the accounting officer of the municipality is in compliance with public sector accounting standards reporting requirements during preparations of Financial Statements. The Auditor-General reviews the matter in the subsequent audit cycle.

7. Failure to Conduct Internal Audit

The audit revealed that no internal audit was conducted during the 2024/2025 financial year. As a result, there was no internal oversight of the funds transferred from the County Government and grants from donors. This indicates a significant lapse in internal controls and weak financial oversight. In the circumstances, in the absence of effective monitoring, misuse of resources may go undetected.

Management Response

Explanation as to why there was no internal audit conducted during the FY 2024/2025.

Kakamega Municipality has no internal audit unit as an entity, the Municipality is assigned the internal auditors from the County Government Executive, and currently the internal audit department from the County Executive offers the internal oversight of the funds transferred from the County Government and grants. The internal audit was conducted during FY 2024/2025 and the reports have been provided for audit review.

Committee Observation

The Committee observed that the management submitted internal audit report to demonstrate the existence and functionality of internal audit

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

CHAPTER THREE: HOSPITALS

3.1. REPORT ON AUDITED FINANCIAL STATEMENTS FOR NAVAKHOLO SUB- COUNTY HOSPITAL FOR THE FINANCIAL YEAR 2024/2025

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

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **qualified Opinion** on the financial statements of the Navakholo Sub- County Hospital for the financial year on the following basis –

1. Unsupported Recognition of Asset Balance

The statement of changes in net assets reflect net assets balance of Kshs.14,697,036 which comprises of capital fund balance of Kshs.2,837,437 and accumulated surplus of Kshs.11,859,599. However, the capital fund was not supported by a transfer of development funds to the hospital, but represents inventories closing balance as at 30 June, 2025 which are consumables. This recognition contradicts International Public Sectors Accounting Standards where recognition of capital funds is intended for development purposes only. In the circumstances, the accuracy and completeness of net assets balance of Kshs.14,697,036 could not be confirmed.

Management Response

- The Kshs.2,837,437 was the balance of inventories-realized by the Hospital as at 30th June 2025 and was correctly captured under capital fund in the statement of Changes in Net Assets in line with IPSAS 1 which requires any contributions to or from the owner to the entity should be recognized under this category in the Statement of Changes in Net Assets/Equity. The closing inventory figure was a contribution done to the hospital from its own revenue sources.

Committee Observation

The Committee observed that the management provided the required documents and addressed the matter and further confirmed by the auditor.

Committee Recommendation

The Committee recommends that the matter be marked as resolved

2. Unsupported Inventories Balance

The statement of financial position reflects inventories balance of Kshs.2, 837,437 and as disclosed in Note 21 to the financial statements. However, the stock sheets and inventories ledgers supporting the balance were not provided for audit review.

In the circumstances, the accuracy and completeness of the inventory balance of Kshs.2, 837,437 could not be confirmed.

Management Response

During audit process management provided the stock sheets and inventory ledgers supporting the closing inventory balance of Kshs.2, 837,437 but was not in the best standards that suits the auditor. However, management has again provided the stock sheets and inventory ledgers for your audit review.

Committee Observation

The Committee observed that the management provided the required documents and addressed the matter and further confirmed by the auditor.

Committee Recommendation

The Committee recommends that the matter be marked as resolved

3. Doubtful Recoverability of Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transactions balance of Kshs.14, 272,814 and as disclosed in Note 19 to the financial statements. The Balance includes amounts of Kshs.8, 169,240 and Kshs.6, 103,574 which were due from the defunct National Health insurance Fund (NHIF) and Social Health Authority (SHA) respectively. However, no evidence was provided for audit review indicating efforts made by Management to recover the debts.

In the circumstances, the accuracy, completeness and recoverability of receivables from exchange transactions balance of Kshs.14, 272,814 could not be confirmed.

Management Response

Evidence to show efforts made to recover the outstanding receivables. The hospital management engaged SHA and NHIF after the audit through physical reconciliation

meetings with SHA/NHIF staff, writing to SHA/NHIF requesting settlement, Regular follow up via phone calls. This has borne fruits and SHA has fully settled the outstanding claims of Kshs.6,103,574. However, management is still following up with the outstanding NHIF Claims of Kshs.8, 169,240.

Committee Observation

The Committee observed that there was no Debt Recovery Plan with clear debt collection timelines provided to demonstrate how the Management intended to address and reduce the outstanding debt.

Committee Recommendation

The Committee recommends that, within ninety (90) days of the adoption of this Report, the Governor ensures that the Accounting Officer responsible for the hospital develops and implements a comprehensive Debt Recovery Plan and submits to the Auditor-General for compliance monitoring. The Plan shall outline practical and effective debt collection strategies and include clear, time-bound debt recovery milestones. The Auditor-General to monitor compliance with the plan and provide a status update in the subsequent audit cycle.

4. Non-Compliance with the Facilities Improvement Financing Act, 2023

The statement of cash flows reflects transfers amounting to Kshs.33, 668,845 which as disclosed in Note 15 to the financial statements includes transfers to Facility Improvement Fund (FIF) of Kshs.24, 818,504. Further, the statement includes transfers from other Government entities amount of Kshs.31, 731,070 which as disclosed in Note 8(a) to the financial statements relates to transfer from Facility Improvement Fund. However, a balance of Kshs.1, 937,775 was retained at FIF account and not remitted to hospitality or any other health facility. This was contrary to Section 5(1) of the Facilities Improvement Financing Act, 2023 which provides that there shall be retention of all monies raised or received by or on behalf of all public health facilities.

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

Management Response

The hospital collected Kshs.33,355,951 and received capitation from the county treasury of kshs.312,894 totaling to Kshs.33,668,845. The management is not privy to the transfer figure of Kshs.24,818,504 to FIF as indicated by the auditor. The hospital in turn received Kshs.31,731,070 from FIF during the year under review. Therefore, the difference of Kshs.1,624,880 was the actual figure retained in the Fund for administration costs and not Kshs.1,937,775 as indicated by the auditor.

Committee Observation

The Committee observed that the management of the hospital disputed on the auditor's findings the transfer figure of Kshs.24,818,504 to FIF account.

Committee Recommendation

The Committee recommends that the Governor, with the help of the Auditor-General, addresses the variances and submits status update to the Senate on exact position on the matter within 90 days of the adoption of this report.

2. Long Outstanding Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.5,140,275 and as disclosed in Note 23 to the financial statements. However, the supporting ledger provided for audit was incomplete and did not include invoice numbers, date of issue, and invoice amount to confirm authenticity of the payables. Further, debts amounting to Kshs.1, 637,565 had been outstanding for between two (2) and three (3) years.

The accumulation of payables was contrary to Regulation 41(2) of the Public Finance Management (County Governments) Regulations, 2015 which provides that debt service payments shall be a first charge on the County Revenue Fund and the Accounting Officer shall ensure this is done to the extent possible that the county government does not default on debt obligations.

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

Management Response

Management has noted the audit observation on the above issue. The trade payables ledger has now been updated with the missing information and is available for your further audit verification. Long Outstanding Trade and Other Payables of Kshs.1, 637,565

The long outstanding payables were occasioned by long outstanding hospital claims not remitted by SHA/NHIF to the tune of Kshs.14,272,814. The management has been engaging the above entity to disburse the claims so that the outstanding payables can be settled, and commits to settle by 30th June, 2026.

Committee Observation

The Committee observed that SHA owes the hospital an amount of Kshs. 14,272,814 and management has engaged SHA to ensure prompt settlement of the outstanding receivables.

Committee Recommendation

The Committee recommends that—

- i. the Accounting Officer ensures timely submission of complete and accurate documents during audit processes, including evidence of resubmission and follow-up of rejected or partially approved SHA claims, in compliance with section 9(1)(e) of the Public Audit Act, Cap. 412B, failure to which the provisions of section 62(2) of the Public Audit Act, Cap. 412B may apply;**
- ii. the Governor ensures the Accounting Officer should, within 90 days of the adoption of this report, put 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; and**
- iii. the Governor ensures the Accounting Officer to undertake a detailed 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 and the Auditor-General to provide a status update on the same during the subsequent audit cycle.**

3. Non-Compliance with Kenya Quality Model for Health Policy Guidelines on Staffing of Health Workers

Review of records maintained at the facility and analysis of healthcare staffing, revealed inadequate staffing of health workers at the hospital. This was against what was required in the Kenya Quality Model for Health Policy Guidelines of a Level 4 facility. The hospital did not meet the requirements due to staff deficit

In addition, the hospital lacked the necessary equipment and machines outlined in the health policy guidelines as detailed below. This was contrary to the First Schedule of Health Act, 2017 and which implies that accessing highest attainable standard of health, which includes the right to healthcare services, including reproductive health care, and Article 43(1) of the Constitution of Kenya, 2010 states Every person has the right (a) to the highest attainable standard of health, which includes the right to health care services, including reproductive healthcare.

In the circumstances, the public may not efficiently get the required medical services that are expected to be offered by a Level 4 hospital.

Management Response

The management has noted the observation of the auditor and has written to the chief officer department of Health to deploy and or employ more staff on behalf of the hospital to reach the minimum requirement of a level 4 Hospital. The management is also privy to the plans in place by the parent department, department of Public Service and Administration and the County Public service Board to recruit more health care workers to beef up the deficits.

Explanation on under Equipping the Hospital .The management has written to the chief officer medical services requesting support to aid the hospital in equipping it in order to meet the minimum requirements of a Level 4 Health Facility. In addition, the facility placed requests for the essential equipment through the National Equipment Service Program (NESP). So far, the facility has received a Biochemistry Machine, Full Hemogram Machine and waiting for a Digital X Ray machine from NESP.

We also received a portable AI enabled X-Ray machine from AMREF Kenya. The hospital management will make efforts to acquire more general hospital equipment using the user fees collected. The management also confirms that the hospital had 54 beds at the time of audit and not 40 as indicated by the auditor.

Committee Observation

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

Committee Recommendation

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

4. Operating without an Approved Staff Establishment

During the year under review, the hospital's payroll reflected a total of twenty-seven (27) casual employees, and sixty-nine (69) permanent staff deployed at the hospital. However, the hospital did not have an approved staff establishment and therefore the optimal staffing levels for all cadre of staff had not been established. This was contrary to Section 5 of the County Governments Act, 2012 which states that a county

government shall be responsible for – (f) establishing and staffing its public service as contemplated under Article 235 of the Constitution.

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

Management Response

The hospital is an entity of the ministry of Health County Government of Kakamega. The hospital has always been governed by the parent ministry approved staff establishment.

Committee Observation

The Committee observed that the hospital was being governed by the parent ministry and therefore it did not have its own staff establishment.

Committee Recommendation

The Committee recommends that the governor should ensure adherence to Section 5 of the County Governments Act, 2012 which states that a county government shall be responsible for the establishing and staffing its public service as contemplated under Article 235 of the Constitution.

5. Failure to Provide Board Charter and Board Work Plan

During the year under review, the hospital Board did not have a Board charter and operated without an annual work plan contrary to the directives of Mwongozo code of Governance. No explanation was provided for failure to put in place a Board charter and work plan. Further, the Board members' term in office expired in December, 2024, causing the hospital to operate without a Board of Management in the second half of the financial year. This was contrary to the Governance Parameter No.1.9 of Mwongozo Code of Governance, 2015 which directs that the Board to have in place an annual work plan which should at a minimum focus on a review of management, implementation of strategies, policies and plans and budgeting and financial management, and Parameter No.1.11 which directs the Board to have in place a Board charter defining the role and responsibilities of the Board members.

In the circumstances, the effectiveness of the hospital's governance could not be confirmed.

Management response

At the time of audit, the process of selection of the new board members was at an advanced stage of gazettement. They were subsequently appointed and inducted successfully. The board has developed an Annual Work Plan and a draft Board Charter.

Committee Observation

The Committee observed that the management provided the required documents.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

6. Lack of Internal Audit Reports

During the year under review, the hospital did not undergo quarterly audit from the internal audit department in accordance with the law. This was contrary to Regulation 166(1) of the Public Finance Management (County Governments) Regulations, 2015 which states that each head of internal audit unit shall prepare a quarterly internal audit report which shall cover areas provided for in guidelines and shall be in a format issued by the Cabinet Secretary.

In the circumstances, the effectiveness of the Hospital's internal controls could not be confirmed.

Management response

The management noted the auditor's observation and agrees that the entity lacks internal audit reports. However, The County Government has an independent Internal Audit Department. The audit department assigns its officers to different county entities including the Navakholo Sub County Hospital to carry out audit.

Committee Observation

The Committee observed that, given the hospital operates as an agent of the County Government the County Government's Internal Audit Directorate was adequately positioned to undertake internal audits of the municipality.

Committee Recommendation

The Committee recommends that –

- i. the Governor ensures the Internal Audit Department is adequately resourced to enable it to effectively discharge its functions as outlined under regulation 153(1) of the Public Finance Management (County Governments) Regulations, 2015; and**
- ii. the Governor ensures that within ninety (90) days of the adoption of this report, the Internal Audit Department undertakes its first quarterly internal audit of the municipality and prepares a corresponding quarterly internal audit report in accordance with regulation 160 of the Public Finance Management (County Governments) Regulations, 2015.**

3.2. REPORT ON AUDITED FINACIAL STATEMENTS FOR MALAVA SUB COUNTY HOSPITAL FOR THE FINACIAL YEAR 2024/2025

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

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **qualified Opinion** on the financial statements of the Malava Sub- County Hospital for the financial year on the following basis

Basis for Qualified Opinion

1. Long Outstanding Receivables from Exchange Transactions

The statement of financial position and Note 19 to the financial statements show receivables from exchange transactions balance of Kshs.16, 120,107 in respect to amounts owed by Social Health Authority (SHA) and defunct National Hospital Insurance Fund (NHIF). However, ageing analysis provided for audit showed that the receivable balance of Kshs.7, 268,800 in relation to NHIF had been outstanding for over one (1) year and there were no debt recovery measures and debt management policy in place to guide on debt management.

In the circumstances, the completeness, accuracy and recoverability of the receivables of Kshs.7, 268,800 could not be confirmed.

Management Response

The management noted the auditor's observation on the above subject matter. However, the following debt recovery measures have been put in place to ensure recovery of the long outstanding receivables:

- i. Regular follow-up meetings with SHA/NHIF staff have been instituted to expedite recovery of the outstanding claims.
- ii. Regular calls are made to SHA/NHIF pushing for settlement of the outstanding claims.
- iii. The management has also written a demand letter to SHA/NHIF for settlement of the pending claims.

The hospital as at the time of audit did not have a debt management policy. However, the management has commenced the process of developing one and is optimistic that this policy will be ready by the end of this financial year.

Committee Observation

The Committee observed that SHA owes the hospital the largest amount and management has engaged SHA to ensure prompt settlement of the outstanding receivables.

Committee Recommendation

The Committee recommends that-

- i. the Accounting Officer ensures timely submission of complete and accurate documents during audit processes, including evidence of resubmission and follow-up of rejected or partially approved SHA claims, in compliance with section 9(1)(e) of the Public Audit Act, Cap. 412B, failure to which the provisions of section 62(2) of the Public Audit Act, Cap. 412B may apply;**
- ii. the Governor ensures the Accounting Officer should, within 90 days of the adoption of this report, put 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; and**
- iii. the Governor ensures the Accounting Officer to undertake a detailed 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 and the Auditor-General to provide a status update on the same during the subsequent audit cycle.**

2. Unsupported Revaluation Reserve Balance

The statement of financial position shows revaluation reserve balance of Kshs.10, 807,355 as at 30 June, 2025. However, documentation supporting occurrence of the revaluation reserve was not provided for audit review.

In the circumstances, the completeness and accuracy of the revaluation reserve balance of Kshs.10, 807,355 could not be confirmed.

Management response

Documentation supporting occurrence of the Revaluation Reserve Balance of Kshs.10, 807,355. The kshs.10,807,355 as reflected in the statement of financial position relates to inventory balance as at 30th June 2025. The schedule of the closing inventories to support the above figure was provided to the auditor during the audit period and

disclosed under note 21 to the financial statements. It is still available for further audit review.

Committee Observation

The Committee observed that documentation supporting occurrence of the revaluation reserve was not provided for audit review.

Committee Recommendation

The Committee recommends that –

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

3. Inaccuracy of the Statement of Comparison of Budget and Actual Amounts

The statement of comparison of budget and actual amounts shows rendering of services actual amounts on comparable basis of Kshs.89,180,467 and transfers of Kshs.445,371.

However, the amounts differ with the cash flow statement balances of Kshs.74, 526,748 and Kshs.72, 511,517 resulting to unreconciled variances of Kshs.14, 653,710 and Kshs.72, 066,146, respectively.

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

Management Response

Explanation on the variance of Kshs.14, 653,710 between actual receipts on medical services revenue of Kshs.89,180,467 as disclosed in the Statement of Comparison of Budget and Actual Amounts and Medical services income of Kshs.74,526,748 as disclosed in the statement of cashflows. The variance of Kshs.14,653,710 was capitation support to the hospital from the parent department's annual budget. Explanation on the variance of Kshs.72, 066,146 between the Transfers of Kshs.445,371 on the statement of comparison of budget and actual amounts with Kshs.72,511,517 transfers on the statement of cash flows. The variance of

Kshs.72,066,146 was revenue collected by the hospital and transferred to Kakamega County Health Facility Improvement Fund.

Committee Observation

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

- i. the variance between the reported net cash flows from operating activities and the recalculated figures demonstrate that the Statement of Cashflows was not prepared in accordance with the applicable financial reporting framework. This discrepancy further highlights weaknesses in the internal review controls applied during the financial statement preparation process; and
- ii. the Accounting Officer responsible for the hospital failed to undertake the necessary reconciliations at the time of audit to correct the identified cashflows statement anomalies. However, management demonstrated how the anomaly would be addressed in the subsequent financial statements as prior year adjustments.

Committee Recommendation

The Committee recommends that –

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

Cap. 412A as read together with section 62(2) of the Public the Public Audit Act, Cap. 412B on penalties for offences.

4. Long outstanding Trade Payables

The statement of financial position and Note 23 to the financial statements reflects trade and other payables balance of Kshs.29, 711,824. However, payables amounting to Kshs.15,170,867 had remained outstanding for over one (1) year and no explanation provided for failure to clear outstanding payables contrary to Regulation 41 (1) of the Public Finance Management (County Governments) Regulations, 2015, which states that overall control of County Government budget execution shall be exercised through strict application of the following general rules, which shall apply to all transactions with the specific exception of debt service payments— (2) debt service payments shall be a first charge on the County Revenue Fund and the Accounting Officer shall ensure this is done to the extent possible that the County Government does not default on debt obligations.

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

Management response.

The long outstanding payables were occasioned by long outstanding hospital claims not remitted by SHA/NHIF to the tune of Kshs.16,120,107. The management has paid Kshs.4,176,594 and the balance of Kshs.10,994,273 is projected to be cleared by 30th June 2026.

Committee Observation

The Committee observed that SHA owes the hospital the largest amount and management has engaged SHA to ensure prompt settlement of the outstanding receivables.

Committee Recommendation

The Committee recommends that-

- i. the Accounting Officer ensures timely submission of complete and accurate documents during audit processes, including evidence of resubmission and follow-up of rejected or partially approved SHA claims, in compliance with section 9(1)(e) of the Public Audit Act, Cap. 412B, failure to which the provisions of section 62(2) of the Public Audit Act, Cap. 412B may apply;**
- ii. the Governor ensures the Accounting Officer should, within 90 days of the adoption of this report, put 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; and

- iii. the Governor ensures the Accounting Officer to undertake a detailed 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 and the Auditor-General to provide a status update on the same during the subsequent audit cycle.**

5. Failure to Undertake Safety and Health Audits

Review of documents provided for audit revealed that, there were no safety and health audits carried out by the Hospital during the year under review contrary to Section 11 (1) of the Occupational Safety and Health Act, 2007 which states that the occupier of a workplace shall cause a thorough safety and health audit of his workplace to be carried out at least once in every period of twelve months by a safety and health advisor, who shall issue a report of such an audit containing the prescribe particulars to the occupier on payment of a prescribed fee and shall send a copy of the report to the Director.

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

Management response

Management noted the observation by the auditor and states that the safety and health audit was done in the FY 2024/2025, though using our own officers from the Directorate of Public Health. Going forward, the management shall endeavor to engage occupational safety and health officers from the National Council for Occupational Safety and Health.

Committee Observation

The management failed to engage occupational safety and health officers from the National Council for Occupational Safety and Health to conduct Safety and Health Audit.

Committee Recommendation

The Committee recommends that the Governor should ensure adherence of to Section 11 (1) of the Occupational Safety and Health Act, 2007 and Auditor-General to monitor the matter in the subsequent audit cycle.

6. Lack of Approved Strategic Plan

During the year under review, it was observed that Management of Malava Sub County Hospital - County Government of Kakamega did not have a strategic plan to guide the

entity in achieving its objectives contrary to Section 149 (2)(g) of the Public Finance Management Act 2012.

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

Management response

During the time of audit, the hospital management had not developed a strategic plan as observed by the auditor but was relying on the County Department of Health Strategic Plan. However, the management has now embarked on developing one for the Hospital and is anticipated to be completed by 30th June 2026.

Committee Observation

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

Committee Recommendation

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

7. Non-Compliance with Kenya Quality Model for Health Policy Guidelines on Staffing and Equipment

Review of personnel records provided for audit revealed inadequate staffing of health workers at the hospital. The Hospital did not meet the requirements of Kenya Quality Model for Health Policy Guidelines due to staff deficits. In addition, the Hospital lacked the necessary equipment and machines. The deficiencies contravene the First Schedule of the Health Act, 2017 and imply that accessing the highest attainable standard of health, which includes the right to health care services; including reproductive health care as required by Article 43(1) of the Constitution of Kenya, 2010 may not be achieved. Further, this contravened the Kenya Quality Model for Health Policy Guidelines and hindered the realization of the Government program on Universal Health Coverage (UHC).

In the circumstances, the Hospital may not provide the expected standard of healthcare services, including reproductive health care as envisioned for a Level 4 Hospital.

Management response

The management has noted the observation of the auditor and has written to the chief officer department of Health to deploy and or employ more staff on behalf of the

hospital to reach the minimum requirement of a level 4 Hospital. The management is also privy to the plans in place by the parent department, department of Public Service and Administration and the County Public service Board to recruit more health care workers to beef up the deficits.

The management has written to the chief officer medical services requesting support to aid the hospital in equipping it in order to meet the minimum requirements of a Level 4 Health Facility.

In addition, the facility placed requests for the essential equipment through the National Equipment Service Program (NESP). So far, the facility has received a Biochemistry Machine, Full Hemogram Machine, a Digital X Ray machine and an Ultrasound Machine from NESP. The hospital management will make efforts to acquire more general hospital equipment using the user fees collected. The management also confirms that the hospital had 54 beds at the time of audit and not 40 as indicated by the auditor.

Committee Observation

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

Committee Recommendation

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

8. Weaknesses in Information Communication Technology (ICT) Internal Control Environment

Review of Information Communication Technology (ICT) controls environment and records revealed that the hospital had an ICT Department with one ICT officer. However, it was observed that the department lacked ICT strategic plan, approved ICT policy, established ICT steering committee, remote backup/replication server and backup system. In the circumstances, the effectiveness of the hospital's ICT environment internal controls could not be confirmed.

Management Response

Lack of an approved ICT strategic plan, Policy, Steering Committee, Backup system
During the year under review, the hospital operations were guided by the ICT strategic plan, ICT policy and ICT steering committee developed by the County Government to guide all its entities. The management is now in the process of developing its specific ICT strategic plan, ICT policy and establish its own ICT steering committee to assist in development of its ICT policy framework. The hospital management has implemented the TAIFACARE hospital management system which is hosted on a remote backup/replication server.

Committee Observation

The Committee observed that management had initiated the process of developing an ICT Policy and Disaster Recovery Plans; however, no timelines were provided for the conclusion of the process.

Committee Recommendation

The Committee recommends that the Governor ensures that within 90 days of the adoption of this report, the Board of Directors put in place all internal control systems such as ICT Policy and Disaster Recovery Plans as provided under section 158(1) of Public Finance Management (County Governments) Regulations, 2015 among others to guide the internal operations of all the funds.

9. Lack of Internal Audit Function

During the year under review, the Hospital did not have an Internal Audit Function to perform risk assessment processes and evaluation of operational effectiveness through reviews of the internal controls.

In the circumstances, the absence of an operational Internal Audit Unit creates a significant gap in the Hospital's governance and control framework, increasing its vulnerability to various risks.

Management response

The management noted the auditor's observation. The County Government has an independent Internal Audit Department. The audit department assigns its officers to different county entities including the Malava Sub County Hospital.

Committee Observation

The Committee observed that the Operations of the hospital have always been audited by the county executive internal audit unit and officers assigned to the Malava Sub-County Hospital.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

10. Lack of Functional Board of Management

Audit review of governance structure, revealed that the Hospital lacked a functional board of governance to execute its functions as set out in the Mwongozo Code of Governance for State Corporations that include setting and overseeing the overall strategy, approving significant policies and monitoring the Hospital's performance to ensure sustainability.

In the circumstances, the effectiveness of the Hospital's governance could not be confirmed. The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, risk management and overall governance were operating effectively in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Management response

At the time of audit, the process of selection of the new board members was at an advanced stage of gazettelement. They were subsequently appointed and inducted successfully.

Committee Observation

The Committee observed that the management had functional board of management.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

3.3. REPORT ON AUDITED FINANCIAL STATEMENTS FOR MATUNGU SUB-COUNTY HOSPITAL FOR THE FINANCIAL YEAR 2024/2025

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

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **qualified Opinion** on the financial statements of the Matungu Sub- County Hospital for the financial year on the following basis

Basis for Qualified Opinion

1. Unconfirmed Rendering of Services-Medical Service Income

The statement of financial performance reflects rendering of services-medical service income amounting to Kshs.45, 224,593, and as disclosed in Note 9 to the financial statements. However, the schedule provided for audit indicated the consolidated total for daily collections, but detailed ledgers showing revenue stream, date, and amount were not provided for audit review.

In the circumstances, the accuracy and completeness of rendering of services-medical service income amounting to Kshs.45, 224,593 could not be confirmed.

Management Response.

The management noted the auditor's observation on the above subject matter. At the time of audit, the management provided a summary schedule of medical service income. The management has updated the schedule and included the additional information on revenue stream, date and amount as requested by the auditor. The detailed schedule has been availed to the auditor for a further audit verification.

Committee Observation

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

Committee Recommendation

The Committee recommends that the matter be marked as resolved

2. Unsupported Receivables from Exchange Transaction

The statement of financial position reflects receivables from exchange transactions balance of Kshs.17, 393,212 and as disclosed in Note 19 to the financial statements.

The receivables comprise defunct National Hospital Insurance Fund (NHIF) claims of Kshs.13, 333,000 and Social Health Authority (SHA) claims of Kshs.4, 060,212. However, detailed transactions ledgers for the receivables were not provided for audit review, and the recoverability of debts from the defunct NHIF was doubtful. Further, the management does not have a debt management policy. In the circumstances the accuracy, completeness and recoverability of receivables from exchange transactions balance of Kshs.17, 393,212 could not be confirmed.

Management Response

The management takes note of the audit observation above. At the time of audit, the management provided a summary schedule of Receivables from exchange transactions. The management has updated the schedule and included the additional information on revenue stream, date and amounts as requested by the auditor. The detailed schedule has been availed to the auditor for further audit verification. Measures put in place to recover the NHIF doubtful Debt – Kshs.13,333,000. The management has put in place the following debt recovery measures to recover the long outstanding NHIF debt:

- Regular follow-up meetings with SHA/NHIF staff.
- Making regular calls to SHA/NHIF pushing for settlement of the outstanding claims.

Committee Observation

The Committee observed that-

- i. whereas the billing schedules and correspondences to NHIF were provided and verified by the Auditor-General, the submission was done outside the timelines contemplated under the Public Audit Act, Cap.412B and constitutes an offence under section 62(2) of the Act.
- ii. Management did not provide any evidence of recovery efforts from the defunct NHIF.

Committee Recommendation

The Committee recommends that-

- i. **the Accounting Officer should, within 90 days of the adoption of this report, put in place recovery measures for the outstanding amount from NHIF 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;**
- ii. **the Accounting Officer to undertake a detailed 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 and the Auditor-General to provide a status update on the same during the subsequent audit cycle.

3. Unsupported Reserves Balance

The statement of changes in net assets reflect net assets balance of Kshs.6,650,554 which comprises of reserves balance of Kshs.1,118,032 and accumulated surplus of Kshs.5,532,522. However, the reserves were not supported by an assets valuation report but represents inventories closing balance as at 30 June, 2025 which are consumables. This recognition of inventory as reserves contradicts International Public Sectors Accounting Standards where recognition of reserves arise as a result of change in property, plant and equipment values after valuation has been conducted.

In the circumstances, the accuracy and completeness of net assets balance of Kshs.6,650,554 could not be confirmed.

Management Response

The Kshs.1,118,032 as reflected in the statement of changes in net assets was the value of inventories as at 30th June 2025. Management used the purchase price to quantify the value of the inventories as at 30th June 2025. Management did not revalue the inventory for the year therefore there is no asset valuation report. Recognition of the inventories in the Statement of Changes in Net Assets. The Kshs.1,118,032 was the balance of inventories realized by the Hospital as at 30th June 2025 and was captured under reserves column instead of the capital fund column in the statement of Changes in Net Assets due to the error of principle. An error of principle is an accounting mistake in which an entry violets a fundamental principle of accounting. These types of errors typically involve accounting entries recorded with the correct amount but in the incorrect account.

In our case, IPSAS 1 requires any contributions to or from the owner to the entity should be recognized under the capital fund category in the Statement of Changes in Net Assets/Equity. The closing inventory figure of Kshs.1,118,032 was a contribution done to the hospital from its own revenue sources and thus should have been captured under the Capital fund column instead of the Reserves column in the statement of changes in net assets. This type of error does not affect the equality of the Trial Balance hence the main body of the financial statements. However, the management will do a prior year adjustment in the subsequent financial statements to move this figure from the reserves column to the capital fund column.

Committee Observation

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

- i. management acknowledged the anomaly as an oversight and confirmed that the financial statements would be restated in the subsequent financial period; and
- ii. the existence of such errors indicates capacity constraints within the Finance and Accounting Department, as well as weaknesses in the internal controls applied during the preparation of the financial statements.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures that the Accounting Officer undertakes prior year adjustments to restate the financial statements in the subsequent financial year 2025/2026 to correct the anomaly. The Auditor-General to keep this in view in the subsequent audit cycle;
- ii. the Governor ensures that the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47 of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the Accounting Officer may be held liable under section 199 of the Public Finance Management Act, Cap. 412A as read together with section 62(2) of the Public the Public Audit Act, Cap. 412B on penalties for offences;
- iii. the Governor ensures that the Accounting Officer enhances the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements; and
- iv. the Governor ensures the Accounting Officer strengthens internal audit controls and ensure proper record keeping in line with section 155 of the Public Finance Management Act, Cap.412A and submit a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap.412A, failure to which the Accounting Officer may be held liable under section 199 of the Public Finance Management Act, Cap. 412A as read together with section 62(2) of the Public the Public Audit Act, Cap. 412B on penalties for offences.

4.Non-Compliance with the Facilities Improvement Financing Act, 2023

The statement of cash flows reflects and Note 15 to the financial statements indicates transfers to Facility Improvement Fund (FIF) of Kshs.27, 680,597. Further, the

statement includes transfers from other Government entities amount of Kshs.27,639,314 which as disclosed in Note 8 to the financial statements relates to transfer from Facility Improvement Fund. However, a balance of Kshs.41,283 was retained at FIF account and not remitted to hospital or any other health facility. This was contrary to Section 5(1) of the Facilities Improvement Financing Act, 2023 which provides that there shall be retention of all monies raised or received by or on behalf of all public health facilities.

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

Management Response

The Transfer figure of Kshs.27,680,597 as reflected in the statement of cash flows and note 15 to the financial statements comprised of Kshs.27,540,841 as actual revenue collected by the hospital and transferred to the FIF special purpose account, and Kshs.139,756 as capitation received by the hospital on behalf of level 2 and 3 health facilities in Matungu.

On the other hand, the Transfers from other Government entities figure of Kshs.27,639,314 as reflected in the statement of financial performance and note 8 to the financial statements indicates the actual cash disbursed from the FIF special purpose account to the hospital account for operations. This figure included a refund of Kshs.924,698 being funds borrowed by FIF from the hospital in the previous period to pay for hire of Ambulances.

The funds were reimbursed in the current year under review. The difference between the two figures, i.e. Kshs.27,540,841 (Sent to FIF) and Kshs.27,639,314 (Received from FIF) was Kshs.98,473 and not Kshs.41,283 as indicated by the auditor. The reconciliation of the Kshs.98,473 variance. Note that Section 38(4) of the Kakamega County Health Services Fund, 2023 provides that there shall be retention of not more than 3% of all monies raised or received by or on behalf of all public health facilities which is in line with section 116 of the PFM Act, 2012 as read together with paragraph 197 (1) (d) of the PFM (County Governments) Regulations, 2015.

County took note that Section 5 (1) of the Facilities Improvement Fund Act, 2023 contravenes the provisions of the PFM Act, 2012 and the Kakamega County Health Services Fund Act, 2022 since health is a devolved function and hence should be amended by parliament.

Committee Observation

The Committee observed that the County Government relied on the Kakamega County Health Services Act, 2022, which required that all monies be transferred to the County Revenue Fund (CRF), contrary to the provisions of section 5(1) of the Facilities Improvement Act, Cap. 277. However, management indicated that amendments to the

County Act had been effected to align it with the Facilities Improvement Act, Cap. 277, and that reimbursement of the monies previously transferred to the CRF had been initiated.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures all funds collected under the Facilities Improvement Financing Act, 2023 are properly retained and managed by the Hospital in accordance with Section 5(1) of the Act, and that procedures are established to prevent future misallocation;**
- ii. the Governor ensures that monies transferred to the CRF from the hospital are fully refunded in the financial year 2026/2027; and**
- iii. the Auditor-General to keep the matter in view and provide a status update in the subsequent audit cycle.**

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

Review of records maintained by the hospital and analysis of healthcare staffing, revealed inadequate staffing of health workers at the hospital. This was against the requirement of the Kenya Quality Model for Health Guidelines for a Level 4 health facility. In addition, the hospital lacked equipment and machines outlined in the Health Policy .This was contrary to the First Schedule of Health Act, 2017 and which implies that accessing highest attainable standard of health, which includes the right to healthcare services, including reproductive health care, and Article 43(1) of the Constitution of Kenya, 2010 states every person has the right (a) to the highest attainable standard of health, which includes the right to health care services, including reproductive healthcare.

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

Management Response

The management has noted the observation of the auditor and has written to the chief officer department of Health to deploy and or employ more staff on behalf of the hospital to reach the minimum requirement of a level 4 Hospital. The management has engaged an additional four registered community nurses on contract basis reducing the deficit to 41 nurses. The management is also privy to the plans in place by the parent department, department of Public Service and Administration and the County Public service Board to recruit more health care workers to beef up the deficits.

The management has written to the chief officer medical services requesting support to aid the hospital in equipping it in order to meet the minimum requirements of a Level 4 Health Facility. The chief officer has already acted partially by increasing the bed

capacity from 69 to 106 by construction of a new modern maternity block, procurement of two (2) resuscitative machines and four (4) new born unit incubators. The hospital management will make efforts to acquire more general hospital equipment using the user fees collected.

Committee Observation

The Committee observed that the Hospital did not meet the minimum staffing, equipment, bed capacity, service provision, and digital health system requirements as prescribed by the Kenya Quality Model for Health Policy Guidelines for a Level 4 facility.

Committee Recommendation

The Committee recommends that –

- i. within sixty (90) days of the adoption of this report, the Governor submits to the Senate a comprehensive plan outlining the specific measures being taken to address the hospital’s staffing shortages. The measures should include both short-term and long-term solutions, focusing on optimizing existing resources, improving employee welfare, and ensuring sustainable staffing levels moving forward; and**
- ii. within ninety (90) days of the adoption of this report, the Committee recommends that the Governor ensures the hospital develops and implements a comprehensive plan, with appropriate budgetary allocations, to acquire and operationalize the required facilities and equipment to provide all services required for a Level 4 hospital. The Auditor-General to monitor progress and keep this matter under review in the subsequent audit cycle.**

6. Failure to Constitute a Board of Management for the Hospital

During the year under review, the former Board of Management whose term ended in December, 2024 held two meetings which were below the allowed number of six (6) meetings per year. Further, a new Board had not been appointed to govern the hospital even at the time of audit in November, 2025. This was contrary to Section 8(1) of the Kakamega County Health Services Act, 2022 which states that there is established a hospital Management Board to govern a county or a sub-county hospital.

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

Management Response

Former Board of Management held two meetings instead of six during the financial year. The term of the former Board of Management expired in December 2024 which was six

months or two quarters of the year under review. As per the Kakamega County Health Services Act, 2022, the board should hold quarterly meetings. This conforms to the two quarters they were in office. Failure to constitute a Board of Management at the time of audit, the process of recruiting the new board members was at an advanced stage of gazettelement. They were subsequently appointed and inducted successfully.

Committee Observation

The Committee observed that the hospital had a functional board of management.

Committee Recommendation

The Committee recommends that the matter be marked as resolved

7. Outstanding Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.15,954,185 and as disclosed in Note 23 to the financial statements, which were accumulated during the year under review. However, the accumulation of debt by the hospital was not proper since Regulation 150(1) of the Public Procurement and Assets Disposal Regulations, 2020 requires that subject to availability of funds and certification of goods, works or services, payments are to be made within sixty (60) days from date of receipt of invoice.

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

Management Response

The long outstanding trade payables were occasioned by long outstanding hospital claims not remitted by SHA/NHIF to the tune of Kshs.17,393,212. The accumulation of these debts was proper and within the approved budget of the hospital, save for the long outstanding receivables from the defunct NHIF and SHA. Had SHA/NHIF remitted the claims on time, the above outstanding payables would have been paid on time. The management commits to clear these trade payables once SHA/NHIF remits the claims money.

Committee Observation

The Committee observed that there was no Debt Recovery Plan with clear debt collection timelines in place to demonstrate how the Management intended to address and reduce the outstanding debt.

Committee Recommendation

The Committee recommends that within ninety (90) days of the adoption of this Report, the Governor ensures that the Accounting Officer responsible for the

hospital develops and implements a comprehensive Debt Recovery Plan and submits to the Auditor-General for compliance monitoring. The Plan shall outline practical and effective debt collection strategies and include clear, time-bound debt recovery milestones. The Auditor-General to monitor compliance with the plan and provide a status update in the subsequent audit cycle.

3.4. REPORT ON AUDITED FINANCIAL STATEMENTS FOR BUTERE COUNTY HOSPITAL FOR THE FINANCIAL YEAR 2024/2025

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

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **qualified Opinion** on the financial statements of the Butere County Hospital for the financial year on the following basis-

1. Doubtful Recoverability of Social Health Authority (SHA) and Defunct National Hospital

Insurance Fund (NHIF) Claims. The statement of financial position and Note 17 to the financial statements shows receivables from exchange transactions balance of Kshs.38,497,218. Review of SHA and NHIF claims documents revealed that during the year under review, the Hospital had total claims amounting to Kshs.41,131,309 out of which claims totaling to Kshs.1,792,822 were returned due to inadequate supporting documents and claims of Kshs.1,239,200 declined. No explanation was provided by Management for failure to maintain proper claim documentation as the rejection of the claims poses risk of loss of revenue. Further, Management did not provide documentary evidence indicating efforts made to collect the rejected claims.

In the circumstances, the completeness and accuracy and full recovery of the Social Health Authority and National Hospital Insurance Fund Claims amounting to Kshs.38,497,218 could not be confirmed.

Management Response

The Social Health Authority (SHA) in Kenya started operations on 1st October, 2024. It replaced the defunct National Hospital Insurance Fund (NHIF). At inception, as is the case with many systems, the health care workers including the public did not understand well the functionality of the new system. This led to some claims being returned or rejected due to unfamiliarity of the key documents required to be attached by the healthcare workers. Some of the reasons that could lead to claims being returned or rejected included:

- a. Missing doctor's notes
- b. Missing pre-authorization
- c. Missing claim forms
- d. Missing hospital invoice
- e. Multiple claims in the same period

- f. Failure to resubmit returned claims within the 14-day window period
- g. Level mismatch with regards to diagnosis
- h. Missing birth notification on maternity claims

Through continuous consultations with the Social Health Authority, virtual trainings and on-site training on claims submission was organized by SHA. This has reduced the returned and or rejected claims by the Authority. Efforts made to collect the rejected claims.

The management made efforts to collect the returned and rejected claims. At the time of audit, the returned and rejected claims stood at Kshs.1,792,822 and Kshs,1,239,200 respectively. After the efforts, the returned and rejected claims stand at Kshs 520,000 and Kshs.534,880 respectively.

Committee Observation

The Committee observed that there was no Debt Recovery Plan with clear debt collection timelines in place to demonstrate how the Management intended to address and reduce the outstanding debt.

Committee Recommendation

The Committee recommends that, within ninety (90) days of the adoption of this Report, the Governor ensures that the Accounting Officer responsible for the hospital develops and implements a comprehensive Debt Recovery Plan and submits to the Auditor-General for compliance monitoring. The Plan shall outline practical and effective debt collection strategies and include clear, time-bound debt recovery milestones. The Auditor-General to monitor compliance with the plan and provide a status update in the subsequent audit cycle.

2. Unconfirmed Revaluation Reserves Balance

The statement of financial position shows revaluation reserves (inventories) balance of Kshs.2, 693,650 as at 30 June, 2025. However, inventory revaluation report and details of the nature of the inventory revalued were not provided for audit review.

In the circumstances, the completeness and accuracy of the revaluation reserve balance of Kshs.2, 693,650 could not be confirmed.

Management Response

Explanation on Failure to provide inventory revaluation report and details of the nature of the inventory revalued. The Kshs.2, 693,650 as reflected in the statement of the financial position was the value of inventories as at 30th June 2025. Management used the purchase price to quantify the value of the inventories as at 30th June 2025 i.e. the

total value of inventories purchased during the year less the total value of inventories consumed during the year, the balance was the closing stock which formed the value of inventories as at 30th June 2025.

Though the auditor requested for a revaluation report, management did not engage a qualified independent valuer to revalue the closing stock since we had the purchase prices that were used to procure this inventory which included Drugs, Non-pharms, X ray Supplies and Lab Reagents. Instead, management had in place the stock taking report which was availed to the auditor at the time of audit.

Committee Observation

The Committee observed that documentation supporting occurrence of the revaluation reserve was not provided for audit review.

Committee Recommendation

The Committee recommends that the Governor ensures that the Accounting Officer responsible for the hospital undertakes revaluation of the stock inventories as required within 60 days of the adoption of this report and submits to Senate and the Auditor-General evidence of actions taken to address the matter.

3. Inaccuracy of the Statement of Cash Flows

The statement of cash flows and Note 23 to the financial statements show net cash flows from operating activities amount of Kshs.195, 670. However, Note 23 to the financial statements on cash generated from operations excludes changes in inventories of Kshs.2, 693,650 and erroneously indicates change in trade payables of Kshs.27,565,011 instead of Kshs.27, 785,011 as per the statement of financial position.

In the circumstances, the completeness and accuracy of net cash flows from operating activities amount of Kshs.195, 670 could not be confirmed.

Management Response

Management excluded changes in inventories of Kshs.2, 693,650 in note 23 because inventories item does not involve actual cash movement and was excluded from the International Public Sector Accounting Standards Board (IPSASB) financial reporting Template of the FY 2024/2025.

Explanation on why management indicated change in trade payables of Kshs.27,565,011 instead of Kshs.27, 785,011 as per the Statement of Financial Position. The trade payables of Kshs.27, 785,011 includes a payable of Kshs.220, 000 incurred on acquisition of assets. The amount of acquisition of assets is excluded in computation of cash flows. Therefore, the right figure for increase in payables is

kshs.27, 565,011 excluding acquisition of assets of Kshs.220, 000. Management has provided a schedule supporting the payables of Kshs.220, 000 for your review.

Committee Observation

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

- i. the variance between the reported net cash flows from operating activities and the recalculated figures demonstrate that the Statement of Cashflows was not prepared in accordance with the applicable financial reporting framework. This discrepancy further highlights weaknesses in the internal review controls applied during the financial statement preparation process; and
- ii. the Accounting Officer responsible for the municipality failed to undertake the necessary reconciliations at the time of audit to correct the identified cashflows statement anomalies. However, management demonstrated how the anomaly would be addressed in the subsequent financial statements as prior year adjustments.

Committee Recommendation;

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

Emphasis of Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis amounts of Kshs.87,679,000 and Kshs.71,526,148

respectively, resulting in under-funding of Kshs.16,152,852 or 18% of the approved budget. The under-funding is an indication that some activities and projects in the annual plan were not implemented, which may have affected service delivery.

Management Response

The management was expecting to receive Kshs.19,000,000 as transfers from the Exchequer, but instead received Kshs.18,455,959 leading to an under-funding of Kshs.544,041. The County Treasury attributed this under-funding to unmet own source revenue target.

The management also targeted to collect Kshs.68,679,000 from hospital user fees in the year under review, yet managed to receive on actual Kshs.53,070,189, leading to an under-funding of Kshs.15,608,811. Out of this underfunding, Kshs 5,250,740 and Kshs.8,475,550 were claims made to NHIF (1st July 2024 – 30th Sept. 2024) and SHA (1st Oct.2024 – 30th June, 2025) respectively but not received as at 30th June 2025. The management was unable to collect the under-funding difference of Kshs.1,882,521 due to the delay by the contractor to complete the new Butere County ultramodern Hospital which was projected to increase own source revenue once operational.

Committee Observation

The Committee observed that, whereas management had outlined a raft of measures to address the stock-outs of medical supplies, no policy or procedures had been put in place to determine or monitor stock levels. Further, the stocking process remained largely dependent on SHA reimbursements, which are prone to delays, thereby increasing the risk of recurrent stock-outs.

Committee Recommendation

The Committee recommends that–

- i. within 90 days of the adoption of this report, the Governor ensures that the hospital has a policy on stock management that will serve as guide on how management monitors stock levels;**
- ii. the Committee recommends that the Governor, through the County Executive Committee Member responsible for Finance, ensures that adequate resources are availed to the hospital to supplement SHA reimbursements and facilitate continuous stock replenishment; and**
- iii. the Auditor-General to keep the matter in view and provide a status update in the subsequent audit cycles.**

2. Long Outstanding Trade Payables

The statement of financial position and Note 21 to the financial statements reflects trade and other payables balance of Kshs.27, 785,011. However, payable's ledgers provided for audit review showed payables amounting to Kshs.17, 866,207 had been outstanding for over one (1) year. Management did not provide satisfactory explanation on measures it has implemented to ensure the debts are paid within a reasonable period.

This was contrary to Section 41 (2) of the Public Finance Management (County Governments) Regulations, 2015 which provides that debt service payments shall be a first charge on the County Revenue Fund and the Accounting Officer shall ensure this is done to the extent possible that the County Government does not default on debt obligations.

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

Management Response

The management encountered serious delays in the defunct NHIF and SHA remitting outstanding claims to the tune of Kshs.38,497,218 yet costed services had been rendered to citizens. This ideally affected the financial ability of the Hospital to settle the outstanding trade payables of Kshs.27,785,011 which figure includes Kshs.17,866,207 long outstanding payables over one year. Despite this challenge, management made efforts and settled Kshs 9,170,600 as at end of February, 2026. The management hopes that NHIF and SHA will release all the outstanding claims to enable us pay off the outstanding trade payables of Kshs 18,614,411 as at 30 June, 2026.

Committee Observation

The Committee observed that SHA owes the hospital an amount of Kshs. 38,497,218 and management has engaged SHA to ensure prompt settlement of the outstanding receivables.

Committee Recommendation

The Committee recommends that-

- i. the Accounting Officer ensures timely submission of complete and accurate documents during audit processes, including evidence of resubmission and follow-up of rejected or partially approved SHA claims, in compliance with section 9(1)(e) of the Public Audit Act, Cap. 412B, failure to which the provisions of section 62(2) of the Public Audit Act, Cap. 412B may apply;**
- ii. the Governor ensures the Accounting Officer should, within 60 days of the adoption of this report, put 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; and
- iii. the Governor ensures the Accounting Officer to undertake a detailed 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 and the Auditor-General to provide a status update on the same during the subsequent audit cycle.

3. Failure to Undertake Safety and Health Audits

Review of documents provided revealed that, there were no safety and health audits carried out by the Hospital during the year under review contrary to Section 11 (1) of the Occupational Safety and Health Act, 2007 which states that the occupier of a workplace shall cause a thorough safety and health audit of his workplace to be carried out at least once in every period of twelve months by a safety and health advisor, who shall issue a report of such an audit containing the prescribed particulars to the occupier on payment of a prescribed fee and shall send a copy of the report to the Director.

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

Management Response

Management has noted the observation by the auditor and states that the safety and health audit was done in the FY 2024/2025, though using our own officers from the Directorate of Public Health. Going forward, the management shall endeavor to engage occupational safety and health officers from the National Council for Occupational Safety and Health.

Committee Observation

The management failed to engage occupational safety and health officers from the National Council for Occupational Safety and Health to conduct Safety and Health Audit.

Committee Recommendation

The Committee recommends that the Governor should ensure adherence of to Section 11 (1) of the Occupational Safety and Health Act, 2007.

4. Lack of Approved Strategic Plan

During the year under review, it was observed that Management of Butere Level 4 Hospital County Government of Kakamega did not have a strategic plan to guide the entity in achieving its objectives contrary to Section 149 (2)(g) of the Public Finance Management Act, 2012 which states that in carrying out a responsibility imposed by Subsection (1), an Accounting Officer shall, in respect of the entity concerned prepare a strategic plan for the entity in conformity with the medium-term fiscal framework and financial objectives of the County Government.

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

Management Response

During the time of audit, the hospital management had not developed a strategic plan as observed by the auditor but was relying on the County Department of Health Strategic Plan. However, the management has now embarked on developing one for the Hospital and is anticipated to be completed by 30th June 2026.

Committee Observation

The hospital was in the process of developing strategic plan to guide the entity.

Committee Recommendation

The Auditor-General to monitor progress and keep this matter under review in the subsequent audit cycle.

5. Non-Compliance with Kenya Quality Model for Health Policy Guidelines on Staffing and Equipment

Review of personnel records provided for audit revealed inadequate staffing at the hospital. The Hospital did not meet the requirements of Kenya Quality Model for Health Policy Guidelines due to staff deficits. In addition, the Hospital lacked the necessary equipment and machines outlined in the Health Policy.

The deficiencies contravene the First Schedule of the Health Act, 2017 and imply that accessing the highest attainable standard of health, which includes the right to health care services, including reproductive health care as required by Article 43(1) of the Constitution of Kenya, 2010 may not be achieved. Further, this contravened the Kenya Quality Model for Health Policy Guidelines and hindered the realization of the Government program on Universal Health Coverage (UHC).

In the circumstances, hospital may not provide the highest standard of healthcare services, including reproductive health care as envisioned for a Level 4 Hospital.

Management Response

Explanation on under staffing

Management has noted the observation of the auditor and has written to the chief officer department of Health to deploy and or employ more staff on behalf of the hospital to reach the minimum requirement of a level 4 Hospital. After the audit, the Chief Officer managed to deploy one General Surgeon and one Radiologist to the Hospital, while the management employed an additional six Registered Community Health Nurses on locum basis.

The management is also privy to the plans in place by the parent department, department of Public Service and Administration and the County Public Service Board to recruit more health care workers to beef up the deficits.

Explanation on under Equipping the Hospital

Management has written to the chief officer medical services requesting support to aid the hospital in equipping it in order to meet the minimum requirements of a Level 4 Health Facility. In addition, the facility placed requests for the essential equipment through the National Equipment Service Programme (NESP) program.

So far, the facility has received a 5-part Hematology Analyzer, an Electrolyte Analyzer, a Biochemistry Machine, a modern Ultrasound Machine, a Digital X Ray, two Theatre Sets, and a 64 Slice CT Scan Machine. The hospital will be receiving

4 Dialysis Machines at the Renal Unit. The hospital management is also making efforts to acquire more general hospital equipment using the user fees collected. So far, the hospital has bought an Immuno Assay machine and an Echo Machine.

Committee Observation

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

Committee Recommendation

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

6. Lack of Land Ownership Documents

The Hospital sits on a parcel of land of approximately 7.5 acres where the hospital hosts Sub County offices and the Butere County Polytechnic. The land remains open without boundary marks, no title deed, no laid beacons and no fence posing risk of possible encroachment of the Hospital land. Further, review of the land file showed the Hospital is involved in land boundary dispute with Butere Boys Secondary School due to failure to demarcate the Hospital's land boundary with the school.

In the circumstances, the Hospital's land is not adequately secured and safeguarded.

Management Response

The land is surrounded by a live fence and chain link fence hence sufficient enough to clearly show the boundary. Explanation on why there is no title deed Butere Level IV (District) Hospital and the land (3 Ha) it seats on (Marama/Shirotsa/515) are among the assets inherited from the defunct Local Authorities and the Devolved Ministry of Health and Ministry of Lands. The County is yet to get the ownership documents. Intergovernmental Technical Relations Committee which is overseeing the Assets and Liabilities transfer process.

Explanation why there is no fence on Land

The hospital land is having a temporary live fence combined with a chain link. The management will endeavour to push for more budgetary allocation to construct a perimeter fence around the hospital.

Land boundary dispute with Butere Boys Secondary school

Management is not privy to any dispute between the hospital and Butere Boys Secondary School over land. Though earlier, there was a dispute between the school and the community over an illegal route the community had opened through their land. The school through the relevant authorities resolved this matter.

Committee Observation

The land had not been valued hence its value was not included in the assets of the hospital hence the hospital's assets were not fairly stated.

Committee Recommendation

The Committee recommends that –

- i. the Governor ensures that the Accounting Officer Responsible for the hospital complies with section 162(2)(c)(i) of the Public Finance Management Act, Cap. 412A failure to which the Accounting Officer may**

- be held liable under section 199 of the Public Finance Management Act, Cap. 412A on penalties for offenses;
- ii. the Governor engages the Intergovernmental Technical Relations Committee and the State Department for Lands and Physical Planning to Fast-tracks the transfer of ownership, demarcation and survey of the hospital land and provide a status update on the progress made to the Senate within 90 days of the adoption of this report. The accounting officer responsible for the State Department for Land and Physical Planning shall ensure full cooperation with the County Government of Kakamega in the process;
 - iii. the Governor ensures that, upon obtaining the ownership documents for the land, a valuation is undertaken and the value of the land is duly recorded in the hospital's asset register and reflected accordingly in its financial statements.

7. Non-Compliance with the Facilities Improvement Financing Act, 2023

The statement of cash flows and Note 13 to the financial statements indicates transfers to Facility Improvement Fund (FIF) of Kshs.51, 394,824. Further, the statement includes transfers from other Government entities amount of Kshs.65, 003,181 which as disclosed in Note 7(a) to the financial statements relates to transfer from Facility Improvement Fund. However, a balance of Kshs.13, 608,357 was overpaid to the hospital. Overpayment implies that funds collected from another facility or facilities were paid to the hospital.

This was contrary to Section 5(1) of the Facilities Improvement Financing Act, 2023 which

provides that there shall be retention of all monies raised or received by or on behalf of all public health facilities. In the circumstances, Management was in breach of the law.

Management Response

The hospital management requested for additional funding Kshs.25,000,000 from the departmental accounting officer to support the operationalization of the new Butere County Hospital. This request was approved and the accounting officer transferred Kshs.13,608,357.

Committee Observation

The Committee observed that the County Government relied on the Kakamega County Health Services Act, 2021, which required that all monies be transferred to

the County Revenue Fund (CRF), contrary to the provisions of section 5(1) of the Facilities Improvement Act, Cap. 277. However, management indicated that amendments to the County Act had been effected to align it with the Facilities Improvement Act, Cap. 277, and that reimbursement of the monies previously transferred to the CRF had been initiated.

Committee Recommendation

The Committee recommends that –

- i. the Governor ensures all funds collected under the Facilities Improvement Financing Act, 2023 are properly retained and managed by the Hospital in accordance with Section 5(1) of the Act, and that procedures are established to prevent future misallocation;**
- ii. the Governor ensures that monies transferred to the CRF from the hospital are budgeted for and fully refunded in the financial year 2026/2027; and**
- iii. the Auditor-General to keep the matter in view and provide a status update in the subsequent audit cycle.**

8. Lack of Risk Management Policy

During the financial year under review, the hospital did not have a risk management policy in place and therefore, had no approved processes and guidelines on how to mitigate operational, legal and financial risks. Consequently, the Management did not perform formal risk assessments on all key financial risk areas such as cash, revenue and expenditure. This was contrary to Regulation 158 of the Public Finance Management (County Governments) Regulations, 2015 which states that – (a) the County Government entity develops risk management strategies, which include fraud prevention mechanism; and (b) the county government entity develops a system of risk management and internal controls that builds robust business operations.

In the circumstances, Management was in breach of law and effectiveness of risk management could not be confirmed.

Management Response

In the year under review, the management relied on the Risk Management Framework developed by the County Government of Kakamega that governs all county entities. However, the management is now in the process of preparing a risk management policy and a risk register specifically for the hospital.

Committee Observation

The Committee observed that management had initiated the process of developing a Policy and Disaster Recovery Plans; however, no timelines were provided for the conclusion of the process.

Committee Recommendation

The Committee recommends that the Governor ensures that within 90 days of the adoption of this report, the Governor ensures that the Hospital Board puts in place all internal control systems such as Risk Management Policy and Disaster Recovery Plan as provided under section 158(1) of Public Finance Management (County Governments) Regulations, 2015 among others to guide the internal operations of the hospital.

9. Information Communication Technology (ICT) Internal control Weaknesses

During the financial year under review, the hospital did not have an approved ICT strategic plan, ICT continuity plan, disaster recovery plan and ICT steering committee to assist in the development of ICT policy framework to enable the hospital realize long-term ICT strategic goals.

In the circumstances, the effectiveness of internal controls on ICT environment could not be confirmed.

Management Response

During the year under review, the hospital operations were guided by the ICT strategic plan, ICT continuity plan, Disaster recovery plan and ICT steering committee developed by the County Government to guide all its entities. The management is now in the process of developing its specific ICT strategic plan, Continuity Plan, Disaster recovery plan and establish its own ICT steering committee to assist in development of its ICT policy framework.

Committee Observation

The Committee observed that management had initiated the process of developing an ICT Policy and Disaster Recovery Plans; however, no timelines were provided for the conclusion of the process.

Committee Recommendation

The Committee recommends that the Governor ensures that within 90 days of the adoption of this report, the Hospital Board put in place all internal control systems such as ICT Policy and Disaster Recovery Plans as provided under section 158(1)

of Public Finance Management (County Governments) Regulations, 2015 among others to guide the internal operations of hospital.

10. Lack of Internal Audit Function

During the year under review, the Hospital did not have an Internal Audit Function to perform risk assessment processes and evaluation of operational effectiveness through reviews of the internal controls. This was contrary to Section 155(1)(a) and (5) of the Public Finance

Management Act, 2012 which state that a County Government entity shall ensure that it complies with this Act and has appropriate arrangements for conducting internal audit according to the guidelines issued by the Accounting Standards Board.

In the circumstances, the absence of an operational Internal Audit Unit creates a significant gap in the Hospital's governance and control framework, increasing its vulnerability to various risks.

Management Response

The County Government of Kakamega has a centralized internal audit directorate which continuously audits all entities under the County Government including all health facilities.

Committee Observation

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

Committee Recommendation

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

11. Lack of Functional Board of Management

Audit review of governance structure, observed that the Hospital lacked a functional board of governance to execute its functions as set out in the Mwongozo Code of Governance for State Corporations that include setting and overseeing the overall strategy, approving significant policies and monitoring the Hospital's performance to ensure sustainability.

In the circumstances, the existence and effectiveness of the Hospital's governance could not be confirmed.

Management Response

At the time of audit, the process of appointing hospital board members for all our hospitals was ongoing. This process was concluded and the hospital board members were appointed, gazetted and inducted.

Committee Observation

The Committee observed that the hospital had a functional board.

Committee Recommendation

The Committee recommends that the matter be marked as resolved

3.5. REPORT ON AUDITED FINACIAL STATEMENTS FOR KAKAMEGA COUNTY REFERRAL HOSPITAL FOR THE FINACIAL YEAR 2024/2025

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

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a qualified Opinion on the financial statements of the Kakamega County Referral Hospital for the financial year on the following basis-

Basis for Qualified Opinion

1. Inaccuracy of the Financial Statements

The statement of financial performance reflects rendering of services – medical service income amount of Kshs.676,520,492. However, the Check Health Information System (CHIS) reports showed total receipts of Kshs.121,595,937 resulting to unexplained and unreconciled variance of Kshs.554,924,555. Further, the statement reflects general expenses amount of Kshs.146,623,876 while Note 16 to the financial statements reflects Kshs.144,316,759 resulting in unreconciled variance of Kshs.2,307,117.

In the circumstances, the accuracy and completeness of rendering of services – Medical Service Income and general expenses amount of Kshs.676,520,492 and Kshs.146,623,876 respectively could not be confirmed.

Management Response

The Kshs.554,924,555 is part of the total revenue collected and reported by the hospital of Kshs.676,520,492 during the year under review. This revenue was collected through the defunct NHIF system Kshs.121,260,794 and the SHA System Kshs.433,663,761 further broken down into SHA cover Kshs.421,865,539, MINET cover Kshs.9,179,771 and MTIBA cover Kshs.2,618,451. Kshs.121,595,937 was cash collections through the Check Health Information System (CHIS).

Explanation of the variance of Ksh.2,307,117 between the figure of General expenses as reflected in the statement of financial performance and Note 16

The correct figure for General expenses was Kshs.146,623,876 as reflected in the statement of financial performance. Management takes note of the auditor's observation and states that there was an error of omission on note 16 to the financial statements– schedule of general expenses of Kshs.2,307,117 being purchase of fittings. This

omission did not affect the main body of the financial statements. An amended schedule has been provided for further audit verification.

Committee Observation

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

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

Committee Recommendation

The Governor ensures that the Accounting Officer responsible for the hospital enhances the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and all other relevant reporting frameworks and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.

2. The Statement of Changes in Net Assets

The statement of changes in net assets reflects revaluation gain of Kshs.73,780,553. However, Note 21 to the financial statements reflects Nil revaluation adjustment resulting to unexplained and unreconciled variance of Kshs.73, 134,601.

In the circumstances, the completeness and accuracy of the revaluation gain amounting to Kshs.73,134,601 could not be confirmed.

Management Response

Explanation of the revaluation gain variance of Kshs.73,134,601 between the figure of Kshs.73,780,553 as reported in the statement of changes in net assets and Nil revaluation adjustment as reported in Note 21 to the financial statements

The variance above should have been Kshs.73,780,553 and not Kshs.73,134,601 as reported by the auditor. The figure of Kshs.73,780,553 reflected as revaluation gain in the Statement of Changes in Net Assets refers to the value of the opening inventories as at 1st July, 2024. The figure is made of hospital opening inventories of Kshs.70,423,316 and cash opening balance of Kshs.3,357,237.

The opening stock inventories comprised of pharmaceuticals, non-pharms, records, public health, orthopedic technology, radiology, laboratory reagents, nutrition and stationery items. While the opening cash balance comprised of Kshs.524 on the NHIF

Account, Kshs.823,558 on the Hospital Imprest Account, Kshs.2,440,302 on the Hospital Revenue Collection Accounts and cash at hand of Kshs.92,853.

The above figure was considered as part of the opening capital for the hospital and should have been captured under the Capital/Development Grants row as well as the Capital Fund column in the Statement of Changes in Net Assets in line with IPSAS 1 and not in the Revaluation Gain row as well as Revaluation Reserve column as was the case.

Management takes cognizance of this error of principle and commits to build the capacity of the hospital accountants on financial reporting as these were the first set of financial statements to be prepared by the accountants.

Note that Note 21 to the financial statements refers to the schedule of Property, Plant and Equipment. This schedule does not include inventories.

Committee Observation

The Committee observed that the query remains unresolved for the following reasons since the Accounting Officer responsible for the hospital failed to undertake the necessary reconciliations at the time of audit to correct the identified financial statement anomalies. However, management demonstrated how the anomaly would be addressed in the subsequent financial statements as prior year adjustments.

Committee Recommendation

The Committee recommends that the Governor ensures that the Accounting Officer responsible for the hospital enhances the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and all other relevant reporting frameworks and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.

3. The Statement of Cash flows

Review of the statement of cash flows revealed the following anomalies:

- i. Note 23 shows net cash flows from operating activities amount of Kshs.50,785,942. However, working capital adjustments have not been made in Note 23 as required by the Public Sector Accounting Standards Board financial reporting template.
- ii. The statement has been prepared using hybrid of direct and indirect method contrary to the prescribed Public Sector Accounting Standards Board financial reporting template.
- iii. The statement reflects working capital adjustment change - decrease in inventory of Kshs.10,206,604 that differs with the reworked working capital

adjustment – increase in inventory of Kshs.60,216,712 resulting to unreconciled variance of Kshs.50,010,108

- iv. The statement shows decrease of inventory balance of Kshs.10,206,604, increase in receivables of Kshs.244,409,795 and increase in payables of Kshs.217,116,755, totaling to Kshs.17,086,436. However, the balance had not been adjusted in the net increase/decrease in cash and cash equivalents balance of Kshs.1,495,049.

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

Management response

(i) Working capital adjustments not made in Note 23

The management acknowledges the observation of the auditor on the above item. Though the working capital adjustment was not done in Note 23 to the financial statements as required by the Public Sector Accounting Standards Board financial reporting template, this omission did not have any effect on the statement of cash flows since this adjustment was done on the face of the statement of the cashflows. The management will always endeavor to use the most recent updated reporting template going forward.

(ii) The Statement of cash flows made using the hybrid and direct method contrary to the updated PSASB reporting Template The management acknowledges the auditor's observation on the above item and commits to use the most recent and updated PSASB reporting template going forward.

(iii) Unreconciled variance of Kshs.50,010,108 on working capital adjustment on **decrease/increase in inventory**

The management disclosed in the financial statements that the opening inventory figure was Kshs.70,423,316 as disclosed under Note 20 and as captured in the Statement of Financial Position and the Statement of Changes in Net Assets. The closing inventory figure as captured in the Statement of Financial Position and Note 20 was Kshs.60,216,712. Therefore, the difference between the opening inventory figure and the closing inventory figure above is a decrease of Kshs.10,206,604 which represents the working capital adjustment on this item and not an increase of Kshs.60,216,712 as indicated. Therefore, the unreconciled variance of Kshs.50,010,108 does not exist. Failure to adjust the net balance of Kshs.17,086,436 on inventories, receivables and payables in the cash and cash equivalent balance of Kshs.1,495,049

The management adjusted the decrease in inventory figure of Kshs.10,206,604, increase in receivables figure of Kshs.244,409,795 and increase in payables figure of Kshs.217,116,755 in the statement of cash flows resulting to the adjusted net balance

figure of Kshs.17,086,436 and the net increase/decrease in cash and cash equivalent balance of Kshs.1,495,049

Committee Observation

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

Committee Recommendation

The Committee recommends that the Governor ensures that the Accounting Officer responsible for the hospital enhances the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and all other relevant reporting frameworks and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.

4. The Statement of Comparison of Budget and Actual Amounts

The statement of comparison of budget and actual amounts discloses actual total receipts amount of Kshs.884,950,586 and actual receipts performance difference of Kshs.193,918,609.

However, reworking of the totals shows actual total receipts of Kshs.875,567,526 and actual receipts performance difference of Kshs.469,871,688 resulting to unreconciled variances of Kshs.9,383,060 and Kshs.275,953,079 respectively. Further, capital expenditure paid performance difference has been disclosed as Kshs.3,479,455. However, reworking of the difference shows Kshs.4,805,445 resulting to unreconciled variance of Kshs.1,325,990.

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

Management Response

The management acknowledges the auditor's observation on the above subject matter. This was the first set of financial statements prepared by the hospital accountant, thus the inevitable casting errors noted by the auditor. Though the casting errors noted in the statement of comparison of budget and actual amounts do not have any negative effect on the main body of the financial statements, the management commits to build the

capacity of the hospital accountants on financial reporting so that such errors are not repeated in the subsequent financial statements.

Committee Observation

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

Committee Recommendation

The Committee recommends that the Governor ensures that the Accounting Officer responsible for the hospital enhances the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and all other relevant reporting frameworks and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.

5. Inaccuracy of Transfers from Kakamega County General Teaching and Referral

Note 15 to the financial statements reflect transfers to Kakamega County Health Service Fund (KCHSF) totaling Kshs. 477,009,184. However, KCHS Ffinancial statements indicate corresponding receipt of Kshs.463,923,945 from the Kakamega County General and Referral Hospital (KCGRH) resulting to an unreconciled variance of Kshs.13,085,239. In addition, the statement of financial performance reflects revenue transfers from other Government entities (Kakamega County Health Service Fund) of Kshs.435,995,429. However, the Kakamega County Health Service Fund (KCHSF) financial statements showed a balance of Kshs. 423,178,470 as transfers to other Government entities resulting to an unreconciled variance of Kshs. 12,816,959.

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

Management Response

Explanation of the variances of Kshs.13,085,239 and Kshs.12,816,959 between Funds transferred from the hospital to the Facility Improvement Fund and vice versa. The variance of Kshs.13,085,239 and Kshs.12,816,959 between the revenue collected by the hospital and transferred to the Fund Account and what the Fund Account transferred back to the hospitals related to revenue collected at the Kakamega funeral home respectively less administration costs. Both transactions were well captured in both

financial statements, that's, the hospital and the Kakamega County Hospital Services Fund financial statements

Committee Observation

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

Committee Recommendation

The Committee recommends that the Governor ensures that the Accounting Officer responsible for the hospital enhances the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and all other relevant reporting frameworks and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.

6. Unconfirmed Revaluation Reserve Balance

The statement of financial position reflects revaluation reserve balance of Kshs.73,780,553 as at 30 June, 2025. However, assets revaluation report and details of the nature of assets revalued were not provided for audit review.

In the circumstances, the completeness and accuracy of the revaluation reserve balance of Kshs.73,780,553 could not be confirmed.

Management Response

The figure of Kshs.73,780,553 reflected as revaluation reserve in the statement of Financial Position refers to the value of the opening inventories as at 1st July, 2024. The figure is made of hospital opening inventories of Kshs.70,423,316 and cash opening balance of Kshs.3,357,237. The opening stock inventories comprised of medical drugs, non-pharms, records, public health, orthopedic technology, radiology, lab reagents, nutrition and stationery items. While the opening cash balance comprised of Kshs.524 on the NHIF account, Kshs.823,558 on the Hospital Imprest account, Kshs.2,440,302 on the Hospital Revenue Collection Accounts and Cash at Hand balance of Kshs.92,853.

Though the auditor requested for assets revaluation report, management did not engage a qualified independent valuer to revalue the opening stock since it had the purchase prices that were used to procure this inventory. Instead, management had in place the stock taking report which was availed to the auditor at the time of audit.

The management takes cognizance of the fact that this amount was treated as capital to the entity and thus should have been captured under the Capital Fund raw and not the Revaluation

Reserve raw in the statement of Financial Position. The management commits to build the capacity of the hospital accountants on financial reporting so that such errors of principle do not surface in the subsequent financial statements.

Committee Observation

The Committee observed that the matter remained unresolved since the KCHSF and KCGRH balances do not agree.

Committee Recommendation

The Committee recommends that the Governor through the CECM for Finance ensures that the Accounting Officer responsible for the hospital takes immediate measures so that the variances are reconciled and accounted for within 60 days of the adoption of this report and provide status update to the Senate and a copy to the Auditor-General within the same period.

7. Anomalies in Accuracy, Presentation and Disclosure of the Annual Report and Financial Statements

Review of the annual report and financial statements revealed the following cases of noncompliance with the revised Public Sector Accounting Standards Board (PSASB) financial reporting template for 2024/2025 financial year;

- i. The Management Discussion and Analysis on page xxx shows total unpaid claims from SHA, NHIF, Mtiba and MINET balances of Kshs.70,739,406, Kshs.121,260,794, Kshs.2,653,037 and Kshs.3,3277,657 respectively as at 30 June, 2025. However, the balances in the Management Analysis differ with unpaid balances of SHA Kshs.23,566,580, NHIF Kshs.66,711,852, Mtiba Kshs.2,618,451 and MINET Kshs.(379,805.) as reflected in the financial statements.
- ii. Page xxx of the financial statements provides the code of conduct for the hospital management board and remuneration. It does not provide a discussion on the unpaid claims as indicated above.
- iii. The assets movement schedule in Note 21 to the financial statements has the net book value shown as at 30 June 20xx instead of 30 June, 2025 and the depreciation method and rates for the individual assets have not been disclosed.

In the circumstances, the presentation, disclosure and accuracy of the annual report and financial statements do not comply with the Public Sector Accounting Standards Board reporting requirements.

Management response

The management acknowledges the auditor's observation on the above subject matter. However, this was the first set of financial statements for the hospital prepared for the first time by the accountant in charge hence a possibility of simple errors like the one noted by the auditor.

Management commits to capacity built the accountant in charge on financial reporting so that such simple errors are not repeated in the subsequent financial statements.

Committee Observation

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

Committee Recommendation

The Committee recommends that –

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

Emphasis of Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis amounts of Kshs.1,345,439,214 and Kshs.884,950,586 respectively, resulting in under-funding of Kshs.460,488,628 or 34% of the approved

budget. Similarly, the Hospital spent Kshs.859,976,139 against the actual receipts of Kshs.884,950,586 resulting in under-utilization of Kshs.24,974,447.

The under-funding and under-utilization of the approved budget is an indication that some activities and projects in the annual plan were not implemented, which may have affected service delivery.

Management Response

The underfunding of Ksh.460,488,628 was largely attributed to non-remittance of approved claims by SHA. The under-utilization of Kshs.24,974,447 was due to late disbursement of claims by the Social Health Authority. The management will continue to indulge the Social Health Authority so that claims are disbursed on time to ensure all planned activities are implemented and service delivery is not affected.

Committee Observation

The Committee observed that the underfunding resulted from delayed reimbursements of claims by the Social Health Authority (SHA), affecting both current SHA-covered claims.

Committee Recommendation

The Committee recommends that –

- i. the Governor, through the County Executive Committee Member responsible for health engages the Social Health Authority and agree on suitable repayment framework for the outstanding reimbursements affecting both current SHA-covered claims and claims inherited from the defunct National Health Insurance Fund (NHIF) and provide a status update to the Senate within 90 days of the adoption of this report; and**
- ii. the Governor ensures that the Accounting Officer responsible for the Fund complies with regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures, failure to which the accounting officer may be held liable under section 199 of the Public Finance Management Act on penalties for offences.**

2. Lack of Contract for Check Health Information System (CHIS)

The Hospital acquired a Check Health Information System from a local firm the year 2009. However, review of the system file and other supporting documents revealed that the Hospital did not have a binding contract with the vendor. Further, no technical support was offered by the vendor and the vendor did not supply the system source code for upgrade and future customization. In addition, the System was not integrated to

payment systems for real-time reconciliation of billing with actual receipts paid by patients and the Renal and Cancer center had not been incorporated in the Hospital main registration office making it difficult to trace all patients attended to in the units and nature of services offered.

In the circumstances, the effectiveness and efficiency of Check Health Information system could not be confirmed.

Management response

The management has acknowledged the auditor's observations on the above audit issue. Management is cognizant of the above issues however states as follows:

- a. The CHIS system in place was a one-off acquisition in the year 2009. One of the ICT technical staff domiciled at the hospital was in service since 2009 when the system was installed and thus was fully trained to manage the system end to end and thus the hospital does not have a service contract with the vendor.
- b. The management being privy to the gaps existing in the system, engaged the Digital Health Agency (DHA) to automate all the hospital services through the Taifa Care Hospital Management System. Digital Health Agency has already trained all the system users at the hospital and delivered all the ICT gadgets.
- c. The rollout of the system is now ongoing across all our health facilities from level II to Level V.

Committee Observation

The Committee observed that the management provided the required explanation as to why it did not have service contract.

Committee Recommendation

The Committee recommends that the matter be marked as resolved

3. Non-Compliance with Kenya Quality Model for Health Policy Guidelines on Staffing and Equipment

Review of personnel records provided for audit revealed inadequate staffing of health workers at the Hospital. The Facility did not meet the requirements of Kenya Quality Model for Health Policy Guidelines due to staff deficits. In addition, the Hospital lacked equipment and machines outlined in the Health Policy.

The deficiencies contravened the First Schedule of the Health Act, 2017 and imply that accessing the highest attainable standard of health, which includes the right to health

care services, including reproductive health care as required by Article 43(1) of the Constitution of Kenya, 2010 may not be achieved. Further, this contravened the Kenya Quality Model for Health Policy Guidelines and hindered the realization of the Government program on Universal Health Coverage (UHC).

In the circumstances, the Hospital may not provide the required standard of healthcare services, including reproductive health care as envisioned for a Level 5 Hospital.

Management response

Management has noted the observation of the auditor and has written to the chief officer department of Health to deploy and or employ more staff on behalf of the hospital to reach the minimum requirement of a level 5 Hospital. After the audit, the hospital received one more anesthesiologist who had gone for further studies. The management is also privy to the plans in place by the parent department, department of Public Service and Administration and the County Public service Board to recruit more health care workers to beef up the deficits.

Explanation on under Equipping the Hospital

Management has written to the chief officer medical services requesting support from the parent ministry's budget to aid the hospital in equipping it in order to meet the minimum requirements of a Level 5 Health Facility.

In addition, the facility placed requests for the essential equipment through the National Equipment Service Program (NESP). So far, the facility has received a Digital X Ray and a 128 Slice CT Scan Machine.

The hospital management is also making efforts to acquire more general hospital equipment using the user fees collected. So far, the hospital has acquired two modern ultrasound machines.

Committee Observation

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

Committee Recommendation

The Committee recommends that within sixty (90) days of the adoption of this report, the Governor submits to the Senate a comprehensive plan outlining the specific measures being taken to address the hospital's staffing shortages. The measures should include both short-term and long-term solutions, focusing on optimizing existing resources, improving employee welfare, and ensuring

sustainable staffing levels moving forward. The Auditor-General to monitor progress and keep this matter under review in the subsequent audit cycle.

4. Non-Compliance with the Facilities Improvement Financing Act, 2023

The statement of cash flows reflects transfers from other Government entities in respect to Facility Improvement Fund. (FIF) amounting to Kshs.389,516,528. Further, the statement includes transfers to FIF amounting to Kshs.477,009,184 which relates to transfer to Facility Improvement Fund. However, a balance of Kshs.87,492,656 was retained at Facility Improvement Fund. (FIF) account and not remitted to the Hospital or any other health facility. This was contrary to Section 5(1) of the Facilities Improvement Financing Act, 2023 which provides that there shall be retention of all monies raised or received by or on behalf of all public health facilities Further, review of the Bank accounts documents revealed that the Hospital had not opened a special purpose facility improvement financing bank account. This was contrary to section 5(2) of the facilities improvement financing act 2023 which provides that there shall be opened a facility improvement financing account for each health facility into which shall be paid all monies received by or on behalf of the respective public health facility.

Management Response

The hospital received Kshs.435,995,429 and not Kshs.389,516,528 from the FIF. The difference of Kshs.46,478,901 between the two figures was hospital revenue collected in the month of June, 2025 but received from FIF early July, 2025. The difference between Kshs.477,009,184 collected by the hospital and swiped to the FIF account and Kshs.435,995,429 actual receipts from FIF account was Kshs.41,013,755 and not Kshs.87,492,656 as indicated by the auditor.

Explanation on why the hospital has not opened a Special Purpose Facility Improvement Financing Bank Account.

The County Executive through the department of health has opened a centralized Facility Improvement Financing Bank Account at Family Bank Kakamega Branch. This account is a collating center where all revenues collected are swiped and then disbursed to the individual hospital facility accounts less administration costs.

Committee Observation

The Committee observed that the facility had not opened bank account for facilities improvement fund contrary to Section 5(1) of the Facilities Improvement Financing Act, 2023.

Committee Recommendation

The Committee recommends that –

- i. the Governor ensures all funds collected under the Facilities Improvement Financing Act, 2023 are properly retained and managed by the Hospital in accordance with Section 5(1) of the Act, and that procedures are established to prevent future misallocation;**
- ii. the Governor ensures that monies transferred to the CRF from the hospital are budgeted for and fully refunded in the financial year 2026/2027; and**
- iii. the Auditor-General to keep the matter in view and provide a status update in the subsequent audit cycle.**

5. Failure to Undertake Safety and Health Audits

Review of documents provided revealed that there were no safety and health audits carried out by the Hospital during the year under review. This was contrary to Section 11(1) of the Occupational Safety and Health Act, 2007 which states that the occupier of a workplace shall cause a thorough safety and health audit of his workplace to be carried out at least once in every period of twelve months by a safety and health advisor, who shall issue a report of such an audit containing the prescribed particulars to the occupier on payment of a prescribed fee and shall send a copy of the report to the Director.

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

Management Response

Management has noted the observation by the auditor and states that the safety and health audit was done in the FY 2024/2025, though using our own officers from the Directorate of Public Health. Going forward, the management shall endeavor to engage Occupational Safety and Health Officers from the National Council for Occupational Safety and Health.

Committee Observation

The management failed to engage occupational safety and health officers from the National Council for Occupational Safety and Health to conduct Safety and Health Audit.

Committee Recommendation

The Committee recommends that the Governor should ensure adherence to Section 11 (1) of the Occupational Safety and Health Act, 2007 and Auditor-General to review the matter in the subsequent audit cycle.

6. Lack of Approved Strategic Plan

During the year under review, it was observed that Management did not have a strategic plan to guide the entity in achieving its objectives contrary to Section 149 (2)(g) of the Public Finance Management Act, 2012, which requires Accounting Officers designated to County Government entities to prepare a strategic plan for the entity in conformity with the mediumterm fiscal framework and financial objectives of the County Government. In the circumstances, Management was in breach of the law.

Management Response

The management has an approved strategic plan. The strategic plan was approved via a board resolution minutes dated 8th November 2024.

Committee Observation

The Committee observed that the management provided the required documents.

Committee Recommendation

The Committee recommends that the matter be marked as resolved

9. Lack of Asset Register

The statement of financial position and Note 21 to the financial statements show property, plant and equipment balance of Kshs.21,849,059. However, review of assets management and control, revealed that the Hospital did not maintain an updated asset register containing serial number of assets, value of assets, location, depreciation charge, net book value and status of each asset contrary to Section 149(2)(o) of the Public Finance Management Act, 2012.

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

Management Response

The management has an Asset Register in place though not fully updated due to the following reasons:

- a. Most of the assets were procured by the parent ministry and thus captured in the main County Asset Register domiciled at the County Treasury.
- b. Some Assets like Land and majority of the buildings were inherited from the defunct local authority, devolved ministry of Health and Ministry of Lands. The Intergovernmental Relations Technical Committee is yet to transfer

these assets and their ownership documents officially to the County Government.

- c. Majority of the assets require revaluation to determine their current value. The cost involved is huge and thus the hospital will seek support from the county executive. The management is closely working with the County Treasury to ensure the hospital has a complete and updated Fixed Assets Register.

Committee Observation

The committee observed that most of the hospital assets were under the ownership of the County Executive.

Committee Recommendation

The Committee recommends that –

- i. **the Governor engages ICRTC so as to Fast track the transfer process of the hospital assets where ownership documents are still with National Government entities and provide a status update on the progress made to the Senate within 90 days of the adoption of this report;**
- ii. **the Governor ensures that, upon obtaining the ownership documents for the land, a valuation is undertaken and the value of the land is duly recorded in the hospital's asset register and reflected accordingly in its financial statements; and**
- iii. **the Auditor-General to review the matter in the subsequent audit cycles and provide status update on the progress made in obtaining ownership documents for All Assets of the hospital.**

7. Weaknesses in Information Communication Technology (ICT) Internal Controls Environment

Review of Information Technology (ICT) controls environment and records revealed that the Hospital had an ICT Department with one ICT officer. However, it was observed that the department lacked ICT Strategic Plan, approved ICT Policy, established ICT Steering Committee, remote backup/replication server and backup system.

In the circumstances, the effectiveness of the hospital's ICT environment internal controls could not be confirmed.

Management Response

The hospital has five ICT staff, two on permanent terms, while three on contract terms and not one ict staff as indicated by the auditor. ICT Strategic Plan This is well captured in the main hospital strategic plan 2025-2029. The hospital is currently using the County ICT policy but commits to develop one specifically customized to the hospital needs.

As at the time of audit, the hospital had not established an ICT Steering Committee. However, one has been established. Remote backup/ replication server and Backup system. The hospital has a local server though it has not yet acquired a remote backup/replication server.

The management commits to acquire a replication server and backup system in liaison with the county directorate of ICT.

Committee Observation

The Committee observed that whereas management had made progress in addressing certain ICT control weaknesses, key issues, including the establishment of a remote backup/replication server and a functional backup system, remained unresolved. Management committed to addressing these outstanding matters; however, no implementation timelines were provided.

Committee Recommendation

The Committee recommends that the Governor ensure that all ICT matters within the hospital are addressed within 90 days of the adoption of this report.

8. Lack of Internal Audit Function

During the year under review, the Hospital did not have an Internal Audit Function to perform risk assessment processes and evaluation of operational effectiveness through reviews of the internal controls, thus risks may not have been identified and mitigated contrary to Section 155(1)(a) and (5) of Public Finance Management Act, 2012 which states that a County Government entity shall ensure that it complies with this Act and has appropriate arrangements for conducting internal audit according to the guidelines issued by the Accounting Standards Board.

In the circumstances, the absence of an operational Internal Audit Unit creates a significant gap in the Hospital's governance and control framework, increasing its vulnerability to various risks.

Management Response

The management has noted the auditor's observation. The County Government has an independent Internal Audit Department. The audit department assigns its officers to different county entities including the Kakamega County General Teaching and

Referral Hospital. The facility has been receiving services from the department with the last audit having been done on 28th April 2025.

Committee Observation

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

Committee Recommendation

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

3.6. REPORT ON AUDITED FINANCIAL STATEMENTS FOR MANYALA LEVEL 4 HOSPITAL FOR THE FINANCIAL YEAR 2024/2025

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

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **qualified opinion** on the financial statements of Manyala Sub-County Hospital for the period under review on the following basis;

1. Non-Recognition and Valuation of Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.57, 095 as disclosed in Note 22 to the financial statements which represents assets acquired during the year under review (additions). However, review of the Hospital records and physical inspection revealed that the Hospital occupied a substantial parcel of land, building, and owns assorted furniture and fittings and various specialized medical equipment that were not valued for inclusion in the statement of financial position. Further, the land on which the Hospital is built, and the developments therein did not have ownership documents.

In the circumstances, the accuracy, completeness, existence and valuation of the property, plant and equipment balance of Kshs.57, 095 could not be confirmed.

Management Response

Incompleteness of the Property, Plant and Equipment Schedule (Fixed Assets Register)

Most of the assets under the hospital except the Land and Buildings were procured by the parent ministry and thus captured in the property, plant and equipment/fixed assets register under the county executive. Management will liaise with the County Treasury to see if those assets can now be captured under the hospital PPE schedule.

The hospital Land and buildings are among the assets that were inherited from the defunct local authorities, devolved ministry of health and the ministry of lands. The management will revalue and include in the hospital PPE schedule once they are officially handed over by the Intergovernmental Technical Relations Committee.

Land Ownership Documents

Manyala Sub County (Sub District) Hospital and the land (1.63 Ha) it seats on (Marama/Shiatsala/1681) are among the assets inherited from the defunct Local

Authorities and the Devolved Ministry of Health and Ministry of Lands. The County is yet to get the ownership documents from the Intergovernmental Technical Relations Committee which is overseeing the Assets and Liabilities transfer process.

Committee Observation

The Committee observed that the Hospital occupies a substantial parcel of land, buildings, assorted furniture, fittings and specialized medical equipment that were not valued or included in the financial statements. The land and buildings also lack ownership documents as the assets are yet to be formally transferred from defunct local authorities through the Intergovernmental Technical Relations Committee.

Committee Recommendation

The Committee recommends that

- i. within sixty (60) days of the adoption of this report, the Governor, through the CECM responsible for matters health, engages with the Ministry of Health of the National Government and the Intergovernmental Technical Relations Committee to ensure the transfer of ownership documents of land and buildings is fast tracked;**
- ii. the Governor ensures that the management of the hospital undertakes the valuation of all assets of the hospital and submits the valuation report to the Auditor- General for verification during the subsequent audit cycle;**
- iii. upon completion of the transfer and valuation, the Accounting Officer should prepare an updated asset register within 60 days of the adoption of this report and submit to the Auditor-General for verification; and**
- iv. the Governor, through the Accounting Officer ensures that the hospital maintains an up-to-date asset register in accordance with section 149(2)(o) of the Public Finance Management Act Cap 412A and in the format prescribed by the Public Sector Accounting Standards Board (PSASB), failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply.**

2. Unconfirmed Revaluation Reserve Balance

The statement of changes in net assets reflects net assets balance of Kshs.5, 116,768 as at 30 June, 2025, which includes revaluation reserve on inventory balance of Kshs.2, 654,415. However, evidence on revaluation of the inventory and the accompanying analysis were not provided for audit review.

In the circumstances, the accuracy and completeness revaluation reserve on inventory balance of Kshs.2, 654,415 could not be confirmed.

Management response

Explanation on non-provision of the evidence on revaluation of the inventory balance of Kshs.2, 654,415

The Kshs.2, 654,415 as reflected in the statement of Changes in Net Assets was the value of inventories as at 30th June 2025. Management used the purchase price to quantify the value of the inventories as at 30th June 2025 i.e. the total value of inventories purchased during the year less the total value of inventories consumed during the year, the balance was the closing stock which formed the value of inventories as at 30th June 2025. Though the auditor requested for a revaluation report, management did not engage a qualified independent valuer to revalue the closing stock since we had the purchase prices that were used to procure this inventory which included Drugs, Non-pharms, and Lab Reagents. Instead, management had in place the stock taking report which was availed to the auditor at the time of audit.

Committee Observation

The Committee observed that Management did not engage a qualified independent valuer to conduct the revaluation as required. Instead, management used purchase prices to quantify closing stock of drugs, non-pharmaceuticals and lab reagents, and availed a stock-taking report rather than a formal revaluation report.

Committee Recommendation

The Committee recommends that-

- i. within sixty (60) days of the adoption of this report, the Governor, through the CECM responsible for matters of health, ensures the Accounting Officer engages a qualified independent valuer to conduct a proper revaluation of all closing inventory in accordance with applicable accounting standards; and**
- ii. the Governor ensures the Accounting Officer prepares and maintains a formal revaluation report with supporting analysis and submits the report to the Auditor-General for verification during the subsequent audit cycle.**

REPORT ON LAWFULLNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES.

Basis for Conclusion

1. Failure to Meet Level 4 Hospital Requirements

Records maintained by the facility and analysis of healthcare staffing, and physical verification of medical equipment available at the facility revealed the following shortfalls against what was required in the Kenya Quality Model for Health of a Level 4 facility.

Medical Specialists-Table 1

Item	Level standard	4 Number in Hospital	Variance	Percentage (%)
Medical officers	16	0	16	100
Anesthesiologists	2	0	2	100
Radiologist	2	0	2	100
Total	20	0	20	100%

In addition, the facility lacked the equipment and machines outlined in the Health Policy Guidelines as shown below.

Equipment-Table 2

Services	Level Hospital Standard	4 Actuals in the Hospital	Variance	Percentage (%)
Resuscitaire in Labour Ward	2	1	1	50
New Born Unit incubators	5	0	5	100
New Born Unit Cots	5	0	5	100
Functional ICU Beds	6	0	6	100
High Dependency Units (HDU) Beds	6	0	6	100

Renal Units with at Least 5 Dialysis Machines	5	0	5	100
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Further, the following facilities and equipment were missing that casted doubt on the level of preparedness for the facility to handle emergencies:

- i. The hospital lacked an operational ambulance, which may hinder timely emergency response.
- ii. The facility lacked a mortuary.
- iii. There were no X-ray Machines to support diagnostic services.

In the circumstances, Management is in breach of law in respect of capacitation for the Hospital and the residents of Kakamega County have not realized the services set under the Universal Health Care Program.

Management response

Explanation on staffing

Management has noted the observation of the auditor and has written to the chief officer department of Health to deploy and or employ more staff on behalf of the hospital to reach the minimum requirement of a level 4 Hospital. After the audit, the Chief Officer managed to deploy one Medical Officer to the Hospital, while the management employed an additional two radiographers on locum basis to assist in the radiology department as we await the County Public Service Board to employ and post to the hospital a Radiologist. The management is also privy to the plans in place by the parent department, department of Public Service and Administration and the County Public service Board to recruit more health care workers to beef up the deficits.

Explanation on lack of equipment and machines

Management has written to the chief officer medical services requesting support to aid the hospital in equipping it in order to meet the minimum requirements of a Level 4 Health Facility.

In addition, the facility placed requests for the essential equipment through the National Equipment Service (NESP) program but yet to receive the equipment.

The hospital management is also making efforts to acquire more general hospital equipment using the user fees collected. So far, the hospital has received an x-ray machine, an ultrasound machine and four New Born Unit Incubators from Butere county hospital.

Facilities and Equipment missing at the Hospital

(i) Ambulance

The parent ministry has initiated procurement of four new ambulances of which one will be deployed to the hospital once delivered.

(ii) Hospital mortuary

Due to the scarce budgetary resources, Manyala Sub County Hospital uses the Butere Hospital Mortuary which is just 8 Kms away. However, in future and with the availability of resources, the hospital will endeavor to construct their own mortuary.

(iii) X-ray Machines

The hospital received one X-ray machine from Butere County Hospital which is currently serving the hospital well.

Committee Observation

The Committee observed that the Hospital did not meet the minimum staffing, equipment, bed capacity, service provision, and digital health system requirements as prescribed by the Kenya Quality Model for Health Policy Guidelines for a Level 4 facility.

Committee Recommendation

The Committee recommends that—

- i. within sixty (90) days of the adoption of this report, the Governor submits to the Senate a comprehensive plan outlining the specific measures being taken to address the hospital's staffing shortages. The measures should include both short-term and long-term solutions, focusing on optimizing existing resources, improving employee welfare, and ensuring sustainable staffing levels moving forward; and**
- ii. Within ninety (90) days of the adoption of this report, the Committee recommends that the Governor ensures the hospital develops and implements a comprehensive plan, with appropriate budgetary allocations, to acquire and operationalize the required facilities and equipment to provide all services required for a Level 4 hospital. The Auditor-General should monitor progress and keep this matter under review in the subsequent audit cycle.**

2. Non-Compliance with the Facilities Improvement Financing Act, 2023

The statement of cash flows reflects transfers from other Government entities amounting to Kshs.9, 941,142 as disclosed under Note 8(a) to the financial statements. Further, the statement includes transfers amounting to Kshs.10, 831,203 as disclosed under Note 15 to the financial statements which relates to transfer to Facility Improvement Fund.

However, a balance of Kshs.890, 061 was retained at the FIF account and not remitted to the Hospital or any other health facility.

This was contrary to Section 5(1) of the Facilities Improvement Financing Act, 2023 which provides that there shall be retention of all monies raised or received by or on behalf of all public health facilities.

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

Management response

Explanation as to why a balance of Kshs.890, 061 was retained at the FIF account and not remitted to the Hospital or any other health facility.

The management acknowledges the auditor's observation on the above subject matter.

The hospital collected Kshs.10,831,203 in the year under review, which was transferred to the FIF. In return, the FIF transferred Kshs.10,711,462 to the hospital for operations and not Kshs.9,941,142 as indicated by the auditor. The FIF fund should have transferred back to the hospital in real sense Kshs.10,506,267, less 3% administration costs which translates to Kshs.324,936.

However, the FIF fund transferred Kshs.10,711,462 only retaining an administration cost of Kshs.119,741 instead of Kshs.324,936. The excess variance of Kshs.205,195 was a refund to hospital to clear an amount equivalent which had been borrowed in the previous period to aid in payment of ambulance hire by the parent department.

Therefore, the figure of Kshs.890.061 does not arise and therefore the management did not breach the law.

Committee Observation

The Committee observed that Management clarified that the funds were subsequently returned, with supporting documentation provided and was verified by the Auditor.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

3. Medical Equipment Functionality and Asset Management Controls

Audit review and physical verification of medical equipment at the Hospital revealed significant deficiencies across several departments, including non-functional equipment, as follows:

i). Laundry Department

It was observed that the Hospital had one laundry equipment for the cleaning of the hospital linen. However, physical inspection at the time of audit revealed that the equipment was not in use. It was not explained why the equipment was not being utilized, hence there was no value for money spent on acquisition of the equipment.

ii). Theatre Department

Audit inspection revealed that the Hospital theatre building was renovated under the County Government development programmed with the objective of improving surgical service delivery. The renovated facility comprises two (2) main operating rooms and related support spaces.

However, audit inspection established that the renovation works were incomplete, with approximately 90% of the works done as at the time of audit. The remaining works mainly comprised electrical works, which had not been undertaken. Consequently, the theatre remains unequipped and non-operational, rendering the facility idle and underutilized.

In the circumstances, the absence of essential medical equipment and completion works fails to meet the efficiency and effectiveness in providing services to the public.

Management Response

Explanation on non-functional Laundry Machine/Department

At the time of MANYALA f audit, the power had not been connected to the laundry machine due to incomplete wiring system. This was later sorted and the laundry machine is now working.

Explanation on Incomplete works, unequipped Theatre Department

The management acknowledges the auditor's observation on the above subject matter. However, the project in question was initiated by the parent department and efforts are in place to ensure completion of the remaining works, equipping and operationalization of the same.

Committee Observation

The Committee observed that the laundry machine, which was previously non-functional due to incomplete electrical wiring, has since been connected and is now

operational. However, the theatre department remains non-operational as the renovation works remain incomplete, with electrical works yet to be finalized.

Committee Recommendation

The Committee recommends that within sixty (60) days of the adoption of this report, the Governor, through CECM responsible for matters of health, ensures the Accounting Officer completes all outstanding electrical works in the theatre to operationalize the facility and avoid continued idle expenditure, and submits evidence of completion to the Senate and copy to the Auditor-General for verification.

REPORT ON EFFECTIVENESS OF INTERNAS, RISK MANAGEMENT AND GOVERNANCE.

Basis for Conclusion

1. Weaknesses in Information Technology and Billing System Controls

Review of the billing system at the Hospital revealed weaknesses in the internal control environment governing revenue management. The Hospital operated a partially automated billing system that lacked adequate safeguards for effective billing and revenue control. The County Health Information System (CHIS) had been non-functional for six (6) months as at the time of audit. Consequently, the Hospital resorted to manual billing, with service charges computed outside the system. This increased the risk of billing inaccuracies, revenue leakages and weak audit trails.

Further, it was observed that the Hospital does not have an in-house ICT technician. Instead, ICT services were provided by an external technician engaged without a formal contract, service level agreement or data protection undertaking. The technician had been granted system administrative access rights including the authority to correct posting errors, roles that should be limited to Senior Management. The engagement of an external technician without formal terms or data protection controls risk exposing the Hospital to risks of unauthorized access, data manipulation and possible loss of sensitive financial and patient information.

It was further observed that the Hospital had no ICT officer as the one in use was shared between two facilities. In addition, the Hospital had only two (2) working desktops and four (4) laptops. Four (4) of the computers were obsolete. In addition, the softwares were illegitimate with no antivirus and firewall to protect the network.

In the circumstances, the effectiveness of controls over revenue collection system, ICT systems and data processed, stored and maintained through the systems could not be confirmed.

Management Response

Explanation on partially automated revenue billing system.

At the time of audit there was a system down time and the CHIS system was partially operational. However, the system vendor sorted the problem and now the system is fully functional. The hospital management also through the concerted efforts of the ministry executives to improve the ICT infrastructure across all the hospitals, managed to fully automate the entire spectrum of the hospital services including billing through the TAIFACARE hospital management system provided by the Digital Health Agency, an agency of the National Government Ministry of Health. This new system was implemented in October, 2025.

Lack of an in-house ICT technician/ICT Officer.

The hospital has been relying on the ICT officers from the parent ministry and from Butere County Hospital due to inadequate budgetary provision. However, moving forward and as its own source revenues continue to stabilize, the management will consider employing a qualified ICT technician/Officer to man its ICT infrastructure.

Engaged external technician without a formal contract

The external technician referred to here by the auditor was one of the contract ICT staff engaged at the Kakamega County General Hospital who has vast understanding of the County Hospital Management System (CHIS). The staff assists all hospitals operating on the CHIS system. At the time of audit, the staff had a formal contract running for one year.

Obsolete ICT equipment, illegitimate software, lack of anti-virus and fire wall.

The management acknowledges the auditor's observation on the above subject matter. Since the hospital does not a qualified ICT officer well vast in ICT software and hardware maintenance, the management wrote to the County Chief Officer in charge of ICT to look into the above issues.

Committee Observation

The Committee observed that-

- i. the Hospital has since implemented the TAIFACARE system, which is now fully functional;
- ii. the Hospital still lacks a dedicated in-house ICT officer, and reliance on external technicians without formal contracts and data protection undertakings persists; and

- iii. the Hospital continues to use obsolete equipment and unlicensed software without adequate cybersecurity protections.

Committee Recommendation

The Committee recommends that

- i. the Governor ensures the Accounting Officer recruits and deploys a dedicated in-house ICT officer and executes formal contracts, service level agreements, and data protection undertakings for all external ICT service providers, and within sixty (60) days of the adoption of this report submits evidence of compliance to the Senate and copy to the Auditor-General;
- ii. within the FY 2025/2026 financial year, the Governor ensures the Accounting Officer allocates adequate budget provisions for and undertakes the replacement of obsolete equipment, licensing of all software, and implementation of adequate cybersecurity protections including antivirus and firewall controls and Auditor-General to provided status in the subsequent audit cycle; and
- iii. the Governor, through the Accounting Officer, ensures that the TAIFACARE system is maintained in full operation and that all revenue transactions are processed through the system, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply.

2. Engagement of Casual Employees without Approved Policy

The statement of financial performance reflects amount of Kshs.2, 986,454 in respect of employee costs. However, review of the documents provided for audit revealed that the employees were engaged on short term contracts due to shortage of medical staff that the facility faced. Further review revealed that the Hospital had no policy outlining how such staff were to be recruited or terminated.

In the circumstances, the Hospitals effectiveness in employee management could not be confirmed.

Management Response

The hospital does not have a specific policy outlining how staff are to be engaged on short term basis tailored to itself. However, the hospital engages staff on short term basis basing on the County Approved Human Resource Policy and delegated powers from the County Public Service Board through the Authorized officer of the department.

Committee Observation

The Committee observed that the hospital continues to engage casual and short-term staff without a facility-specific human resource policy governing their recruitment, management, and termination, creating risks of inconsistent engagements and potential irregularity.

Committee Recommendation

The Committee Recommends that-

- i. the Governor ensures the County Public Service Board develops and adopts a clear facility-level human resource policy for short-term and casual staff engagements at the Hospital, aligned with the County Human Resource Policy, and submits evidence of the adopted policy to the Senate and the Auditor-General for verification within sixty (60) days of the adoption of this report;**
- ii. the Governor ensures the County Public Service Board prepares a budgeted recruitment plan to fill all critical staffing gaps, thereby reducing over-reliance on short-term engagements, and submits the plan to the Senate and the Auditor-General for verification within ninety (90) days of the adoption of this report, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B shall apply**

CHAPTER FOUR: FUNDS

4.1. REPORT ON AUDITED FINANCIAL STATEMENTS FOR KAKAMEGA COUNTY CLIMATE CHANGE FUND FOR THE FINANCIAL YEAR 2024/2025

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

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **qualified opinion** on the financial statements of Kakamega County Climate Change Fund for the period under review on the following basis-

1. Inaccuracy of Statement of Changes Net Assets

The statement of changes in net assets shows accumulated surplus balance of Ksh 817,372,710. The amount includes prior year adjustments rebanking of unspent cash balance of Ksh. 1,047,498. However, journal entries, nature of adjustment and other supporting documents were not provided for audit. In the circumstances, the accuracy and completeness of prior year adjustments rebanking of unspent cash balance of Ksh 1,047,498 could not be confirmed.

Management Response

The Kshs. 1,042,500 was cash at hand at the end of the financial year ended 30th June 2024 that was not included in the cash and cash equivalents for the said period. This resulted in an understatement of the cash and cash equivalents necessitating the adjustment in the statement of changes in net assets as a prior year adjustment.

Also 4,998 was reported as part of payables in the year ended 30th June 2024 as part of the total payables of Kshs. 62,638,317 this amount however remained unrepresented in the bank necessitating for the amount to be written back in the cashbook after 6 months in January, 2025 thus necessitating for the prior year adjustment under the statement of changes in net assets.

Relevant entries in the cash book have been availed along with other relevant supporting documentation for the disclosures provided in the statement of changes in net assets for review.

Committee Observation

The Committee observed that the management had taken remedial measures by submitting the required documents to Auditor-General for verification.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

2. Variances in Revenues from Non-Exchange Transactions

The statement of financial performance and Note 6 (a) to the financial statements reflects a public contribution and donation amounting to Ksh 303,132,837. However, the amount reported in the Project Management Unit (PMU) financial statements totals Kshs.20, 840,159 from International Development Association (IDA) and Ksh 22,766,070 from KfW resulting in unexplained and unreconciled variance of Ksh 259,526,608.

In the circumstances, the accuracy of Revenue from non-exchange transactions of Ksh 303,132,837 could not be confirmed.

Management response

The County climate change unit recognized a total of Kshs 303,132,837 being amount receivable as per the County Government additional allocations act. The amounts were gazetted and committed to be received by the Kakamega climate change fund in the FY 2024/2025. The amounts were received as at 30th June 2025 therefore it was reported as receivables from donors. However the fund received only Kshs.43, 606,229 in July 2025 in the County CRF account.

Committee Observation

The Committee observed that the management had taken remedial measures by reconciling the variance.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

Emphasis of Matter.

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget of Ksh 527,158,387 and actual receipts of Ksh. 266,565,689 on comparable basis resulting to under-funding of Ksh. 260,592,698 or 49% of the budget. Similarly, the Fund expended Ksh 165,482,767 against an approved budget of Ksh 670,800,367 resulting to under-expenditure of Ksh. 505,317,600 or 75% of the budget. Further the budget was unbalance and management did not explain how the deficit was to be financed.

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

Management response

The underfunding of Kshs 260,592,698 was caused by non-remittance of Kshs.196, 567,148 from development partners and Kshs.64, 025, 550 from own contribution from the County Government.

Under-expenditure of Ksh. 505,317,600 or 75% The under expenditure of Kshs.505,317,600 was due to unavailability of payment certificates ready for payment since the works had been contracted and ongoing.

Committee Observation

The Committee Observed that the underfunding was caused by timely non-remittance by development partners.

Committee Recommendation

The Committee recommends that –

- i. the Governor ensures that the Accounting Officer responsible for the Fund complies with regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures, failure to which the accounting officer may be held liable under section 199 of the Public Finance Management Act on penalties for offences; and**
- ii. the Governor, through the County Executive Committee Member responsible for finance, ensures that the Board of the Fund institutes proper and realistic budget planning.**

2. Unresolved Prior Year Matters

In the previous year audit report, several issues were raised under Report on the financial statements, Emphasis of Matter, Report on Lawfulness and Effectiveness in Use of Public Resources and the Report on Effectiveness of Internal Controls, Risk Management and Governance,. However, as disclosed under the progress on follow up of auditor's recommendations section of the financial statements, the prior year audit issues remained unresolved as at 30 June, 2025. Management has not provided satisfactory reasons for the delay in resolving the issues.

Management response

Management has implemented most of the recommendations of the auditor general on the prior year's issues, however management has prepared and submitted the evidences to the office of auditor general for further recommendations and way forward. Detailed report on the current status of the prior year issues has been provided for your review. Management delayed in resolving the prior year issues because it is still awaiting senate recommendations.

Committee Observation

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

Committee Recommendation

The Committee recommends that—

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

3. Irregular Payments to Members of the County Assembly

The statement of financial performance and Note 9 to the financial statements reflect use of goods and services expenditure of Ksh 53,593,454. Included in this expenditure are payments totaling Ksh 2,157,800 for daily subsistence allowances to Members of the County Assembly of Kakamega. However, Management did not provide an explanation for the payment to the County Assembly Members who are members of an independent entity and are budgeted for separately.

This was contrary to Section 104 of the County Government Act, 2012 which states that a County Government shall plan for the County and no public funds shall be appropriated outside a planning framework developed by the County Executive Committee and approved by the County Assembly and that to promote public participation, non-state actors shall be incorporated in the planning processes by all authorities.

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

Management Response

The county assembly is mandated to legislate, represent and oversight the county executive on behalf of the citizenry of the county. The project at the County level operates within both National and County legislation, program and grant manual and financing agreements.

The prior year audit showed non-compliance especially with the financing agreement which was as a result of various stakeholders including County Assembly committees on finance and budget and environment failing to understand the contents and requirements of the financing agreement and grant/program manual.

The workshop was therefore organized to sensitize the two committees on the above reasons. The expenditure therefore was to facilitate the members to attend the 3 day workshop.

Committee Observation

The Committee observed that management had instituted measures to prevent the recurrence of the anomaly.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

4. Failure to Disburse Co-Funding Amount by the Kakamega County Executive

The statement of financial position and Note 11 to the financial statements show current portion of long-term receivables from exchange transactions of Ksh. 476,418,387. The amount included current receivables due from County Executive of Kakamega of Ksh 173,285,550 for commitments towards co-funding by County Government of Kakamega towards the Fund and development partners commitment of Ksh 303,132,837, totaling to Ksh 476,418,387.

Although the development partners honored their commitment, the County Government did not pay their share of Ksh 173,285,550 within the stipulated time frames in the financing agreement.

In the circumstances, Management was in breach of the law and financing agreement.

Management response

Delays in payment of Kshs 173,285,550 to the Fund County Treasury delayed to pay Kshs.173,285,550 to the fund because of the cash flow challenges which resulted to

under collection of own source revenue of Kshs 757,773,614. The amount was recognized in the financial statements as a receivable under note 13 in the statement of financial position which was still to be received. Management has paid Kshs 90,740,000 and the balance will be cleared before 30th June 2026.

Committee Observation

The Committee observed that although evidence of the late disbursement of funds occasioned by delays in exchequer releases by the National Treasury was presented and confirmed by the Auditor-General, and the explanation for the delay was deemed satisfactory, the matter remains unresolved as it could not be ascertained whether the balance will be cleared or not.

Committee Recommendation

The Committee recommends that the Governor ensures the County honors its commitments on co-funded projects in a timely manner.

5. Delayed Implementation of Projects

5.1 Delayed Completion of Lumino- St. Peters Box Culvert

The Management awarded a local contractor a contract for construction of Lumino-St. Peters Box culvert at a contract sum of Ksh 6,870,776 with the project start date being 5 March, 2025 and expected completion date of 5 September, 2025. A total of Ksh 4,471,510 or 70% of contract sum had been paid to the contractor. However, field verification carried out on 5 September, 2025 revealed that the project was 70% complete despite lapse of contract period and there was no evidence of request for contract extension by the contractor, and the contractor was not on site. In the circumstances, value for money may not have been obtained from the project.

Management response

Management acknowledges the auditors' observations; however the Project was at 90% completion though it was inadvertently reported in the PIC report as 70% as it had not been updated as at the date of verification.

The County experienced a lot of rains which adversely affected implementation of the project, the contractor requested for an extension which has subsequently been granted.

The contractor has resumed the site and works are ongoing.

Committee Observation

The Committee observe that the project was not completed as at the time of county submitted responses to the audit query.

Committee Recommendation

The Committee recommends that the Governor ensures the project is completed and put into use before the end of the end of FY 2025/2026 and provide evidence of mitigation measures taken to address the matter to the Senate with 90 days of the adoption of this report.

5.2 The Management awarded a contract to a local contractor for the construction of Munyanya Bridge.

At a contract sum of Ksh 17,801,536 with project start date of 5 March, 2025 and expected completion date of 5 September, 2025. The contractor had been paid a total of Ksh 11,086,932 or 62% of the contract sum. However, review of the project implementation status and physical verification done on 5 September, 2025 revealed that the project was 75% complete with incomplete main works including backfilling and compacting, gabions installation, guard railing, approaching road works and drainage. The contract period had lapsed with no evidence of contract period extension.

In the circumstances, value for money may not have been obtained from the project.

Management response

The management acknowledges the auditors' observations, however the Project was at 90% completion though was inadvertently reported in the PIC report as 70% as it had not been updated as at the date of verification.

The County experienced a lot of rains which adversely affected implementation of the project, the contractor requested for an extension which has subsequently been granted.

The contractor has resumed the site and works are ongoing.

Committee Observation

The Committee observe that the project was not completed as at the time of county submitted responses to the audit query.

Committee Recommendation

The Committee recommends that the Governor ensures the project is completed and put into use before the end of the end of FY 2025/2026 and provide evidence of mitigation measures taken to address the matter to the Senate with 90 days of the adoption of this report.

6. Lack of Internal Audit Reports

The Management did not provide internal audit reports of the Fund for the year under review. This was contrary to Part 100 of the Financing Locally Led Climate Action Grant Manual which states that at the County level, the County internal auditors will provide oversight on all County funds and as such are expected to also provide oversight on the use of County Climate Institutional Support and County Climate Resilience Investment grants.

In the circumstances, the effectiveness of the Fund's internal controls could not be confirmed.

Management Response

The management has noted the auditor's observation. The County Government has an independent Internal Audit Department. The audit department assigns its officers to different county entities including the Climate Change Fund. The Fund has been receiving services from the department with the last audit having been done on 28th April 2025.

Committee Observation

The Committee observed that, given the hospital operates as an agent of the County Government the County Government's Internal Audit Directorate was adequately positioned to undertake internal audits of the Fund.

Committee Recommendation

The Committee recommends that –

- i. the Governor ensures the Internal Audit Department is adequately resourced to enable it to effectively discharge its functions as outlined under regulation 153(1) of the Public Finance Management (County Governments) Regulations, 2015; and**
- ii. the Governor ensures that within ninety (90) days of the adoption of this report, the Internal Audit Department undertakes its first quarterly internal audit of the municipality and prepares a corresponding quarterly internal audit report in accordance with regulation 160 of the Public Finance Management (County Governments) Regulations, 2015.**

4.2. REPORT ON AUDITED FINACIAL STATEMENTS FOR KAKAMEGA COUNTY ALCOHOLIC DRINKS CONTROL FUND FOR THE FINACIAL YEAR 2024/2025

The Committee received written management responses to the following queries raised in the report of the Auditor-General on financial statements Kakamega County Alcoholic Drinks Control Fund for the Financial Year 2024/2025 –

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **qualified opinion** on the financial statements of Kakamega County Alcoholic Drinks Control Fund for the period under review on the following basis-

1. Unsupported Revenue

The statement of financial performance and as disclosed in Note 10 to the financial statements reflects other income amounting to Kshs.45,041,501, comprising of receipts invoiced amounting to Kshs.24,782,000 and Kshs.20,259,501 described as revenue. However, each amount was not supported by a schedule indicating the names of traders, dates of receipt and amounts and only Kshs.24, 782,000 was supported in summarized block amounts per Sub County. In addition, details of all alcoholic drinks traders that operated within Kakamega County were not provided for audit review

In the circumstances, the accuracy and completeness of the other revenue amounting to Kshs.45,041,501 could not be confirmed.

Management Response

Explanation on why the amount of Kshs. 45,041,501 was not well supported. The amount of Kshs. 24,782,000 relates to invoices that were recorded and summarized at the sub-county level and later consolidated at the fund's headquarters. While supporting summaries were available, detailed schedules indicating dates of receipt, and specific amounts were not adequately compiled at the time of audit which has been done and provided for your review.

The balance of Kshs. 20,259,501 represents revenue collected from alcoholic drinks traders that was transferred to operations account and recognized as revenue in the operations account.

Non provision of details of all alcoholic drinks traders that operated within Kakamega County. Management has provided details of all alcoholic drinks traders that operated within Kakamega County during FY 2024/2025 for your review.

Corrective Actions:

1. Management on daily basis does detailed reconciliation exercise to compile complete schedules for all revenue streams, including trader names, receipt dates, and amounts collected.
2. A centralized and updated register of all alcoholic drinks traders within the county has been developed to enhance accountability and traceability of revenue.
3. Measures have been put in place to strengthen internal controls, including standardized reporting templates for sub-counties and timely submission of detailed revenue reports.

Management is committed to addressing the noted weaknesses and ensuring full compliance with financial reporting and audit requirements going forward.

Committee Observation

The Committee observed that management had instituted measures to mitigate the matter and verified by the Auditor-General.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

2. Unsupported Expenditure on Workshops and Mapping of Alcoholic Drinks

Outlets

The statement of financial performance reflects use of goods and services amount of Kshs.39,027,492 as disclosed in Note 12 to the financial statements which in turn includes expenses amounting to Kshs.4,188,100 spent on workshops and mapping of alcoholic drinks outlets. However, the following unsatisfactory observations were made after review of the payment vouchers and supporting documents: Management did not provide a work plan to give guidance and direction on outlined activities, timeliness and responsibilities to ensure members of the fund were aware of the deliverables and the activities aligned with the entity's mandate. No official invitation or nomination letters to participants or trainers were provided for audit review.

The audit observed that allowances of between Kshs.2, 000 to Kshs.15, 000 were disbursed to persons whose identity and eligibility was not supported by documentation rendering the payments irregular.

Management did not provide the workshops program or agenda and list of facilitators for audit review. Management did not provide expected outputs/outcomes such as, reports, trained officers, and policy inputs among others. Post workshop reports were not provided to assess whether the objectives were achieved. Management did not

provide justification that the main objectives could not be achieved through cheaper means for prudent use of public funds.

In the circumstances, public resources were expended without due regard to economy, efficiency and effectiveness, and the accuracy and completeness of expenditure of Kshs.4, 188,100 could not be confirmed.

Management Response

Explanation on the observed unsatisfactory issues made after review of the payment vouchers and supporting documents. Management acknowledges the audit observations and responds to each issue as follows:

i) Lack of Work Plan

Management notes that a formal consolidated work plan was not presented during the audit. However, the activities were undertaken based on fund's work plans and directives aligned to the Fund's mandate on regulation and mapping of alcoholic drinks outlets.

A comprehensive annual work plan with clearly defined activities, timelines, responsibilities, and expected outputs is available and submitted for audit review.

ii) Lack of Invitation/Nomination Letters

Management has availed the invitation letters to the workshops that were carried out during the period under review.

iii) Unsupported Allowances (Kshs. 2,000 – 15,000)

Management confirms that allowances were paid to participants involved in the workshops and mapping exercise. The payment schedule for the same is attached for audit review.

iv) Lack of Workshop Program/Agenda and Facilitators List

Management acknowledges that workshop agendas and lists of facilitators were not provided for audit review at the time of audit however the program and facilitators list is available for audit review.

v) Lack of Expected Outputs/Outcomes

Management acknowledges the audit observation and has availed the reports or outputs from the workshops.

vi) Lack of Post-Workshop Reports

Management acknowledges the audit review and has availed the reports for the workshops.

vii) Lack of Justification for Cost (Value for Money)

The workshops and mapping exercise were critical to the County’s mandate of regulating and controlling alcoholic drinks outlets, including identification, verification, and spatial mapping of traders to support compliance, licensing, and enforcement activities. The nature of the exercise required physical engagement with stakeholders, field validation, and coordination across sub-counties, which could not be effectively achieved through less costly alternatives such as desk-based reviews.

Further, the costs incurred relate mainly to facilitation, participant support, and logistical arrangements necessary to ensure adequate coverage and stakeholder participation across the County. Given the geographical spread and the need for accurate data collection and sensitization, the approach adopted was considered the most practical and effective under the circumstances.

Committee Observation

The Committee observed that management had submitted vouchers and attachments relating to the expenditure and verified by the Auditor-General.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

Emphasis of Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects that, Kakamega County Alcoholic Drinks Control Fund had a revenue budget of Kshs.60, 500,000 against actual receipts of Kshs.20, 259,501 resulting to under-realization of Kshs.40, 240,499 or 67% of the budgeted receipts. Similarly, the statement reflects an approved expenditure budget of Kshs.60, 500,000 with the actual total expenditure being Kshs.39, 027,492 resulting to overall under expenditure of Kshs.21, 472,508 or 35% of the budget.

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

Management Response

Explanation of under-realization of Kshs.40, 240,499 or 67% The Fund projected to collect Ksh. 60,500,000 but managed to collect only 20,259,501.

The underperformance was attributable to noncompliance by traders to pay fees in time. The fund management has come up with a strategy to ensure compliance in

collaboration with NACADA and other non-state actors. Going forward the management will ensure improvement in revenue collection.

Explanation of the under expenditure of Kshs.21, 472,508 or 35%. The under expenditure of Kshs.21, 472,508 was caused by under collection of own source revenue as highlighted above.

Committee Observation

The Committee observed that there was a budgetary underperformance of 67% linked to noncompliance by traders to pay fees in time. However, management did not exert any budgetary control measures hence the query remains unresolved.

Committee Recommendation

The Committee recommends that the Governor ensure that, in subsequent financial years, the Accounting Officers responsible for the water company prepare realistic budgets and implement appropriate budgetary control measures, including mid-year budget reviews where necessary.

Other Matter

2. Unresolved Prior Year Matters

In the audit of the previous year, several issues were reported under Report on the Financial Statements, Emphasis of Matter and Report on Lawfulness and Effectiveness in the Use of Public Resources, as detailed in appendix 1. However, Management has not resolved the issues or given reasons for the delay in resolving the issues.

Management Response

Explanation on why prior year issues has not been resolved or given reasons for the delay in resolution.

The management has implemented most of the recommendations of the auditor general report of the prior year's issues, however management has prepared and submitted the evidences to the office of auditor general for further recommendations and way forward.

Detailed report on the current status of the prior year issues has been provided for your review. Management has delayed in resolving the prior year issues because it is still wait for Senate recommendations.

Committee Observation

The Committee observed that the query remains unresolved as management did not provide a response on measures taken to address the prior year audit matters.

Committee Recommendation

The Committee recommends that –

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

3. Failure to Establish Alcoholic Treatment and Rehabilitation Facilities and Programs

The Kakamega County Government established the Fund to enhance service delivery and establish rehabilitation centers in sixty wards within the County. Although the Fund has remained operational through revenue collection, the Fund had not made efforts to establish treatment and rehabilitation facilities in any of the sixty (60) wards during the year under review contrary to Section 5(1) of the Kakamega County Alcoholic Drinks Control Act, 2014, which requires the establishment of treatment and rehabilitation facilities and programs for persons dependent on alcoholic drinks in each Ward.

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

Management Response

Explanation on the failure to make efforts to establish treatment and rehabilitation facilities in any of the sixty (60) wards during the year under review.

Management identified one health facility that will be used as rehabilitation center. Management in collaboration with department of health has taken Mumias model health center to be a rehabilitation center and is equipping it to meet all requirements needed.

Committee Observation

The Committee observed that the management had put in place measures to mitigation the matter.

Committee Recommendation

The Committee recommends that the matter be marked as resolved

4. Non-Compliance with Payment Processing Controls

Audit review of payment vouchers revealed that, although the Authority to Incur Expenditure (AIE) holder signed payment vouchers authorizing payments to various individuals as imprest and suppliers for the supply and delivery of goods, works, and services, key internal control measures were not adequately observed. Specifically, essential details such as voucher numbers were not properly captured, and the required “PAID” stamp was missing on several vouchers.

The vouchers were neither examined nor authorized by the accountants as required by the Kakamega County Finance Manual. The absence of these control features compromises the integrity of the payment process and increases the risk of errors, duplication, or unauthorized payments.

In the circumstances, the effectiveness of internal controls for payments processing could not be confirmed.

Management Response

Explanation on failure to adequately observe key internal control measures.

Management acknowledges the audit observations regarding weaknesses in adherence to payment processing controls and responds as follows:

While the Authority to Incur Expenditure (AIE) holder duly approved the payments in question, Management notes that certain administrative control procedures—specifically proper capture of voucher numbers, affixing of the “PAID” stamp, and formal examination and authorization by the accounting officers—were not consistently applied on some payment vouchers presented for audit.

Management wishes to clarify that the payments referenced were processed for legitimate goods, works, and services duly received, as well as authorized imprests.

The omissions arose mainly due to lapses in enforcement of internal review controls and oversight at the processing stage, rather than a breakdown of the entire payment system.

Corrective Measures and Actions Taken

1. Strengthening of Voucher Controls:

All payment vouchers are now required to be sequentially numbered, and completeness checks have been reinforced before processing and filing.

2. Mandatory “PAID” Stamp:

The use of the “PAID” stamp has been made mandatory for all settled vouchers to prevent duplication or reprocessing of payments.

3. Reinforcement of Accountant Review and Authorization:

Accountants have been directed to strictly adhere to examination and authorization requirements as stipulated in the Kakamega County Finance Manual before any payment is finalized.

4. Enhanced Supervisory Oversight:

Additional review layers have been introduced to ensure all control requirements are met prior to approval and disbursement.

5. Staff Sensitization:

Finance staff have been sensitized on compliance with internal control procedures and documentation standards to ensure consistency and accountability.

6. Periodic Internal Audit Checks:

Routine internal audits and spot checks have been strengthened to ensure continuous compliance with payment processing controls.

Committee Observation

The Committee observed that management had instituted measures to mitigate the matter and verified by the Auditor-General.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

2. Lack of Internal Audit Reports

Review of the records submitted for audit revealed that the Fund did not have an independent internal audit function, and had not made arrangements for conducting internal audits. This was contrary to the requirements of Section 155(1)(a) and 155(4) of the Public Finance Management Act, 2012 which state that a County Government entity shall ensure that it complies with this Act and has appropriate arrangements for conducting internal audit according to the guidelines issued by the Accounting Standards Board and a County Government entity shall ensure that the arrangements for conducting internal audits in respect of the entity are in accordance with international best practices for internal auditing.

In the circumstances, effectiveness of the Fund’s internal controls and oversight could not be confirmed.

Management Response

The County Government of Kakamega has a centralized internal audit directorate which continuously audits all entities under the County Government including Directorate of Alcoholic Drinks. Management has noted the auditor's observation and has written to the Director Internal Audit to ensure periodic reviews and audit of the fund.

Committee Observation

The Committee observed that, given the hospital operates as an agent of the County Government the County Government's Internal Audit Directorate was adequately positioned to undertake internal audits of the municipality.

Committee Recommendation

The Committee recommends that –

- i. the Governor ensures the Internal Audit Department is adequately resourced to enable it to effectively discharge its functions as outlined under regulation 153(1) of the Public Finance Management (County Governments) Regulations, 2015; and**
- ii. the Governor ensures that within ninety (90) days of the adoption of this report, the Internal Audit Department undertakes its first quarterly internal audit of the fund and prepares a corresponding quarterly internal audit report in accordance with regulation 160 of the Public Finance Management (County Governments) Regulations, 2015.**

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

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

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **qualified opinion** on the financial statements of Kakamega County Emergency Fund for the period under review on the following basis-

1. Unconfirmed Emergency Expenses

The statement of cash flows reflects emergency expenses amounting to Kshs.40, 370,939 as disclosed under Note 8 to the financial statements. However, Note 8 to the financial statements reflects a balance of Kshs.2, 249,150 resulting to unexplained variance of Kshs.38, 121, 789. In the circumstances, the accuracy and completeness of the emergency expenses amounting to Kshs.40, 370,939 as reflected in the statement of cash flows could not be confirmed.

Management Response

Explanation of a variance of Kshs.38, 121, 789.

The Kshs.38, 121,789 was a pending bill as at the closure of FY 2023/2024. The emergency fund reports on IPSAS accrual accounting thus recognizing the pending bill of Kshs.38, 121,789 as accrued expense in the statement of financial performance in FY 2023/2024 under note number 8.

The pending bill was paid in FY 2024/2025 and this could not again be recognized in the statement of the financial performance in FY 2024/2025; the payments were recognized in the statement of the cashflow since it reports on cash basis.

Note number 8 reflects Emergency Expenses of Kshs.2, 249,150 as reflected in the statement of financial performance. Management has noted the observation by the auditor and acknowledge the error in numbering of notes under the cash flow statement, management is committed to be doing quality reviews of the financial statements to detect and correct such errors before submission.

Committee Observation

The Committee observed that management acknowledged the anomalies and undertook to restate the financial statements in the subsequent financial year.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures that the Accounting Officer undertakes prior year adjustments to restate the financial statements in the subsequent financial year 2025/2026 to reflect the true and accurate position of the hospital's assets. The Auditor-General to keep this in view in the subsequent audit cycle;**
- ii. the Governor ensures that the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47 of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the Accounting Officer may be held liable under section 199 of the Public Finance Management Act, Cap. 412A as read together with section 62(2) of the Public the Public Audit Act, Cap. 412B on penalties for offences;**
- iii. the National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties;**
- iv. the Governor ensures that the Accounting Officer enhances the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements; and**
- v. the Governor ensures the Accounting Officer strengthens internal audit controls and ensure proper record keeping in line with section 155 of the Public Finance Management Act, Cap.412A and submit a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap.412A, failure to which the Accounting Officer may be held liable under section 199 of the Public Finance Management Act, Cap. 412A as read together with section 62(2) of the Public the Public Audit Act, Cap. 412B on penalties for offences.**

2. Inaccuracies in Presentation and Disclosure of the Annual Report and Financial Statements.

Review of the annual report and financial statements revealed that report of the Fund administrator on operational performance reflects disbursed financial assistance amount of Kshs.40, 370,939 while the statement of financial performance reflects Kshs.2, 249,150 resulting to unexplained variance of Kshs.38, 121,789. In addition, financial performance section reflects overall expenditure for the year of Kshs.40, 370,939 while

the statement of financial performance reflects Kshs.2, 252,131 resulting to unexplained variance of Kshs.38, 118,808.

In the circumstances, the fair presentation and disclosure of the annual report and financial statements could not be confirmed.

Management Response

Explanation of the variance of Kshs.38, 121,789

The Kshs.38, 121,789 was a pending bill as at the closure of FY 2023/2024. The emergency fund reports on IPSA accrual accounting thus recognizing the pending bill of Kshs.38, 121,789 as accrued expense in the statement of financial performance in FY 2023/2024 under note number 8.

The report of the Fund administrator on operational performance reflects disbursed financial assistance amount of Kshs.40, 370,939 which comprised of the pending bill of Kshs. 38, 121,789 and actual expenditure of Kshs.2, 249,150.

Explanation of the variance of Kshs.38, 118,808.

The Kshs.38, 118,808 comprise of a pending bill of Kshs. 38, 121,789 less bank charges of Kshs.2, 981.

Committee Observation

The Committee observed that management acknowledged the anomalies and undertook to restate the financial statements in the subsequent financial year.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures that the Accounting Officer undertakes prior year adjustments to restate the financial statements in the subsequent financial year 2025/2026 to reflect the true and accurate position of the hospital's assets. The Auditor-General to keep this in view in the subsequent audit cycle;**
- ii. the Governor ensures that the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47 of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the Accounting Officer may be held liable under section 199 of the Public Finance Management Act, Cap. 412A as read together with section 62(2) of the Public the Public Audit Act, Cap. 412B on penalties for offences;**

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

Emphasis of Matter

1. 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.142,418,817 and Kshs.42,378,264 respectively, resulting to under-funding of Kshs.100,040,553 or 70% of the budget. Similarly, the Fund expended Kshs.40, 373,920 against an approved budget of Kshs.142, 418,817 resulting to under-performance of Kshs.102, 044,897 or 28% of the budget. The under-funding and under-performance affected the planned activities and may have impacted negatively on service delivery to the public.

Management Response

Under funding of Kshs.100, 040,553 or 70%of the budget

The underfunding of Kshs.100, 040,553 was due to delays in disbursements of funds from the County Treasury because of cashflow challenges experienced during the year under review, this was mainly caused by unrealized own source revenue targets by Kshs. 757,773,614 which affected budget implementation.

Under-performance of Kshs.102, 044,897 or 28% of the budget The under-performance of Kshs. 102,044,897 was caused by the underfunding. The underperformance did not affect the planned activities within Kakamega County since this fund finances only emergency activities. During the year under review, all activities which qualified to be under emergency were taken care off.

Committee Observation

The Committee observed that there was a budgetary underperformance of 70% linked to reduced billed volumes. However, management did not exert any budgetary control measures hence the query remains unresolved.

Committee Recommendation

The Committee recommends that the Governor ensure that, in subsequent financial years, the Accounting Officers responsible for the water company prepare realistic budgets and implement appropriate budgetary control measures, including mid-year budget reviews where necessary.

Other Matter

Unresolved Prior Year Matters

In the previous year audit, three issues were raised under Report on the Financial

- i. Unsupported Receivables from Non-Exchange Transactions Balance
- ii. Unconfirmed Revolving Fund Balance
- iii. Unconfirmed Cash and Cash Equivalents Balance

However, no evidence was provided indicating whether the issues had been resolved or not. In the circumstances, the issues remain unresolved.

Management Response

Provision of evidence indicating whether the issues had been resolved

- i. Unsupported Receivables from Non-Exchange Transactions Balance

Management has implemented the recommendation from the office of auditor general and has provided the supportive documentation for review. The Receivables of Kshs.5,600,000 has since been settled in FY 2025/2026, and management has provided bank statement for your review.

- ii. Unconfirmed Revolving Fund Balance

Emergency fund receives disbursement from the County treasury therefore it has no revolving fund.

- iii. Unconfirmed Cash and Cash Equivalents Balance

Management has reconciled cash and cash equivalents for the prior year.

Committee Observation

The Committee observed that the query remains unresolved as management did not provide a response on measures taken to address the prior year audit matters.

Committee Recommendation

The Committee recommends that –

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

2. Unfunded Emergency Fund

The statement of financial performance reflects Nil transfers from the County Government. The Fund Management therefore did not ensure Kshs.50, 000,000 was set aside as emergency for various Fund activities. This was contrary to Regulation 2 of the Public Finance Management (Kakamega County Emergency Fund) Regulations, 2018, which states that the Executive Committee Member shall ensure that a minimum of Kenya shillings fifty million (50,000,000) is maintained in the Fund.

In addition, during the year under review, Kshs.2, 249,150 was spent from the Fund for emergency projects. However, there was no evidence that ratification from the County Assembly within two (2) months after payment was made contrary to Regulation 13 (1) of the Regulations which requires seeking ratification of the County Assembly within 2 months after payment is made from the emergency fund.

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

Management Response

During the financial year 2024/2025 County treasury experienced cash flow challenges including under collection of own source revenues which caused delays in disbursements of funds to emergency Fund. Management has disbursed Kshs. 50,000,000 (Khs Fifty Million shillings) in FY 2025/2026 to emergency fund.

Ratification from County Assembly for Payment of Kshs.2, 249,150 Management has noted and states that the fund Administrator notified the Assembly for ratification via letter dated 30th November 2024 and 28th October 2025.

Committee Observation

The Committee observed that the management failed to adhere to the provisions of Regulation 2 of the Public Finance Management (Kakamega County Emergency Fund) Regulations, 2018 on budgeting for the Kakamega County Emergency Fund.

Committee Recommendation

The Committee recommends that the Governor ensures budgetary provisions are made for the Kakamega County Emergency Fund in compliance with Regulation 2 of the Public Finance Management (Kakamega County Emergency Fund) Regulations, 2018 and Auditor-General to monitor the matter in subsequent audit cycle.

CHAPTER FIVE: COUNTY CORPORATION

5.1. REPORT ON AUDITED FINANCIAL STATEMENTS FOR KAKAMEGA COUNTY INVESTMENT AND DEVELOPMENT AGENCY FOR THE FINANCIAL YEAR 2024/2025

The Committee received written management responses to the following queries raised in the report of the Auditor-General on financial statements Kakamega County Investments and Development Agency for the Financial Year 2024/2025 –

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a qualified opinion on the financial statements of Kakamega County Investment and Development Agency for the period under review on the following basis-

1. Unsupported Board Expenses

The statement of financial performance reflects board expenses amounting to Kshs.682, 200 which, as disclosed in Note 9 to the financial statements relates to sitting allowances. However, key supporting documents including board calendar, annual work plan, attendance registers, board charter, and minutes of meetings were not provided for audit verification.

In the circumstances, the accuracy and completeness of Board expenses amounting to Kshs.682, 200 could not be confirmed.

Management Response.

Explanation on non-submission of supporting documents.

The expenditure of Kshs. 682,200 relates to sitting allowances for Board members for meetings held during the financial year, in accordance with the Agency's governance framework and applicable regulations. Management has noted the auditor's observation and state that the requisite supporting documentation including the Board calendar, approved annual work plan, attendance registers, Board Charter, and minutes of meetings were provided during the audit process and has been resubmitted for your audit review.

Committee Observation

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

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

2. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis amounts of Kshs.20, 000, 000 and Kshs.14, 000, 000 respectively, resulting to under-funding of Kshs.6, 000, 000 or 30% of the budget. Similarly, the Agency expended a total of Kshs.16, 928, 894 against an approved budget of Kshs.30, 939, 051 resulting to an under-expenditure of Kshs.14, 010, 157 or 45% of the budget. Further, the balance was unbalanced and approved budget was not provided for audit review.

In the circumstances, Management did not observe fiscal discipline.

Management Response

Explanation of under-funding of Kshs.6, 000, 000 or 30% .The underfunding of Kshs. 6,000,000 (30%) arose from non-disbursements of funds from the County Treasury due to a shortfall in own source revenue of Kshs.757, 773,613. The under collection of own source affected budget funding across all the departments including KCIDA.

Management has provided breakdown of the shortfall of own source revenue for your review.

Explanation of under-expenditure of Kshs.14, 010, 157 or 45%

The under-expenditure of Kshs. 14,010,157 (45%) was directly attributable to the reduced funding levels, which necessitated rationalization and deferment of planned activities in order to align expenditure with actual cash inflows and maintain fiscal prudence.

Management remains committed to strengthening budget execution and enhancing coordination with the County Treasury to improve the predictability of funding and absorption of allocated resources.

Committee Observation

The Committee observed that there was a budgetary underperformance of 30% linked to non-disbursement of funds from the County treasury. However, management did not exert any budgetary control measures hence the query remains unresolved.

Committee Recommendation

The Committee recommends that the Governor ensure that, in subsequent financial years, the Accounting Officers responsible for the fund prepare realistic budgets and implement appropriate budgetary control measures, including mid-year budget reviews where necessary.

3. Unresolved Prior Year Matters

In the report for the previous year, several issues were raised under Report on the Financial Statements, Report on Lawfulness and Effectiveness in the Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance, as detailed. However, although Management has indicated that some of the issues have been resolved under implementation status of Auditor-General's recommendations section of the financial statements, no evidence was provided for audit review indicating whether or not the issues had been resolved. Further, no justification has been provided for the delay in resolving the other issues.

In the circumstances, the issues remain unresolved.

Management Response

Evidence indicating whether or not the issues had been resolved and delay in resolving the other issues Management has implemented most of the recommendations of the auditor general on the prior year's issues, however management has prepared and submitted the evidences to the office of auditor general for further recommendations and way forward. Detailed report on the current status of the prior year issues has been provided for your review. Management has delayed in resolving the prior year issues because it is still awaiting senate recommendations.

Committee Observation

The Committee observed that the query remains unresolved as management did not provide a response on measures taken to address the prior year audit matters.

Committee Recommendation

The Committee recommends that –

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

4. Long Outstanding Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.3,785,740 as disclosed in Note 13 to the financial statements, which includes a balance of Kshs.3, 704,585 that had been outstanding for more than two years. However, Management did not provide evidence of efforts made to settle the long outstanding payables. This was contrary to Regulation 41(2) of the Public Finance Management (County Governments) Regulations, 2015 which states debt service payments shall be a first charge on the County Revenue Fund and the Accounting Officer shall ensure this is done to the extent possible that the County Government does not default on debt obligations.

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

Management Response

Provision of evidence to efforts made to settle the long outstanding payables.

The pending bills remained unsettled due to inadequate exchequer releases during the financial year under review, which constrained the Agency's ability to meet its obligations as they fell due. Currently management has settled pending bill worth Kshs. 2,291,958 as at February 2026 and the balance of Kshs. 1,412,627 to be cleared before 30th June 2026.

Management remains committed to complying with the provisions of the Public Finance Management (County Governments) Regulations, 2015, and will prioritize the clearance of all pending bills in subsequent financial periods to avoid accumulation of long-outstanding obligations.

Committee Observation

The Committee observed that the Agency has accumulated significant long outstanding trade and other payables amounting to Kshs. 2,291,627.

Committee Recommendation

The Committee recommends that-

- i. the Governor to ensures the fund makes budgetary provision to clear the outstanding payables by the end of the FY 2026/2027 and provide a status update to the Senate within 60 days of the adoption report;**
- ii. the Governor ensures that the County Executive Committee Member in charge of fund continuously monitors the financial performance of the water company in line with section 184 of the Public Finance Management Act, 2012 and report on the same to the County Executive Committee, making recommendations on how the water company can improve its performance; and**
- iii. within sixty (60) days of the adoption of this report, the Accounting Officer engage the relevant entities to formulate a repayment plan for the payables and file a report on the same with the Auditor-General for verification. The Auditor-General to provide a status update on the matter in the subsequent audit cycle.**

5. Lack of Risk Management Policy

During the year under review, the Agency had not put in place a risk management policy and formal risk assessment was not performed during the year under audit contrary to Section 158 (1)(a) and (b) of the Public Finance Management (County Governments) Regulations, 2015, which states that the Accounting Officer shall ensure that the county government entity develops risk management strategies, which include fraud prevention mechanism and the county government entity develops a system of risk management and internal control that builds robust business operation.

In the circumstances, the Agency was exposed to financial and operational risks.

Management Response

Lack of risk management policy and formal risk assessment was not performed during the year under audit. The Agency, being semi-autonomous, has been relying on the County Government's Risk Management Policy.

Management will initiate the process of developing a standalone risk management policy in the subsequent financial year, aligned to the County framework, to strengthen internal controls, support structured risk assessment, and enhance mitigation of financial and

operational risks. Measures have also been initiated to institutionalize risk identification and monitoring going forward.

Committee Observation

The Committee observed that management had initiated the process of developing a Policy and Disaster Recovery Plans; however, no timelines were provided for the conclusion of the process.

Committee Recommendation

The Committee recommends that the Governor ensures that within 90 days of the adoption of this report, the Governor ensures that the Board of Directors puts in place all internal control systems such as Risk Management Policy and Disaster Recovery Plan as provided under section 158(1) of Public Finance Management (County Governments) Regulations, 2015 among others to guide the internal operations of Agency.

6. Inadequate Internal Controls on Information and Communication Technology (ICT)

During the year under review, the Agency did not have in place ICT Strategy, Steering Committee, ICT Security Policy, Disaster Management and Recovery Policies to ensure data confidentiality, integrity and availability. Further, the Agency did not have anti-virus and firewall programs on all computers. In addition, the Agency did not have a policy on physical access to ICT infrastructure.

In the circumstances, the adequacy of internal controls on Information, Communication and Technology could not be confirmed.

Management Response

Management acknowledges the Auditor's observation regarding weaknesses in ICT internal controls.

The Agency, being semi-autonomous, is in the process of aligning with the County Government's ICT Policy. In the interim, Management has initiated measures to strengthen ICT controls, including budgeting for procurement of antivirus solutions and enhancing system safeguards to protect data and ICT infrastructure. Management is also taking steps to establish key ICT governance frameworks, including policies on information security, disaster recovery, and access controls, to ensure confidentiality, integrity, and availability of information.

Committee Observation

The Committee observed that management had initiated the process of developing an ICT Policy and Disaster Recovery Plans; however, no timelines were provided for the conclusion of the process.

Committee Recommendation

The Committee recommends that the Governor ensures that within 90 days of the adoption of this report, the Board of Directors put in place all internal control systems such as ICT Policy and Disaster Recovery Plans as provided under section 158(1) of Public Finance Management (County Governments) Regulations, 2015 among others to guide the internal operations of the Agency.

ANNEXTURES

Minutes of the Committee



13TH PARLIAMENT 5TH SESSION

MINUTES OF THE FIFTY THIRD SITTING OF THE COUNTY PUBLIC INVESTMENTS AND SPECIAL FUNDS COMMITTEE HELD ON MONDAY, 30TH MARCH 2026 HELD ON ZOOM PLATFORM AT 10.00 A.M.

PRESENT

- | | |
|--|--------------------|
| 1. Sen. Godfrey Atieno Osotsi, CBS, MP | - Chairperson |
| 2. Sen. Eddy Gicheru Oketch, MP | - Vice-Chairperson |
| 3. Sen. Agnes Kavindu Muthama, MP | - Member |
| 4. Sen. Peris Pesi Tobiko, CBS, MP | - Member |
| 5. Sen. Hamida Ali Kibwana, MP | - Member |

ABSENT WITH APOLOGY

- | | |
|--------------------------------------|----------|
| 6. Sen. William Kisang' Kipkemoi, MP | - Member |
| 7. Sen. Beth Kalunda Syengo, MP | - Member |
| 8. Sen. Raphael Chimera Mwinzagu, MP | - Member |
| 9. Sen. George Mungai Mbugua, MP | - Member |

SECRETARIAT

- | | |
|-----------------------|------------------------|
| 1. Mr. Yussuf Shimoy | - Clerk Assistant I |
| 2. Mr. Erick Kimani | - Clerk Assistant II |
| 3. Mr. Godfrey Nyaga | - Clerk Assistant III |
| 4. Mr. Jeremy Chabari | - Senior Legal Counsel |
| 5. Mr. Peter Katana | - Research Officer |
| 6. Ms. Hamun Mohamud | - Research Officer |
| 7. CPA Keneddy Owuoth | - Fiscal Analyst |
| 8. Mr. Victor Kimani | - Audio officer |

MIN. NO. SEN/CPICSF/382/2026 PRAYER

The meeting was called to order by the Chairperson at twenty-five minutes past ten O'clock in the morning followed by a word of prayer.

MIN. NO. SEN/CPICSF/383/2026 ADOPTION OF THE AGENDA

The agenda of the meeting was adopted having been proposed Sen. Eddy Gicheru Oketch, MP and seconded by Sen. Hamida Ali Kibwana, MP as follows –

1. Prayer;
2. Adoption of the Agenda;
3. Consideration and Adoption of Reports
4. Any Other Business; and
5. Date of the Next Meeting and Adjournment.

MIN. NO. SEN/CPICSF/384/2026 CONSIDERATION AND ADOPTION OF REPORTS

The Committee considered the reports on the consideration of the audit reports of the following counties and their respective entities for the Financial Year 2024/2025 (1st July-, 2024 to 30th June, 2025)-

1. Kajido County

- I. Ololaiser Water and Sewerage Company Limited
- II. Nol-Turesh Loitokiok Water and Sanitation Company Limited
- III. Olkejuado Water and Sewerage Company Limited
- IV. Kajido County Referral Hospital
- V. Imbirikani Level 4 Hospital
- VI. Ngong Level 4 Hospital
- VII. Kitengela Sub-County Hospital
- VIII. Ongata Rongai Sub-County Hospital
- IX. Kajido County Emergency Fund
- X. Kajido County Alcoholic Drinks Control Fund
- XI. Kajido County Climate Change Fund
- XII. Kajido County Disability Mainstreaming Fund
- XIII. Kajido County Education Bursary Grants and Scholarship Fund
- XIV. Kajido County Youth and Women Enterprise Fund
- XV. Kajido County Emergency Fund

2. Kiambu County

- I. Gatundu Water and Sewerage Company
- II. Githunguri Water and Sanitation Company
- III. Karuri Water and Sanitation Company
- IV. Kiambu Water & Sanitation Company
- V. Limuru Water and Sewerage Company
- VI. Ruiru-Juja Water & Sewerage Company
- VII. Thika Water and Sewerage Company
- VIII. Karuri Municipality
- IX. Kiambu Municipality
- X. Kikuyu Municipality

- XI. Limuru Municipality
- XII. Ruiru Municipality
- XIII. Thika Municipality
- XIV. Gatundu Level 5 Hospital
- XV. Igeania Sub-County Hospital
- XVI. Karuri Level 4 Hospital
- XVII. Kigumo Level 4 Hospital
- XVIII. Kihara Sub County Hospital
- XIX. Lari Hospital
- XX. Lusigetti Sub- County Hospital
- XXI. Nyathuna Level 4 Hospital
- XXII. Ruiru Sub-County Hospital
- XXIII. Tigoni Sub County Hospital
- XXIV. Wangige Sub County Hospital
- XXV. Kiambu County Referral Hospital
- XXVI. Thika Level 5 Hospital
- XXVII. Kiambu County Executive Emergency Fund
- XXVIII. Kiambu County Alcoholic Drinks Control Fund
- XXIX. Kiambu County Climate Change Fund,
- XXX. Kiambu County Executive Bursary Fund
- XXXI. Kiambu County Fif Fund
- XXXII. Kiambu County Jiinue Fund

3. Homabay

- I. Homa Bay County Water and Sanitation Company Ltd (Homawasco)
- II. Municipality Of Homa Bay
- III. Municipality Of Kendu Bay
- IV. Municipality Of Mbita
- V. Municipality Of Ndhiwa
- VI. Municipality Of Oyugis
- VII. Homa Bay County Teaching and Referral Hospital
- VIII. Kabondo Sub-County Hospital
- IX. Kandiege Sub-District Hospital
- X. Kendu Sub-District Hospital
- XI. Kisege Sub-District Hospital
- XII. Magunga Level Iv Hospital
- XIII. Makongeni L4
- XIV. Malela Level 4 Hospital
- XV. Marindi Sub County Referral Hospital
- XVI. Ndhiwa Sub County Hospital
- XVII. Nyandiwa Level Iv Hospital
- XVIII. Nyangiela Sub District
- XIX. Ogongo Level 4 Hospital
- XX. Pala Level 4 Hospital

- XXI. Rachuonyo District Hospital
- XXII. Rangwe Sub-District Hospital
- XXIII. Sena Level 4 Hospital
- XXIV. Suba North Sub-County Hospital
- XXV. Suba Sub-County Hospital
- XXVI. Tom Mboya Memorial Level 4 Hospital
- XXVII. Homa Bay County Mortgage & Car Loan Executive Fund
- XXVIII. Homa Bay County Alcoholic Drink Control Board
- XXIX. Homa Bay County Bursary Fund

4. Migori

- I. Migori Water and Sewerage Company
- II. Awendo Municipality
- III. Kehancha Municipality
- IV. Migori Municipality
- V. Rongo Municipality
- VI. Awendo Sub-County Hospital
- VII. Isibania Sub-District Hospital
- VIII. Karungu Sub-County Hospital
- IX. Kegonga Sub County Hospital
- X. Macalder Sub-County Hospital
- XI. Migori County Referral Hospital
- XII. Muhuru Sub-County Hospital
- XIII. Ntimaru Sub County Hospital
- XIV. Nyamaraga Sub County Hospital
- XV. Othoro Sub County Hospital
- XVI. Oyani Sub County Hospital
- XVII. Rongo Sub County Hospital
- XVIII. Uriri Sub County Hospital
- XIX. Migori County Ward Development Fund.
- XX. Migori County Executive Car Loan and Mortgage Fund
- XXI. Migori County Climate Change Fund.
- XXII. Migori County Alcoholic Drinks Control Fund
- XXIII. Migori County Ward Development Fund.

5. Kisii

- I. Gusii Water and Sanitation Company Limited (Gwasco/Kwasco)
- II. Kisii Municipality
- III. Etago Sub-County Hospital
- IV. Gesusu Sub-County Referral Hospital
- V. Gucha Sub County Referral Hospital
- VI. Ibacho Sub-County Hospital
- VII. Ibeno Sub-County Referral Hospital
- VIII. Iranda Sub County Referral Hospital

- IX. Kisii County Health Facilities Improvement Fund
- X. Fund, Kisii Demonstration Farms Fund
- XI. Kisii County Emergency Fund
- XII. Kisii Mortgage & Car Loan (Executive) Fund
- XIII. Kisii County Climate Change Fund
- XIV. Kisii County Bursary Fund
- XV. Kisii County Covid-19 Emergency Fund
- XVI. Kisii County Veterinary Services Development

6. Machakos

- I. Mavoko Water and Sanitation Company Limited (Mavwasco)
- II. Machakos Municipal Water and Sewerage Company Limited (Macwasco)
- III. Mwala Water and Sanitation Company Limited
- IV. Matungulu Water and Sewerage Company (Makawasco)
- V. Kathiani Water and Sanitation Company Limited
- VI. Yatta Water Services Company Limited (Yawasco)
- VII. Mavoko Municipality
- VIII. Machakos Municipality
- IX. Kangundo/Tala Municipality
- X. Kalama Level 4 Level 4 Hospital
- XI. Kangundo Sub-County Hospital Level 4 Hospital
- XII. Kathiani Sub-County Hospital Level 4 Hospital
- XIII. Kimiti Level 4 Hospital Level 4 Hospital
- XIV. Masinga Sub-County Hospital Level 4 Hospital
- XV. Matuu District Hospital Level 4 Hospital
- XVI. Mavoko Level 4 Hospital Level 4 Hospital
- XVII. Mutituni Level 4 Hospital Level 4 Hospital
- XVIII. Mwala Subcounty Hospital Level 4 Hospital
- XIX. Ndithini Level 4 Hospital Level 4 Hospital
- XX. Machakos County Referral Hospital Level 5 Hospital
- XXI. Machakos County Bursary Fund
- XXII. Machakos County Emergency Fund
- XXIII. Machakos County Executive and Chief Officers Car Loan and Mortgage Scheme

7. Baringo

- I. Kirandich Water and Sanitation Company Limited
- II. Eldama Ravine Water and Sewerage Company Limited (Erawasco)
- III. Chemususu Water Company Limited
- IV. Municipality Of Kabarnet
- V. Marigat Sub-County Level 4 Hospital
- VI. Kabartonjo Level 4 Hospital

- VII. Baringo County Referral Hospital
- VIII. Eldama Ravine Level 4 Hospital
- IX. Chemolingot Level 4 Hospital
- X. Baringo County Executive Car Loan Scheme Fund
- XI. Baringo County Executive Mortgage Scheme Fund
- XII. Baringo County Emergency Fund
- XIII. Baringo Cooperative Development Fund
- XIV. Baringo County Bursary and Scholarship Fund,
- XV. Baringo County Climate Change Fund,
- XVI. Baringo County Micro and Small Enterprises Fund And
- XVII. Baringo County Community Conservation Fund

8. Isiolo

- I. Isiolo Municipality
- II. Isiolo County Referral Hospital
- III. Financing Locally-Led Climate Action Programme (Filoca)
- IV. Isiolo County Education Bursary Fund

9. Busia

- I. Busia Water and Sewerage Services Company Limited
- II. Busia Municipality
- III. Malaba Municipality
- IV. Alupe Sub County Hospital
- V. Busia County Referral Hospital
- VI. Teso North Sub County Hospital
- VII. Nambale Sub County Hospital
- VIII. Busia Agricultural Development Fund
- IX. Busia County Alcoholic Drinks Control Fund
- X. Busia County Climate Change Fund
- XI. Busia County Cooperative Enterprise Development Fund
- XII. Busia County Public (Officers) Revolving Fund

10. Kakamega

- 1. Kakamega County Water and Sewerage Company Limited
- 2. Kakamega County Rural Water and Sewerage Company Limited
- 3. Mumias Municipality
- 4. Kakamega Municipality
- 5. Navakholo Sub- County Hospital
- 6. Malava Sub- County Hospital
- 7. Matungu Sub- County Hospital
- 8. Butere County Hospital
- 9. Kakamega County Referral Hospital
- 10. Manyala Sub- County Hospital
- 11. Kakamega County Climate Change Fund

12. Kakamega County Alcoholic Drinks Control Fund
13. Kakamega County Emergency Fund
14. Kakamega County Investment and Development Agency

11. Bungoma

- I. Bungoma Water and Sewerage Company Limited.
- II. Bungoma Municipality
- III. Kimilili Municipality
- IV. Bungoma County Referral Hospital
- V. Bumula Sub-County hospital
- VI. Kimilili Sub-County Hospital
- VII. Mt. Elgon Sub-County Hospital
- VIII. Bursary Fund
- IX. Climate Change Fund
- X. Disaster And Emergency Management Fund
- XI. Persons With Disabilities Empowerment Fund
- XII. Trade Development Loan Fund
- XIII. Youth And Women Empowerment Fund

12. Kitui

- I. Kitui Water and Sanitation Company
- II. Kiamberemwingi Water and Sanitation Company
- III. Kitui County Referral Hospital
- IV. Mutomo Sub-County Hospital
- V. Mwingi Level 4 Hospital
- VI. Ikanga Sub-County Hospital
- VII. Tseikuru Sub-County Hospital
- VIII. Kitui County Textile Center
- IX. Kitui County Empowerment Fund

13. Siaya

- I. Sibbo Water and Sanitation Company Ltd
- II. Bondo Municipality
- III. Siaya Municipality
- IV. Ugunja Municipal Board
- V. Ambira Level 4 Hospital
- VI. Bondo Level 4 Hospital
- VII. Got Agulu Sub County Level Hospital
- VIII. Siaya County Referral Hospital
- IX. Siaya County Bursary Fund
- X. Siaya County Climate Change Fund

14. Laikipia

- I. Nyahururu Water and Sanitation Company Limited
- II. Nanyuki Water and Sanitation Company
- III. Municipality Of Nanyuki
- IV. Municipality Of Rumuruti
- V. Nanyuki Teaching and Referral Hospital
- VI. Doldol Level 4 Hospital
- VII. Rumuruti Sub-County Hospital
- VIII. Nyahururu County Referral Hospital
- IX. Emergency Fund
- X. Bursary Fund
- XI. Assets Leasing Fund
- XII. Business Stimulus Fund
- XIII. Climate Change Fund - Flloca
- XIV. Laikipia County Cooperative Fund.
- XV. County Revenue Board
- XVI. County Development Authority

15. Turkana

- I. Lodwar Water and Sanitation Company Limited
- II. Kakuma Municipality
- III. Lodwar Municipality
- IV. Lodwar County Referral Hospital
- V. Lokiatung Sub-County Level 4 Hospital
- VI. Lopiding Sub-County Level 4 Hospital
- VII. Turkana County Executive Car Loan and Mortgage Fund
- VIII. Turkana County Climate Change Fund
- IX. Turkana County Co-Operative Development Enterprise Fund
- X. Turkana County Education Fund
- XI. Turkana County Emergency Fund

16. Narok

- I. Narok Water and Sewerage Services Company Limited (Narwassco)
- II. Kilgoris Municipality
- III. Narok Municipality
- IV. Narok County Referral Hospital
- V. Maasai Mara Community Support Fund
- VI. Alcoholics Drinks Regulation and Control Fund
- VII. Bursary Management Fund

17. Uasin Giishu

- I. Eldoret Water and Sanitation Company Limited (Eldowas)
- II. Municipality Of Eldoret (Now City of Eldoret)

- III. Huruma Level 4 Hospital
- IV. Turbo Level 4 Hospital
- V. Uasin Gishu District Hospital
- VI. Mortgage And Car Loans Scheme Fund
- VII. Alcoholic Drinks Control Fund
- VIII. Cooperative Enterprise Development Fund
- IX. Education Revolving Fund
- X. Bursary And Skills Development Support Fund

18. Nairobi

- I. Nairobi City Water and Sewerage Company Limited
- II. Bahati Level 4 Hospital
- III. Mutuini Dagoretti Level 4 Hospital
- IV. Mama Margaret Uhuru Level 5 Hospital
- V. Mbagathi County Referral Hospital
- VI. Mama Lucy Kibaki-Level 5 Hospital
- VII. Nairobi City County Alcoholic Drinks Control and Licensing Board

19. Meru

- I. Meru Water and Sewerage Services Company (Mewass)
- II. Meru County Rural Water and Sanitation Company (Mewsc)
- III. Meru Municipality
- IV. Maua Municipality
- V. Meru Teaching and Referral Hospital (Mtrh)
- VI. Miathene Sub-County Hospital
- VII. Nyambene Sub-County Hospital
- VIII. Meru County Revenue Board (Mcrb)

20. Trans-Nzoia

- I. Trans Nzoia Water and Sewerage Company Limited.
- II. Kitale Municipality
- III. Kitale County Referral Level 4 Hospital
- IV. Wamalwa Kijana Teaching and Referral Hospital
- V. Trans Nzoia County Climate Change Fund
- VI. Trans Nzoia County Nawiri Fund
- VII. Trans Nzoia County Youth and Women Development Fund
- VIII. Trans Nzoia County Elimu Bursary Fund
- IX. Trans Nzoia County Executive Car Loan and Mortgage Scheme Fund

21. Nakuru

- I. Nakuru Water and Sanitation Company Limited
- II. Nakuru Rural Water and Sanitation Company Limited
- III. Naivasha Water and Sanitation Company Limited

- IV. Gilgil Municipality
- V. Molo Municipality
- VI. Nakuru City
- VII. Naivasha Municipality
- VIII. Nakuru County Referral And
- IX. Teaching Hospital
- X. Naivasha Sub-County Level 4 Hospital
- XI. Gilgil Sub-County Level 4 Hospital
- XII. Nakuru County Bursary Fund
- XIII. Nakuru County Climate Change Fund
- XIV. Nakuru County Emergency Fund

22. Kilifi

- I. Kilifi Municipality
- II. Malindi Municipality
- III. Mariakani Municipality
- IV. Mtwapa Municipality
- V. Watamu Municipality
- VI. Kilifi County Climate Change Fund
- VII. Kilifi County Emergency Fund
- VIII. Kilifi County Health Services Improvement Fund
- IX. Kilifi County Microfinance (Wezesha) Fund/board
- X. Kilifi County Ward Scholarship Fund
- XI. Bamba Sub-County Hospital
- XII. Gede Sub County Hospital
- XIII. Jibana Sub District Hospital
- XIV. Kilifi County Hospital
- XV. Malindi District Hospital
- XVI. Marafa Sub County Hospital
- XVII. Mariakani District Hospital
- XVIII. Mtwapa Sub County Hospital
- XIX. Rabai Sub County Hospital
- XX. Kilifi Mariakani Water and Sewerage Co.
- XXI. Malindi Water and Sewerage Co.
- XXII. Kilifi County Assembly Members Mortgage and Car Loan Scheme Fund
- XXIII. Kilifi County Car Loan and Mortgage Scheme Fund

23. Kericho

- I. Kericho County Executive Staff Car Loan Fund
- II. Kericho County Executive Staff Mortgage Fund
- III. Kericho County Emergency Fund
- IV. Kericho County Executive
- V. Financing Locally Led Climate Change Action (FLLoCA) - Kericho
- VI. Kericho County Agricultural Development
- VII. Kericho County Alcoholic Drinks Fund

- VIII. Kericho County Bursary Fund
- IX. Kericho County Enterprise Fund
- X. Forttenan Sub District Hospital
- XI. Kapkatet District Hospital
- XII. Kericho District Hospital
- XIII. Kipkelion Sub District Hospital
- XIV. Londiani District Hospital
- XV. Roret Sub-District Hospital
- XVI. Sigowet Sub-District Hospital
- XVII. Kericho Water and Sanitation Co. Ltd

24. The Committee considered and adopted the Report on the summary of key audit findings in the Auditor-General Reports for Water Companies, Municipalities, Hospitals and funds for the financial year 2024/2025

Committee resolution

The Committee unanimously adopted the aforementioned reports and directed the secretariat to process for tabling of the same.

MIN. NO. SEN/CPICSF/385/2026 ANY OTHER BUSINESS

There was no any other business.

MIN. NO. SEN/CPICSF/386/2026 DATE OF NEXT MEETING & ADJOURNMENT

The Chairperson adjourned the meeting at nineteen minutes to eleven o'clock in the morning. The next meeting would be called on notice.

SIGNED: DATE:31.03.2026.....

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