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THE SENATE

THIRTEENTH PARLIAMENT – FIFTH SESSION

REPORT OF THE SELECT COMMITTEE ON COUNTY PUBLIC INVESTMENTS AND SPECIAL FUNDS ON THE CONSIDERATION OF THE AUDIT REPORTS OF NAIROBI COUNTY WATER COMPANY, HOSPITALS AND ALCOHOLIC DRINKS CONTROL AND LICENSING BOARD FOR THE FINANCIAL YEAR 2024/25 (1<sup>st</sup> JULY, 2024 TO 30<sup>th</sup> JUNE, 2025):

SECTOR	NO.	ENTITY
WATER COMPANY	1	NAIROBI CITY WATER AND SEWERAGE COMPANY LIMITED
HOSPITALS	5	BAHATI LEVEL 4 HOSPITAL
		MUTUINI DAGORETTI LEVEL 4 HOSPITAL
		MAMA MARGARET UHURU LEVEL 5 HOSPITAL
		MBAGATHI COUNTY REFERRAL HOSPITAL
		MAMA LUCY KIBAKI-LEVEL 5 HOSPITAL
COUNTY BOARD	1	NAIROBI CITY COUNTY ALCOHOLIC DRINKS CONTROL AND LICENSING BOARD

DC-EG

MARCH, 2026

PAPERS LAID	
DATE	31/03/2026
TABLED BY	SEN. OLOTI
COMMITTEE	
CLERK AT THE TABLE	LILIAN

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3/03/2026



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## **ACRONYMS/ABBREVIATION**

<b>CBK</b>	Central Bank of Kenya
<b>CECM</b>	County Executive Committee Member
<b>COB</b>	Controller of Budget
<b>COG</b>	Council of Governors
<b>CPSB</b>	County Public Service Board
<b>CRF</b>	County Revenue Fund
<b>DPP</b>	Director of Public Prosecutions
<b>EACC</b>	Ethics and Anti-Corruption Commission
<b>FIF</b>	Facility Improvement Fund
<b>GAAP</b>	Generally Accepted Accounting Principles
<b>GIS</b>	Geographic Information System
<b>HDU</b>	High Dependency Unit
<b>ICU</b>	Intensive Care Unit
<b>IFMIS</b>	Integrated Financial Management Information System
<b>IFRS</b>	International Financial Reporting Standards
<b>IGRTC</b>	Intergovernmental Relations Technical Committee
<b>IHMS</b>	Integrated Hospital Management System
<b>IPSAS</b>	International Public Sector Accounting Standards
<b>KEMSA</b>	Kenya Medical Supplies Authority
<b>KQMH</b>	Kenya Quality Model for Health
<b>KRA</b>	Kenya Revenue Authority
<b>LAPTRUST</b>	Local Authorities Pension Trust
<b>NCWSC</b>	Nairobi City Water and Sewerage Company Limited
<b>NHIF</b>	National Hospital Insurance Fund
<b>NMS</b>	Nairobi Metropolitan Services
<b>NRW</b>	Non-Revenue Water
<b>NSSF</b>	National Social Security Fund
<b>OAG</b>	Office of the Auditor-General
<b>PAYE</b>	Pay As You Earn
<b>PFM</b>	Public Finance Management
<b>PPADA</b>	Public Procurement and Asset Disposal Act
<b>PSASB</b>	Public Sector Accounting Standards Board
<b>RWWDA</b>	Regional Water Works Development Agency
<b>SHA</b>	Social Health Authority
<b>SO</b>	Standing Orders (Senate)
<b>SRC</b>	Salaries and Remuneration Commission
<b>UHC</b>	Universal Health Coverage
<b>WASREB</b>	Water Services Regulatory Board

**WRA**  
**WSP**

Water Resources Authority  
Water Service Provider

## DEFINITION OF TERMS

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

## **PREFACE**

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 Nairobi City County water company, Hospitals and Alcoholic Drinks Control and Licensing Board for the Financial Year 2024/2025. The entities considered include Nairobi City Water and Sewerage Company Limited (NCWSC); Bahati Level 4 Hospital, Mutuini Dagoretti Level 4 Hospital, Mama Margaret Uhuru Level 5 Hospital, Mbagathi County Referral Hospital, and Mama Lucy Kibaki-Level 5 Hospital. The other county entity was the Nairobi City County Alcoholic Drinks Control and Licensing Board.

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

## COMMITTEE MEMBERSHIP

The membership of the Committee comprises of the following Senators-

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

## COMMITTEE SECRETARIAT

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

## **ESTABLISHMENT OF THE COMMITTEE**

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

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

## **EXECUTIVE SUMMARY**

In the execution of its mandate, the Committee relied on the reports of the Auditor-General on audited Accounts of Nairobi City Water and Sewerage Company, hospitals and the Nairobi City County Alcoholic Drinks Control and Licensing Board for the Financial year 2024/25 (1<sup>st</sup> July, 2024 to 30<sup>th</sup> June 2025) as the primary documents for the investigations. The Committee invited the Governor of Nairobi City as the Chief Executive Officer pursuant to Article 179(4) as witnesses to respond to the audit queries raised in the reports under consideration.

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

This report presents the findings and recommendations of the Select Committee on County Public Investments and Special Funds following its consideration of the Auditor-General's reports on twelve (7) entities in Nairobi City County for the Financial Year 2024/25. The entities covered are: one (1) water companies –Nairobi City Water and Sewerage Company Limited (NCWSC); five (5) hospitals - Bahati Level 4 Hospital, Mutuini Dagoretti Level 4 Hospital, Mama Margaret Uhuru Level 5 Hospital, Mbagathi County Referral Hospital, and Mama Lucy Kibaki-Level 5 Hospital. One (1) County Board - Nairobi City County Alcoholic Drinks Control and Licensing Board.

The key issues identified across the entities include: inaccuracies, including unexplained variances between the trial balance and financial statements; going concern uncertainties arising from accumulated losses and negative working capital; non-revenue water at levels exceeding regulatory benchmarks; unresolved prior year audit matters; budgetary control issues; non-compliance with procurement regulations; failure to retain Facilities Improvement Funds (FIF) at the hospitals; Non-compliance with the Kenya Quality Model for Health Policy Guidelines and weaknesses in internal controls and governance.

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

## **REPORT STRUCTURE**

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

**CHAPTER ONE** is a record of the audit queries raised in the Auditor-General's report on Nairobi City Water and Sewerage Company Limited (NCWSC) for the Financial Year 2024/25, along with the Committee's observations and recommendations for each audit query.

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

**CHAPTER THREE** is a record of the audit queries raised in the report of the Auditor-General for Nairobi City County Alcoholic Drinks Control and Licensing Board for the Financial Year 2024/25 and observations and recommendations of the Committee on each audit query.

## GENERAL OBSERVATIONS FOR WATER COMPANIES

- 1. Inaccuracies and Unreconciled Balances Across Financial Systems** - The Committee observed that the Company's financial statements contained material variances with the trial balance (Kshs. 1.1 million), with third-party entities (cumulative Kshs. 1.26 million), and between operating revenue reported (Kshs. 12.13 billion) and invoice analysis (Kshs. 11.88 billion). Critically, the Oracle ERP and Basis 2 billing systems had an unexplained variance of Kshs. 138.5 million in trade receivables, undermining the reliability of debt records and financial reporting.
- 2. Non-Revenue Water** - The Committee observed that 50% of water produced is lost as Non-Revenue Water, representing a potential loss of Kshs. 11.96 billion. Additionally, 30,687 active accounts recorded zero billing throughout the year, 51,212 accounts (Kshs. 307.8 million) were billed but never paid, and 22,646 accounts relied on consecutive estimated billing for six months. These systemic failures indicate severe gaps in meter management, billing accuracy, and revenue collection controls.
- 3. Going Concern Risk** - The Committee observed that the Company has negative working capital of Kshs. 2.47 billion, accumulated losses of Kshs. 3.65 billion, and a wage bill consuming 55% of revenue (20% above the legal limit). Despite being technically insolvent, the financial statements failed to disclose any material uncertainty related to going concern, raising serious questions about the Company's ability to meet its obligations as they fall due and the adequacy of disclosure under applicable accounting standards.
- 4. Asset Management and Project Implementation Failures** - The Committee observed that projects worth Kshs. 851.7 million have stalled, and another Kshs. 1.81 billion in sewer, water supply, and borehole projects have exceeded completion deadlines. Additionally, 36 vehicles are grounded with no disposal plan, and up to 313 vehicles may be idle given only 128 drivers. Several land parcels lack ownership documents. These failures deny the public intended services, risk cost escalations, and represent poor stewardship of public assets.
- 5. Unresolved Prior Year Matters and Weak Internal Controls Across Key Functions** - The Committee observed that sixteen (16) audit issues from the 2023/2024 financial year remained unresolved, including inconsistencies in revenue, long outstanding payables, unvalued assets, non-revenue water, unsustainable wage bill, and irregular procurements. Furthermore, the Company lacked an approved staff establishment, had 144 officers in acting capacities beyond six months, operated without a physical imprest register or serialized warrants, and used unsupported ICT systems. This pattern indicates systemic weaknesses in governance, internal controls, and management follow-up.

## **GENERAL RECOMMENDATIONS FOR WATER COMPANIES**

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

1. **Strengthen Financial Reconciliation and System Integration** -The Committee recommends that the Governor ensures the Accounting Officer fully integrates all financial and billing systems, establishes a mandatory monthly reconciliation desk for inter-entity balances, and ensures that all prior year adjustments and casting errors are corrected before financial statement submission, in compliance with Section 9(1)(e) of the Public Audit Act.
2. **Address Going Concern Uncertainty** - The Committee recommends that the Governor ensures the Accounting Officer implements urgent fiscal consolidation measures, including tariff review engagement with WASREB, strict adherence to the 35% wage-to-revenue ratio, and quarterly financial status reporting to the County Executive, in line with Sections 166 and 184 of the PFM Act, 2012.
3. **Reduce Non-Revenue Water (NRW)** - The Committee recommends that the Governor ensures the Accounting Officer implements a comprehensive NRW reduction strategy (including smart meters, DMA installation, leak detection, and illegal connection crackdowns), enforces strict billing controls, and collaborates with EACC to curb theft and collusion.
4. **Resolve Long-Standing Asset and Liability Management Weaknesses** - The Committee recommends that the Governor ensures the Accounting Officer develops a structured pending bills clearance plan, rationalizes the vehicle fleet, fast-tracks stalled projects, and completes titling of all land assets within 90 days, with progress reported to the Auditor-General.

## GENERAL OBSERVATIONS FOR HOSPITALS

- 1. Inaccuracies and Incomplete Financial Statements** - The Committee observed that several hospitals presented financial statements with material misstatements, including unreconciled variances between the statement of cash flows and notes, incomplete budget comparison statements (missing original and final budgets, no variance explanations), and unsupported balances for inventories, trade payables, and property, plant and equipment. These inaccuracies violate IPSAS and undermine the reliability of financial reporting.
- 2. Weak Asset Management and Lack of Ownership Documentation** - The Committee observed that hospitals either lacked comprehensive fixed asset registers or had registers that omitted critical details such as cost, accumulated depreciation, and asset tags. Land ownership documents (title deeds) were missing for most facilities, with land values (e.g., Mutuini: Kshs 301 million; Mama Lucy: Kshs 2.01 billion) unsubstantiated. Several hospitals also failed to maintain proper inventory records, with stock take reports missing and expired drugs (e.g., Mutuini: Kshs 66,080) left undisposed.
- 3. Long-Outstanding Receivables and Payables** - The Committee observed that all hospitals reported significant aged receivables, primarily from defunct NHIF and SHA, with amounts outstanding for over one year (Mbagathi: Kshs 279.6 million; Mama Margaret: Kshs 47 million; Mutuini: Kshs 4.2 million). Correspondingly, trade payables were also aged, with Mbagathi reporting Kshs 485.9 million including a Kshs 1.15 million balance from 2013. These imbalances indicate severe cash flow constraints and weak debt recovery mechanisms.
- 4. Critical Understaffing and Non-Compliance with Health Service Standards** - The Committee observed that all hospitals operated below approved staff establishments, with deficits ranging from 30% (Mbagathi: 98 out of 323 required) to 81% (Mama Margaret: 214 out of 1,124). Deficiencies in specialist cadres (anaesthesiologists, radiologists, surgeons) and critical equipment (incubators, ICU beds, dialysis machines) were noted, contravening the Kenya Quality Model for Health and the Health Act, 2017, thereby compromising Universal Health Coverage.
- 5. Lack of Hospital Boards and Irregular Appointments** - The Committee observed that Mama Margaret Uhuru Level 5 Hospital had no Board of Management in place during the year under review. Mutuini Hospital had non-staggered board tenure (all members appointed on the same date), contrary to the Mwongozo Code of Governance. Additionally, Mbagathi Hospital paid board members' allowances in cash via imprest instead of direct bank transfers, breaching PFM regulations.

## GENERAL RECOMMENDATIONS FOR HOSPITALS

### The Committee recommends that-

- 1. Strengthen Financial Reporting and Reconciliation Processes** -The Committee recommends that the Governor ensures all hospital Accounting

Officers prepare complete and accurate financial statements in compliance with IPSAS, including fully reconciling all notes to the primary statements, providing original and final budgets with variance explanations, and submitting all supporting schedules (stock reports, aged payables/receivables, fixed asset registers) at the time of audit. Prior year misstatements must be corrected and disclosed.

2. **Complete Asset Valuation, Tagging, and Titling of Land** -The Committee recommends that within 90 days of adoption of this report, the Governor ensures that all hospitals conduct a comprehensive physical verification and valuation of all property, plant and equipment, tag all assets for identification, and expedite the processing of title deeds for all hospital land parcels. A complete, updated asset register must be maintained and submitted to the Auditor-General for verification.
3. **Implement Aggressive Debt Recovery and Structured Pending Bills Clearance**- The Committee recommends that the Governor ensures all hospitals establish dedicated claims follow-up units to engage the Social Health Authority (SHA) and other debtors, reconcile outstanding receivables, and recover aged debts. Additionally, hospitals should develop time-bound plans to clear long-outstanding trade payables, prioritizing historical balances, and avoid incurring new commitments without budgeted funds.
4. **Recruit Staff to Meet Minimum Health Service Standards** -The Committee recommends that the Governor, through the County Public Service Board, fast-tracks recruitment to fill critical staff vacancies, especially for specialist doctors, nurses, and allied health professionals, to meet the Kenya Quality Model for Health requirements. Acting appointments exceeding six months must be regularized, and all casual employees engaged for more than three months must be issued written contracts in compliance with the Employment Act, 2007.
5. **Establish Functional Hospital Boards and Strengthen Governance** -The Committee recommends that the Governor ensures all hospitals have duly constituted, gazetted Hospital Management Boards with staggered tenures as per Mwongozo Code of Governance. Board members' allowances must be paid directly to individual bank accounts, not in cash. The Boards should meet regularly, approve work plans and budgets, and oversee the implementation of audit recommendations.

## GENERAL OBSERVATIONS FOR THE ALCOHOLIC BOARD

- 1. Failure to Maintain and Timely Submit Complete Supporting Documentation** - The audit repeatedly found that critical records were either missing, inadequate, or submitted late. This pattern persisted despite statutory requirements under Section 9(1)(e) of the Public Audit Act.
- 2. Widespread Breaches of Procurement Laws and Lack of Value for Money** The report documents systematic non-compliance with the Public Procurement and Asset Disposal Act, 2015. Specific irregularities include: splitting of tenders for branded sports attire (Kshs. 4.86 million) without justification, engaging third-party intermediaries for conference facilities without demonstrating value for money, failure to advertise tenders (e.g., Mutuini Rehabilitation Centre), lack of supplier rotation, using suppliers with expired registration certificates, and international procurements without exhausting local options.
- 3. Inaccuracies in Financial Statements** - The audit revealed consistent misreporting across multiple votes. For example: Kshs. 74.2 million (89% of foreign travel budget) was actually local travel and related expenses; Kshs. 15.03 million in recurrent costs (allowances, consultancy, retreats) were charged to the development budget; Kshs. 15.78 million was misclassified under other operating expenditures; and field allowances were recorded under wrong vote heads. Such misclassification violates the chart of accounts and undermines budget credibility.
- 4. Persistent Unresolved Prior Year Matters** -Twelve (12) specific audit issues from the 2023/2024 financial year remained completely unresolved in the 2024/2025 audit cycle. These included inaccuracies in financial statements, unconfirmed depreciation, unsupported procurements, irregular board allowances, uncollected revenue, and lack of an inventory policy. Management failed to provide responses or mitigation status, indicating weak governance, ineffective internal controls, and disregard for audit recommendations and Section 149(2)(l) of the PFM Act.

## GENERAL RECOMMENDATIONS FOR ALCOHOLIC BOARD

- 1. Strengthen Documentation, Record-Keeping** -The Committee recommends that the Governor ensures the Accounting Officer establishes and enforces a culture of meticulous record-keeping and proactive document management, in full compliance with Section 9(1)(e) of the Public Audit Act, Cap. 412B. Failure to adhere to this requirement in subsequent audit cycles shall result in the Committee recommending investigation and prosecution in accordance with Section 62(2) of the same Act.
- 2. Compliance with Procurement Laws** - The Committee recommends that the Governor ensures the Accounting Officer strictly enforces all procurement

regulations, consolidates procurements to avoid circumvention of thresholds, justifies any use of cash or urgent procurement, and establishes mechanisms to guarantee value for money in all contracts, including international procurements.

3. **Accurate Financial Classification and Reporting in Line with PSASB Standards** - The Committee recommends that the Governor ensures the Accounting Officer enforces strict adherence to the approved chart of accounts and the Public Sector Accounting Standards Board (PSASB) reporting templates. All financial statements must accurately reflect the nature of transactions, and any misclassifications must be corrected and restated.
4. **Unresolved Prior Year Matters** - The Committee recommends that the Governor directs the Accounting Officer to take appropriate administrative and disciplinary action against all officers responsible for these persistent irregularities, in line with their terms of employment and the Accountants Act, Cap. 531. Furthermore, a structured plan with clear timelines must be developed to resolve all outstanding prior year matters, with progress reports submitted to the Auditor-General and this Committee.

**ACKNOWLEDGEMENTS**

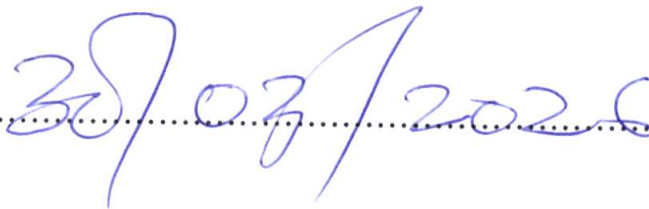
The Committee wishes to acknowledge the support it received from the Office of the Speaker and the Clerk of the Senate in the execution of its mandate. I also take this opportunity to thank the Members of the Committee for their due diligence and commitment in considering the audit reports. The Committee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

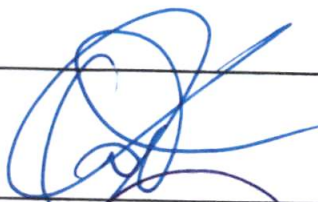
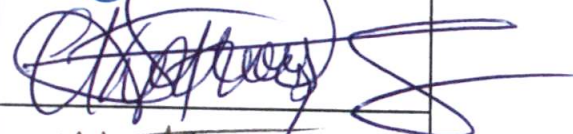
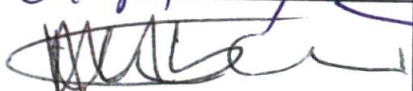
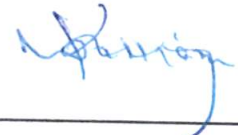

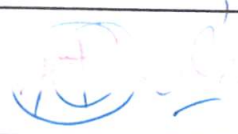


**HON. SEN. GODFREY ATIENO OSOTSI, CBS, MP  
CHAIRPERSON**

**ADOPTION OF THE REPORT OF THE SENATE SELECT COMMITTEE ON COUNTY PUBLIC INVESTMENTS AND SPECIAL FUNDS ON THE CONSIDERATION OF THE AUDIT REPORTS OF SEVEN COUNTY ENTITIES FOR NAIROBI CITY FOR THE FINANCIAL YEAR 2024/25**

<b>SECTOR</b>	<b>NO.</b>	<b>ENTITY</b>
<b>WATER COMPANY</b>	<b>1</b>	<b>NAIROBI CITY WATER AND SEWERAGE COMPANY LIMITED</b>
<b>HOSPITALS</b>	<b>5</b>	<b>BAHATI LEVEL 4 HOSPITAL</b>
		<b>MUTUINI DAGORETTI LEVEL 4 HOSPITAL</b>
		<b>MAMA MARGARET UHURU LEVEL 5 HOSPITAL</b>
		<b>MBAGATHI COUNTY REFERRAL HOSPITAL</b>
		<b>MAMA LUCY KIBAKI-LEVEL 5 HOSPITAL</b>
<b>COUNTY BOARD</b>	<b>1</b>	<b>NAIROBI CITY COUNTY ALCOHOLIC DRINKS CONTROL AND LICENSING BOARD</b>

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

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 COMPANY

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

The Governor of Nairobi County, Hon. Johnson Sakaja, EGH, appeared before the Committee on Friday, 6<sup>th</sup> March, 2026 to respond (under oath) to audit queries raised in the Report of the Auditor-General on the Financial Statements for Nairobi City Water and Sewerage Company Limited for the Financial Year 2024/2025. The Governor was accompanied by:

1. Dr. Anastasia Nyalita – CECM-BHO (Business and Hustler Opportunities)
2. Ms. Suzanne Silantoi – CECM H.W.N. (Health, Wellness, and Nutrition)
3. Mr. Martin Nang’ole – Ag. Managing Director
4. Mr. Paul Omondi – Finance Director, NCWSC
5. Mr. Fredrick Obwanda– C.E.O.
6. Ms. Lydia Maitha – CO - BHO (Chief Officer - Behavioral Health and Operations)
7. CPA Clare Kenga – Assistant Director, Finance

The Nairobi City Water and Sewerage Company Limited (NCWSC) is a primary service provider wholly owned by the County Government of Nairobi, tasked with the mandate of providing water and sewerage services to the residents of the city.

#### REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified Opinion** on the financial statements of Nairobi City Water and Sewerage Company Limited for the financial year ended 30 June, 2025.

#### 1. Inaccuracies in the Financial Statements

**1.1 Variances Between the Financial Statements and the Trial Balance** The following variances were noted between the financial statements and the trial balance;

Component	Trial Balance (Kshs.)	Financial Statements (Kshs.)	Variances (Kshs.)
Travelling and Subsistence External (Note 12)	62,943,181	64,053,182	1,110,000
Uniforms and Protective Clothing (Note 12)	29,940,715	28,830,715	(1,110,000)

### **Management Response**

The trial balance was adjusted accordingly and hence there is no variance between the trial balance and the financial accounts provided.

### **Committee Observation**

The Committee observed that there existed an unexplained variance of Kshs. 1,110,000 between the trial balance and the financial statements for specific expenditure components. The Trial balance was later adjusted and the variance corrected.

### **Committee Recommendations:**

**The Committee recommends that the Governor ensures that the Accounting Officer performs prior year adjustments in the subsequent financial statements against the trial balance before submission for audit.**

### **1.2 Variances in Trade and Other Payables**

The following variances were noted between the Company's financial statements and other entities' financial statements;

Entity	NCWSC Financial Statements (Kshs.)	Other Entities Financial Statements (Kshs.)	Variance (Kshs.)
Office of the Auditor-General	24,947,021	24,195,727	751,294
Commissioner of Income Tax	9,763,044	9,524,700	238,344
Machakos University	1,208,069	1,479,000	(270,931)

### **Management Response**

The company is liaising with the entities to ensure that the figures are reconciled accordingly.

### **Committee Observation**

The Committee observed significant discrepancies between NCWSC records and the records maintained by third-party entities leading to unreconciled variance of Kshs. 751,294 with the Office of the Auditor-General (OAG) and the cumulative discrepancy across all listed statutory and educational institutions, which points to poor inter-agency reconciliation.

### **Committee Recommendations**

The committee recommends that—

- i. **Within 60 days of the adoption of this report, the Governor of Nairobi County should engage the respective entities to agree on a reconciliation and repayment plan and file a report on the same with the Auditor-General for verification; and**
- ii. **The Governor ensures that the Accounting Officer establishes a formal monthly reconciliation desk to handle third-party payables to prevent future discrepancies.**

### **1.3 Variances in Operating Revenue**

The statement of profit or loss and other comprehensive income and as disclosed in Note 6 to the financial statements reflects operating revenue amount of Kshs.12,125,961,035. However, analysis of invoices/bills revealed an amount of Kshs.11,882,959,639 resulting to an unreconciled variance of Kshs.243,001,396.

#### **Management Response**

The variance has been reconciled. The revenue listing supporting Kshs.12,125,961,035 is attached.

#### **Committee Observation**

The Committee observed that at the time of the audit, operating revenue of Kshs. 12.1 billion reflected in the financial statements differed with a detailed invoice analysis, which showed a lower amount, leaving an unexplained difference of over Kshs. 243 million. However, the support documents were later provided for audit review.

#### **Committee Recommendations**

**The Committee recommends that the Governor ensures that the Accounting Officer submits documents promptly during the audit process in line with section 9 (1) (e) of the Public Audit Act, Cap.412B, failure to which the Committee shall recommend for their investigation and prosecution in line with section 62 (2) of the Public Audit Act, Cap.412B.**

### **1.4 Variances and Inaccuracies in Trade and Other Receivables**

The statement of financial position reflects trade and other receivables balance of Kshs.3,744,229,008 as disclosed in Note 21 to the financial statements. However, the following variances were noted between the Company's financial statements and other entities' financial statements;

Entity	NCWSC Financial Statements (Kshs.)	Other Entities Financial Statements (Kshs.)	Variance (Kshs.)
Githunguri Water and Sanitation Company Limited	217,572,790	209,277,506	8,295,284
Kiambu Water Sewerage Company Limited	154,394,836	153,288,363	1,106,473

In addition, review undertaken to confirm the accuracy of debtors disclosed in the financial statements revealed inconsistencies between balances reported in the Oracle Financial ERP and those derived from Basis 2, the Company's billing system. Further, Note 21(a) to the financial statements reflects gross trade receivables balance of Kshs.9,704,571,162 as at 30 June, 2025. However, re-computation of the balance based on invoices, receipts, and prior year balances extracted from Basis 2 indicated a balance of Kshs.9,843,117,888 resulting to an unexplained and unreconciled variance of Kshs.138,546,726.

#### **Management Response**

The balances presented by the Company are a debt analysis based on billings, payments and adjustments, which is well supported, in the billing system. We are liaising with the listed water companies for reconciliation and agreement of the figures.

The Oracle Financial ERP statement figure is Kshs.9,704,571,162 as reported in the financial statement and the figure in Basis 2 is Kshs 5,342,859,769 and unmigrated (CMS& Jisomee) is Kshs. 4,361,711,392 totaling to Kshs.9,704,571,162 hence the figures are corresponding *Annex 5-Debtors listings from Basis 2, CMS & Jisomee as at 30th June 2025.*

#### **Committee Observation**

The Committee observed the critical failure of the Oracle ERP and Basis 2 systems to reconcile, which led to an unexplained variance of Kshs. 138,546,726. This technical inconsistency undermines the reliability of the company's debt records and overall financial position.

#### **Committee Recommendations:**

**The Committee recommends that within 60 days of the adoption of this report, the management urgently undertake a comprehensive reconciliation of the Oracle ERP and BASIS 2 systems to establish the source and nature of the variance amounting to Kshs. 138,546,726, and submit a detailed reconciliation report to the**

**Auditor-General for further review and report to the Committee in the next audit cycle.**

### **1.5 Casting Errors**

The statement of profit or loss and other comprehensive income and as disclosed in Note 12 to the financial statements reflects general and operational expenses amount of Kshs.4,860,384,030 which further includes bank charges of Kshs.4,600,258. However, re-computation of the supporting documents revealed an amount of Kshs.4,937,264 resulting to an unreconciled variance of **Kshs.337,006**.

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

### **Management Response**

The casting error of Kshs 337,006 was corrected through journal entries

### **Committee Observations:**

The Committee observed that the journal entries for the casting error of Kshs 337,006 was passed and corrected after audit exercise.

### **Committee Recommendations:**

**The Committee recommends that—**

- i. The Governor ensures that the Accounting Officer enhances the capacity of officers preparing financial statements to comply with the accounting standards and should further invest in technology and processes that reduce inaccuracies in the preparation of financial statements; and**
- ii. the Governor ensures that the Accounting Officer takes appropriate 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. 531.**

## **2. Unsupported Balances**

### **2.1 Local Travel Expenditure**

The statement of profit or loss and other comprehensive income and as disclosed in Note 12 to the financial statements reflect general and operational expenses amount of Kshs.4,860,384,030 which further includes local travelling and subsistence of Kshs.289,052,319. However, review of sampled expenditure records provided for audit amounting to Kshs.32,962,472 on venue for trainings and catering services revealed that the travel expenditure was not supported with work tickets and fuel receipts.

Further, other expenditure amounting to Kshs.2,896,000 for local travels also lacked transport receipts, work tickets, fuel receipts and back to office reports.

In the circumstances, the accuracy and value for money for the total expenditure amount of Kshs.32,962,472 could not be confirmed.

#### **Management Response**

The Kshs. 32,962,472 relates to various expenditures for venues, catering services and air ticket therefore, work tickets and fuel receipts do not apply. The Kshs 2,896,000 relates to per diem and for travelling staff are issued with travel allowance as per the policy.

#### **Committee Observation**

The Committee observed that management failed to provide work tickets for local travel during the time of audit, however the documents were later provided for audit review and the matter marked as resolved.

#### **Committee Recommendations**

**The Committee recommends that the Governor ensures that the Accounting Officer enhances timely submission of documents during the audit process in line with section 9 (1) (e) of the Public Audit Act 2015.**

### **2.2 Bulk Water Supplies**

The statement of profit or loss and other comprehensive income and as disclosed in Note 12 to the financial statements reflects general and operational expenses amount of Kshs.4,860,384,030 which further includes bulk water purchases of Kshs.951,869,402 supplied by Athi Water Works Development Agency from Karimenu II and Northern Collector Tunnel. However, review of documents provided for audit revealed that there were no binding contracts between the Agency and the Nairobi City Water and Sewerage Company Ltd and therefore, the quality and quantity of water to be supplied could not be determined. Further, records provided for audit review revealed credit adjustments amounting to Kshs.43,529,770 that were not supported with approved Journal entries vouchers and credit memos.

In the circumstances, the accuracy and completeness of the bulk water purchases of Kshs.951,869,402 could not be confirmed.

#### **Management Response**

Although the execution of the bulk water supply is underway, the company is able to determine the quality and quantity of water supplied to Nairobi through the meter, which is read jointly by the Company and AWWDA. Further, the quality is tested and monitored at Gigiri station to ensure compliance with quality standards. The adjustments arose from a difference in pricing structure.

### **Committee Observation**

The committee observed that:

- (i) Despite incurring substantial expenditure on bulk water purchases amounting to Kshs. 951,869,402 from the Athi Water Works Development Agency, there were no formal binding agreements governing the supply arrangement with the Nairobi City Water and Sewerage Company Ltd.
- (ii) Credit adjustments amounting to Kshs. 43,529,770 were not supported by approved journal vouchers or credit memos, raising concerns on the integrity, completeness, and audit trail of financial records.

### **Committee recommendations**

The Committee recommends that—

- (i) **Within 90 days of adoption of this Report, the Governor should ensure that management initiates and conclude negotiations with the Athi Water Works Development Agency towards the execution of a formal and legally binding bulk water supply agreement with the Nairobi City Water and Sewerage Company Ltd, clearly defining the pricing framework, quantities, quality standards, metering arrangements, and dispute resolution mechanisms and provide status report to the Senate within the same period, and;**
- (ii) **Within 90 days upon adoption of this report, the Governor ensures that management regularizes all unsupported credit adjustments amounting to Kshs. 43,529,770 by ensuring they are fully supported with approved journal vouchers, credit notes, and documented justification, failing which the amounts should be reviewed and appropriately adjusted in the financial statements, and the Auditor-General to review and report to the committee in the next audit cycle.**

### **3. Unsupported Expected Credit Loss**

The statement of financial position reflects a balance of Kshs. 3,744,229,008 in respect to trade and other receivables, as detailed in Note 21 to the financial statements. The balance excludes an allowance for credit loss of Kshs. 7,567,280,307 against gross trade receivables of Kshs. 9,704,571,162. However, no evidence was provided to demonstrate that the computation of the Expected Credit Loss (ECL) was performed in accordance with IPSAS 41, which requires a structured Expected Credit Loss (ECL) model incorporating forward-looking information. While Management has provided a reconciliation of allowance for trade receivable, this is not the basis for the ECL calculation.

In the circumstances, the accuracy and completeness of the trade and other receivables balance of Kshs.3,744,229,008 could not be confirmed.

### Management Response

The Company Financial Statements are prepared in accordance with IFRS. IFRS 9 is not prescriptive about how to develop a provision matrix but advises entities to develop models that incorporate peculiarities of their operations and the industry, which they operate. The expected credit loss on trade receivable is based on the provision matrix below which has taken into consideration current conditions such as the initiatives undertaken by the Company and forecasts of future economic conditions based on the Economic Survey 2025 conducted by the Kenya National Bureau of Statistics.

Age	0 to 480 days	Above 480 days
Receivable	2,654,183,145	7,050,388,017
Rate	0%	100%

The Company has put in place various measures that target the recovery of the outstanding receivables. These measures include; a) Partnering with the Kenya Water Institute (KEWI) on disconnections of defaulting customers b) Engagement with the National Senate through the Office of the Governor of Nairobi c) Issue demand notes from the legal section for receivables due from areas ceded to Kiambu County during the current financial year d) Review of the Commercial and Revenue collection functions in the regions.

Based on the above, management estimates full recoverability of the debts below 480 days.

The table below illustrates the rate of recoveries for trade receivables above 480 days.

FY	Receivables above 480	Recoveries	Rate
2021/2022	6,963,553,842.42	268,094,154.90	4%
2022/2023	7,142,503,918.53	234,615,359.09	3%
2023/2024	6,590,125,913.17	273,033,970.22	4%
2024/2025	7,050,388,016.85	241,392,058.65	3%

Based on the above, Management has provided for 100% of the trade receivables. In regards to the forward-looking information, the Company has considered the 2025 Economic Outlook. According to the Economic Survey 2025 conducted by the Kenya National Bureau of Statistics (see page 12) the Kenya economy is projected to remain resilient and stable in 2025. The projected growth is expected to be driven by a strong services sector, enhanced agricultural productivity supported by favorable weather. The

decline in interest rates is expected to continue to support growth in private sector credit, boost economic activity and accelerate growth.

#### **Committee observation**

The Committee observed that at the time of audit, the management failed to provide evidence that the computation of the Expected Credit Loss was performed in accordance with the required accounting standards (IPSAS 41). However, the basis for calculating expected credit loss was later provided for audit review.

#### **Committee Recommendations:**

**The Committee recommends that—**

- i. **The Governor ensures that the Accounting Officer enhances timely submission of documents during the audit process in line with section 9(1)(e) of the Public Audit Act, failure to which the Committee shall recommend for their investigation and prosecution in line with section 62(2) of the Public Audit Act, and;**
- ii. **That within 90 days of adoption of this Report, management should recompute and fully document the Expected Credit Loss (ECL) model for trade receivables in strict compliance with the applicable financial reporting standards, ensuring incorporation of forward-looking information, clear assumptions, and a defensible methodology, and submit the same for audit review and auditor-General to give a status report in the next audit cycle.**

### **4. Trade and Other Receivables**

#### **4.1 Long Outstanding Trade and Other Receivables**

Note 21 to the financial statements reflects gross trade receivables balance of Kshs.9,704,571,162 out of which Kshs.8,852,712,740 or 91% was outstanding for more than one hundred and twenty (120) days. However, Management has not provided information on steps taken to recover the long outstanding receivables and there is no evidence of demand notes issued to customers with long outstanding water bills. Further, review of the finance policy provided revealed that the Director of Financial Services and Strategy needs to update the Board on steps taken to recover water debt. However, the reports have not been provided for audit.

#### **Management Response**

The company has taken proactive action to pursue the defaulters by initiating legal process and escalating non-paying Water Services Providers to the regulator (WASREB) for intervention. For Government debts various demand notes have been issued. Other measure taken include disconnection, use of media campaigns, SMS

messages. The Director Financial services and strategy provide quarterly progress reports to the board status of the trade receivables and actions taken.

#### **Committee observation**

The Committee observed that a staggering 91% of gross trade receivables, amounting to over Kshs. 8.8 billion, has remained outstanding for more than 120 days without sufficient evidence of recovery efforts.

#### **Committee Recommendations**

**The Committee recommends that—**

- i. the Governor ensures that management performs an aging analysis on the long outstanding receivables and with the Board’s approval, write off the irrecoverable debts in line with the PFM (County Government) Regulation;**
- ii. the Governor ensures that the Accounting Officer should, 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; and**
- iii. the Governor ensures that Accounting Officer should, within 90 days of the adoption of this report, put in place comprehensive measures for recovery of the outstanding amount with clear timelines. The Auditor-General should review the implementation of the measures put in place and provide a status update on the matter in the subsequent audit cycle.**

#### **4.2 Unmigrated Receivables – Jisome System**

Note 21 to the financial statements reflects gross trade receivables balance of Kshs.9,704,571,162. Review of the debtors' listing as at 30 June, 2025 revealed receivables totalling Kshs.3,902,250 arose from the unmigrated Jisome System. The Company lacked adequate data and information on the customers recorded on the Jisome System, creating a significant risk of unrecoverable debts. Further, the Company lacked adequate data on the Jisome System receivables as the accounts were still being verified.

#### **Management Response**

The company’s current billing system is basis 2, which did not incorporate inactive accounts during migration. The Jisomee system has 132 inactive accounts totaling to Kshs 3,902,250, which remained in the system for ease of recoverability and records.

The Jisomee system has all the customer information including names, account, meter information and meter readings and how the figures were derived.

#### **Committee Observation**

The Committee observed that receivables totaling Kshs. 3,902,250 remain in the unmigrated Jisome System and the incomplete integration of these accounts into the current billing platform pose a significant risk to the completeness, accuracy, and recoverability of the Company's receivables.

#### **Committee Recommendation**

**The Committee recommends that within 90 days of adoption of this Report, Governor ensures that Management complete the migration and verification of all Jisome System receivables into the current billing system, ensuring full customer data integrity, reconciliation, and documentation, and provide evidence of mitigation measures taken to address the matter within the same period of 90 days.**

#### **4.3 Receivable from the Ministry of Water and Sanitation for the Nairobi Sanitation OBA Project**

The statement of financial position reflects trade and other receivables balance of Kshs.3,744,229,008 which as disclosed in Note 21 to the financial statements reflects gross receivables balance of Kshs.9,704,571,162. However, an amount of Kshs.11,005,000 withdrawn from the special accounts and transferred to the Ministry of Water and Sanitation in relation to Nairobi Sanitation Output Based Aid Project (OBA) - (IDA grant No.TF014251 and No.TF0A5607) was not received by the Company and has not been included in the receivables balance. In addition, although Management of the Company which was the implementing agency of the Project explained that the Project was closed, no evidence from the Resource Mobilization Department and the Central Bank of Kenya was provided to confirm the closure.

In the circumstances, the accuracy and recoverability of the long outstanding accounts receivable balance Kshs.9,704,571,162 could not be confirmed and it was not possible to confirm the current status of the Project.

#### **Management Response**

OBA Project as observed the money was not received by the Company and we wrote to the Ministry of Water and Sanitation for action.

#### **Committee Observation**

The Committee observed that the Company has not received Kshs. 11,005,000 relating to the Nairobi Sanitation Output-Based Aid (OBA) Project under IDA Grants No. TF014251 and No. TF0A5607. Additionally, there was no evidence confirming the

closure of the Project from either the Resource Mobilization Department or the Central Bank of Kenya.

#### **Committee Recommendation**

**The committee recommends that within 90 days of adoption of this Report, the Governor ensures that the Accounting Officer, engage the Ministry of Water and Sanitation to clarify the status of the OBA Project and ensure recovery of the Kshs. 11,005,000. A formal status report on the recovery efforts and confirmation of project closure should be submitted to the Auditor-General for review and reporting in the subsequent audit cycle.**

#### **5. Cash and Cash Equivalents**

The statement of financial position and as disclosed in Note 22 to the financial statements reflects cash and cash equivalents balance of Kshs.476,956,192. However, review of the Company's bank accounts list provided for audit revealed that Guaranty Trust Bank was listed as a collection agency, however, the cash book, bank statements and bank confirmation certificate were not provided for audit. Further, the bank account was not included in the Company's cash and cash equivalents in the financial statements.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance Kshs.476,956,192 could not be confirmed.

#### **Management Response**

There were no transactions by the bank during the period despite having a contract. The bank did not fulfill the conditions of contract and we are in the process of terminating the contract. A confirmation of balance letter sent to them (did not yield any response and there is an email communication in which they acknowledge the account is not funded and required us to fund the account to enable us get a certificate. Accordingly, the account had not transacted and cannot appear in the cash book

#### **Committee Observation**

The Committee observed that a bank account used by a collection agency was omitted from the financial statements, and no bank confirmations were provided.

#### **Committee Recommendation**

**The Governor should ensure that the Accounting Officer discloses all bank accounts, whether active or inactive, in the financial statements and ensures they are properly reconciled.**

#### **6. Unsupported Finance Income**

The statement of financial position and as disclosed in Note 22 to the financial statements reflects cash and cash equivalents balance of Kshs.476,956,192 which further includes two call deposit bank accounts with a total balance of Kshs.27,743,923. However, there was no evidence provided to show that Management had negotiated interest terms for the deposits. Further, the fixed deposit receipts, fixed deposits register and a schedule of interest earned was not provided for audit.

In the circumstances, the accuracy and completeness of the finance income could not be confirmed.

#### **Management Response**

The call deposit account are 3 No. i.e loan repayment , bulk water purchase for Athi Water Works Development Agency and Conditional liquidity support grant 2 (CLSG 2) .The accounts are funded through standing orders of Kshs 2 million, Kshs 4 million respectively to guarantee monthly repayments and Kshs 173,600 to meet grant conditions. The three call deposit accounts are interest-earning accounts. In the year under review the company received interest of Kshs 5,423,136 from cooperative bank and recognized as finance income in the statement of comprehensive income.

#### **Committee Observation**

The Committee observed that finance income was reported without the necessary supporting documents such as fixed deposit receipts or registers.

#### **Committee Recommendation**

**The Governor ensures that management maintain proper documentation for all call and fixed deposit accounts, including agreements on interest terms, deposit receipts, registers, and schedules of interest earned. The Accounting Officer should submit all call deposit agreements and interest-earning schedules to the Auditor-General for verification within 60 days of adoption of this report, and report to the Committee in the subsequent audit cycle.**

#### **7. Unsupported Customer Deposits**

The statement of financial position and as disclosed in Note 27 to the financial statements reflects customer deposits balance of Kshs.1,309,078,313 which includes accrued interest of Kshs.29,323,702 calculated at 3% per annum. However, it was not possible to verify the basis of the interest accrual, as the Company did not provide evidence of investments or an interest-bearing account to support the reported accrued interest. Further, the actual customer deposits balance as at June, 2025 could not be determined since the Company did not maintain a separate bank account designated for customer deposits.

In the circumstances, the accuracy and completeness of customer deposits balance of Kshs.1,309,078,313 could not be confirmed.

### **Management Response**

The 3% interest was derived from legal notice No 123 water act 374 The City of Nairobi water supply laws 1974 clause 36(1) water act. Additionally, the company's finance policy clause 7.8 provides for the same. The Water 2016 is categorical the money raised by the Water Serviced Providers are ring-fenced in the business for furtherance of the services and this is the practice the Company has adopted. However, on closure of the services the deposit is refunded as per the policy.

### **Committee Observation**

The Committee observed that the company could not verify the interest-bearing nature of the customer deposit accounts or the basis for the reported Kshs. 295,323,702 in accrued interest. The Law extract showing basis of 3% was later provided for audit review and the matter is marked resolved.

### **Committee Recommendation**

**The Committee recommends that—**

- (i) the Governor of Nairobi City County ensures that the Accounting Officer segregates all customer deposits into a dedicated, interest-bearing fixed or call deposit account to prevent commingling with the Company's operational funds,**
- (ii) the Governor ensures that the Board of Directors should put in place a Customer Deposits Management Policy to guide how the water company can access, utilize and refund the money within specified timelines. Further, the Accounting Officer should ensure that there is full disclosure to the water company's customers on the utilization of the deposits,**
- (iii) Governor ensures that Accounting Officer institutes stringent internal controls to restrict management access to the principal balance of the account, ensuring the funds remain ring-fenced for their intended purpose; (iii) Governor ensures that Accounting Officer authorizes the utilization of accrued interest from the said account exclusively to offset associated bank charges, ensuring any surplus interest is properly accounted for in the financial statements; and**
- (iv) The Accounting Officer submits certified bank statements and the revised operational guidelines for the management of the account to the Senate, with a copy to the Auditor-General, within 60 days of the adoption of this report. The Auditor -General to review and provide status update to the committee in the next audit cycle.**

## **8. Customers with Credit Balances**

The statement of financial position and as disclosed in Note 30 to the financial statements, reflects customers with credit balances of Kshs.292,495,041. This balance relates to customers whose accounts were overpaid and issued with credit notes due to previous overbilling. This was attributed by incorrect meter readings, wrong customer classification, errors in calculating charges and duplicate line-item charges. However, no explanation was provided on the measures Management has put in place to avert the overbilling and recurrence.

In the circumstances, the accuracy, completeness and occurrence of the balance of Kshs.292,495,041 could not be confirmed.

### **Management Response**

The credit balance is as a result of prepayments and bill adjustments. Credit balance of Kshs 292,495,041 is broken down as flows: A) Kshs 288,870,974 as prepayment B) Kshs 3,624,066 as result of bill adjustments.

### **Committee Observation**

The Committee observed that customers with credit balances of Kshs. 292,495,041 were often the result of systemic overbilling errors, and no clear mitigation strategy was presented.

### **Committee Recommendation**

**The Committee recommends that the Governor of Nairobi City County ensures that the Accounting Officer:**

- (i) implements robust and accurate billing controls by fully integrating the Basis 2 billing system with the Oracle Financial ERP to ensure real-time synchronization of customer data and eliminate the systemic variances that lead to overbilling;**
- (ii) accelerates the installation and commissioning of smart water meters across the county's network, prioritizing high-consumption zones to provide precise, real-time consumption data and eliminate the need for estimated billing;**
- (iii) establishes a verified internal review mechanism to audit and rectify all existing overbilling claims to restore consumer confidence in the company's revenue management systems; and**
- (iv) submits a comprehensive status report on the rollout of the smart metering project and a summary of resolved billing disputes to the Senate, with a copy to the Auditor-General, within 90 days of the adoption of this report.**

## **9. Obsolete and Slow-Moving Stock**

The statement of financial position and as disclosed in Note 20 to the financial statements reflects inventories balance of Kshs.504,991,351. However, the stock count report of 30 June, 2025 indicated that there were obsolete and slow-moving stock with a balance of Kshs.11,496,345. Further, the stock take report indicates that 1,476 water meters, 1/2 prepaid amounting to Kshs.3,638,340 have been in stock for a long period of time without utilization. The inventories had been valued at cost price which did not reflect the correct current value of the obsolete and slow-moving stock.

In the circumstances, the accuracy of the inventories balance of Kshs.504,991,351 could not be confirmed and it was not possible to determine the effectiveness of controls implemented in the stores department to guard against losses.

### **Management Response**

Out of the Kshs 11,496,345 highlighted, Kshs 1,476,373 relates to obsolete stock that have been earmarked for disposal in the financial year 2025/2026 as per the PPADA. The balance of Kshs 10,019,972 relates to slow moving stock that is maintained due to the critical nature of operations and the ease of availability of the stock items as and when required. For the prepaid water meters the technology in the smart meters became obsolete and the company has converted them to mechanical meters. 524 No. prepaid metres have been converted. Out of the 1476 meters tested, 524 were found to be functional and were installed. The balance has been earmarked for disposal as per the policy.

### **Committee Observation**

The Committee observed that the company holds obsolete stock valued at cost, which misstates the true value of inventories in the financial statements. Further, there was no evidence the items were disposed off.

### **Committee Recommendation**

**The Committee recommends that within 60 days of adoption of this report, the Governor ensures that the Accounting Officer finalizes the disposal of all obsolete stock in accordance with the Public Procurement and Asset Disposal Act and provide a report to Auditor-General for further review and report to the committee in the next audit cycle.**

## **10. Non - Disclosure of Material Uncertainty Related to Going Concern**

The statement of changes in equity reflects a loss of Kshs.236,496,853 and prior year adjustment of Kshs.118,101,768 which decreased the revenue reserves from a negative balance of Kshs.3,291,513,005 as at 30 June, 2024 to a negative balance of Kshs.3,646,111,645 as at 30 June, 2025. Further, the Company's current liabilities balance of Kshs.7,199,336,525 exceeded current assets balance of Kshs.4,726,176,551

resulting to a negative working capital of Kshs.2,473,159,974. The material uncertainty relating to going concern was not disclosed in the financial statements.

The Company is therefore, technically insolvent and may not be able to meet its current obligations as and when they fall due.

### **Management Response**

The company is operating on a tariff that was approved in 2023. We have requested for tariff indexation and we are engaging WASREB for a new tariff that is responsive to the existing conditions at any given time. This will improve the working capital and liquidity position. The Company is not technically insolvent as reported, if all assets operated by the company are transferred to the company it will improve the financial position of the company.

### **Committee Observation**

The Committee observed that the Company is operating with a negative working capital of Kshs. 2,473,159,974 and has failed to disclose material uncertainty regarding its status as a going concern.

### **Committee Recommendation**

**The committee recommends that—**

- i. the Governor of Nairobi County should take keen interest in the management and operations of the water company in line with Article 179 (4) of the Constitution;**
- ii. The Governor ensures that the Accounting Officer prepares and submit quarterly reports 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;**
- iii. The Governor ensures that the County Executive Committee Member in charge of water takes full responsibility for monitoring the financial performance of the county corporation in line with section 184 of the Public Finance Management Act, and regularly report to the Governor through the County Executive Committee in line with Article 179 (6) of the Constitution;**
- iv. the Governor ensures that the County Treasury 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.**

## **Emphasis of Matter**

### **Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparative basis of Kshs.19,894,580,639 and Kshs.12,683,920,391 respectively, resulting to under collection of Kshs.7,210,660,248 or 36% of the budget.

The under collection affected the planned activities and may have negatively impacted on service delivery to the stakeholders.

My opinion is not modified in respect of this matter.

### **Management Response**

The budget was prepared based on certain assumptions: one of the assumption was water from Kigoro and Karimenu will be received from the start of financial year. However, water was received in November 2024, Furthermore WASREB was to approve indexation of water tariff as per the gazetted tariff by July 2024.

### **Committee observation**

Committee observed that the water company under-collected revenue by Kshs.7,210,660,248 (36% of the budget), which affected planned activities and potentially impacted service delivery.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures that the Board of Directors institute proper and realistic budget planning as well as measures to enhance its own generated revenue, such as review of tariffs, connection of more customers and automation to address revenue leakages. The Auditor-General to confirm the effectiveness of the mitigating measures put in the water company and report in the subsequent audit cycle.**

## **Other Matter**

### **Unresolved Prior Year Matters**

In the prior years' audit report, several issues were raised under the Report on the Financial Statements, Lawfulness and Effectiveness in Use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance, respectively. Review of the status during audit of the Nairobi City Water and Sewerage Company Limited in 2024/2025 revealed that the following matters remained unresolved;

Financial Year	Audit Issue

1	2023/2024	Inconsistencies in Operating Revenue
2	2023/2024	Long Outstanding Trade and Other Payables
3	2023/2024	Property, Plant and Equipment – Unvalued and Ownership
4	2023/2024	Trade and Other Receivables
5	2023/2024	Unsupported Prior Year Adjustments
6	2023/2024	Receivables from the Ministry of Water and Sanitation for Nairobi Sanitation OBA Project
7	2023/2024	Unsupported Statement of changes in Equity
8	2023/2024	Material Uncertainty in Relation to Going Concern
9	2023/2024	Unaccounted for Non-Revenue Water
10	2023/2024	Ethnicity Diversity
11	2023/2024	Unsustainable Wage Bill
12	2023/2024	Staff on Acting Capacity Beyond the Stipulated Period
13	2023/2024	Staff Earning Below a Third of Basic Pay
14	2023/2024	Irregular Procurement and Implementation of Oracle Human Capital Management (HCM) Licenses
15	2023/2024	Non-Compliance with the Persons with Disability Act, 2003
16	2023/2024	Use of End of Life (EoL) Microsoft Operating Systems

### **Committee observation**

The Committee observed that several prior year audit issues remained unresolved, indicating gaps in internal controls, governance, and management follow-up that may affect financial accuracy, compliance, and service delivery.

### **Committee Recommendation**

**The Committee recommends that –**

- i. the Governor should ensure that the Accounting Officer resolves any issues resulting from an audit that remains outstanding as required by section 149(2)(l) of the Public Finance Management Act, Cap. 412A, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences may apply; and**
- ii. the Governor should ensure that the accounting officer submits the status report on the mitigation measures taken to resolve prior year matters to the Senate and a copy to the Auditor-General within 90 days of the adoption of this report.**

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

### **1. Irregularities in Procurement**

#### **1.1 Irregularities in Procurement of Proposed Njiru Sewer Extension Works**

Review of records provided for audit revealed that the Company entered into a contract for proposed Njiru Sewer Extension Works at a contract sum of Kshs.35,214,128. However, the tender advertisement, bid opening, bid evaluation, tender award, notification of award and contract signing were conducted outside of the procurement plan timelines. This was contrary to Section 176. (1) (C) Public Procurement and disposal Act 2015, which provides that a person shall not delay without justifiable cause the opening, evaluation of tenders, and the awarding of contract beyond the prescribed period or payment of contractors beyond contractual period and contractual performance obligations.

Further, no post qualification due diligence was conducted by the evaluation committee to verify the tenderer who submitted the lowest bid. In addition, the monthly progress reports of the procurement contract were not provided for audit review.

#### **Management Response**

The Procurement Plan is indicative. Actual dates are determined by availability of funds and Cash Flow. Due diligence was conducted on documents submitted by the bidders.

#### **Committee Observation**

The Committee observed that the procurement process for the Njiru Sewer Extension was conducted outside the legal timelines of the procurement plan, which is a breach of law.

#### **Committee Recommendation**

**The Committee recommends that the Governor ensures that the Accounting Officer enforces strict adherence to the procurement plan, in accordance with Section 176(1)(c) of the Public Procurement and Asset Disposal Act, 2015.**

#### **1.2 Proposed Drilling of Boreholes and Installation of Elevated Tanks Within Nairobi City County**

Review of records provided for audit revealed that the Company entered into a contract for the drilling of boreholes and installation of elevated tanks within Nairobi City County at a contract sum Kshs.56,357,411. Although expenditure records were provided, there was no detailed breakdown of goods, works or services relating to the elevated tanks within Nairobi City County in the procurement plan as required by Regulation 41 of the Public Procurement and Asset Disposal Regulations,

2020 Which provides that the annual consolidated procurement plan for each procuring entity shall include a detailed breakdown of the goods, works, or services required.

#### **Management Response**

As observed the procurement plans had gaps however corrective actions was taken during the preparation of bill of quantities.

#### **Committee Observation**

The Committee observed that the procurement plan for boreholes and elevated tanks (Kshs.56,357,411) initially lacked a detailed breakdown of goods, works, or services, contrary to Regulation 41 of the Public Procurement and Asset Disposal Regulations, 2020. However, the bill of quantities (BOQs) was later provided.

#### **Committee Recommendation**

**The Committee recommends that the Governor ensures that management includes a full breakdown of goods, works, and services in all future procurement plans and establishes a robust review process to identify and correct gaps before contract execution. These measures should be implemented within 60 days to strengthen compliance, accountability, and transparency, and the Auditor-General to review and report in the next audit cycle.**

### **1.3 Proposed Construction of Kariobangi Combined Overflow Box Culvert**

Review of records provided for audit revealed that the Company entered into a contract for the proposed construction of Kariobangi Combined Sewer Overflow Box Culvert at a contract price Kshs.107,830,932. Although expenditure records were provided, the procurement documents revealed that there was no detailed breakdown of goods, works or services relating to the construction of the Sewer Overflow Box Culvert in the procurement plan as required by Regulation 41 of the Public Procurement and Asset Disposal Regulations, 2020 which provides that the annual consolidated procurement plan for each procuring entity shall include a detailed breakdown of the goods, works, or services required.

Further, no post-qualification due diligence was conducted by the evaluation committee to verify the tenderer who submitted the lowest bid.

In the circumstances, Management was in breach of the law and the regularity, completeness and value for money of the sewer works and boreholes could not be confirmed.

#### **Management Response**

As observed the procurement plans had gaps however, corrective actions was taken during the preparation of bill of quantities.

#### **Committee Observation**

The Committee observed that the procurement plans for boreholes, elevated tanks, and the Kariobangi Combined Sewer Overflow Box Culvert initially lacked detailed breakdowns of goods, works, or services, and no post-qualification due diligence was conducted on the lowest bidder. However, bills of quantities (BOQs) were later provided for audit review.

#### **Committee Recommendation**

**The Committee recommends the Governor ensures that management includes comprehensive breakdowns of goods, works, and services in all future procurement plans, conducts proper post-qualification due diligence on all bidders, and implements a robust review process to address any planning gaps before contract execution. These measures should be completed within 60 days of tabling this report, and the Auditor-General should provide feedback to the committee in the next audit cycle.**

## **2. Long Outstanding Trade and Other Payables**

The statement of financial position and as disclosed in Note 29 to the financial statements reflects trade and other payables balance of Kshs.5,858,016,648. However, included in the balance are trade and other payables and long outstanding audit fee balances of Kshs.4,385,877,249 and Kshs.21,316,980 which had been outstanding for more than one hundred and eighty (180) days and over six (6) years respectively.

Failure to settle bills in the year to which they relate adversely affects the implementation of the subsequent year's budgeted programmes as the pending bills form a first charge to that year's budget provision. This was contrary to Section 53 (8) of the Public Procurement and Asset Disposal Act, 2015 which provides that an Accounting Officer shall not commence any procurement proceedings until satisfied that sufficient funds to meet the obligations of the resulting contract (s) are reflected in approved budget estimates.

In the circumstances, the Company is not able to meet its short-term obligations as and when they fall due and is exposed to loss of funds as a result of fines and interest.

#### **Management Response**

As observed the Company payables stood at Kshs.5,858,016,648. This is due to a low tariff which is not cost recovery. We have engaged WASREB for approval of a cost recovery tariff.

#### **Committee Observation**

The Committee observed that the Company has long outstanding trade and other payables totaling Kshs.5,858,016,648, including Kshs.4,385,877,249 of payables over 180 days and Kshs.21,316,980 of audit fees outstanding for over six years. No evidence was provided on mitigation measures in place to clear these balances.

#### **Committee Recommendation**

**The Committee recommends that Within 90 days of tabling this report, the Governor ensures that management prioritizes the settlement of long outstanding payables, establishes clear mitigation measures, and implements a robust payment monitoring system to ensure obligations are met on time, and the Auditor -General should review and report to the committee in the next audit cycle.**

### **3. Property, Plant and Equipment**

#### **3.1 Grounded Vehicles**

The property, plant and equipment balance of Kshs.3,656,625,986 includes fully depreciated assets valued at Kshs.2,986,900,297. However, no evidence was provided to show the Company intends to carry out valuation for the assets many of which are still in use. Further, documents provided by Management revealed that the Company had four hundred and seventy-eight (478) vehicles out of which thirty-six (36) had been grounded and damaged for a long time and whose value was undetermined. Management has not provided inspection report for the grounded vehicles recommending disposal and the process of disposal had not commenced. This was contrary to Section 162(3) of the Public Procurement and Asset Disposal Act, 2015 which provides that stores, inventory and assets that are procured by a public entity shall not be allowed to suffer deterioration from any preventable cause and overstocking of any particular item shall be avoided.

In addition, the grounded and damaged motor vehicles are depreciating and deteriorating in value, and have not made any contribution towards the achievement of service delivery objectives of the Company.

Value for money on grounded and damaged vehicles could not be confirmed.

#### **Management Report**

The company has allocated Kshs. 5 million in the budget of FY2025-2026 to engage a consultant to carry out asset valuation. The list of vehicles proposed for disposal was not included in the disposal plan for FY2024-2025. However, these vehicles have been recommended for disposal in this financial year and will be incorporated into the disposal plan for FY2025-2026.

#### **Committee Observation**

The Committee observed that the Company's property, plant, and equipment balance of Kshs.3,656,625,986 included fully depreciated assets of Kshs.2,986,900,297, with 36 grounded and damaged vehicles whose value is undetermined. Further, no inspection or disposal process has been initiated.

#### **Committee Recommendation**

**The Committee recommends that within 60 days upon adoption of this report, the Governor ensures that management urgently conducts valuations of all grounded and fully depreciated assets, incorporates the identified vehicles into the disposal plan, and initiates the disposal process to prevent further deterioration and optimize value for money. The Auditor-General to review the progress and report to the committee in the next audit cycle.**

### **3.2 Idle Motor Vehicles**

Review of records provided indicate that the Company had four hundred and seventy-eight (478) motor vehicles during the year. However, the Company's human resource records provided as at 30 June, 2025 revealed that the Company had a total of one hundred and twenty-eight (128) drivers and thirty-six (36) plant operators. This is an indication that three hundred and thirteen (313) Company vehicles may not have been in operation, even though listed as in service.

The excess motor vehicles may continue to incur maintenance costs and further deterioration with no value addition to the Company. This was contrary to Section 149 (1) of the Public Finance Management Act, 2012 which provides that an Accounting Officer is accountable for ensuring that the resources of the entity for which the officer is designated are used in a way that is lawful and authorized, effective, efficient, economical and transparent.

#### **Management Response**

Currently, there is an approval to test-16 No staff who have applied for driver positions, which will increase the number of drivers to reduce the short fall and we shall strive to employ more.

#### **Committee Observation**

The Committee observed that the Company had 478 motor vehicles but only 164 staff (drivers and plant operators), suggesting that up to 313 vehicles may be idle, incurring maintenance costs and deteriorating without contributing to service delivery.

#### **Committee Recommendation**

**The Committee recommends that within 60 days of adopting this report, the Governor ensures that management, in accordance with Section 149(1) of the**

**Public Finance Management Act, 2012, reviews vehicle utilization, rationalizes idle vehicles, and implements a disposal or redeployment plan to optimize resource use and minimize unnecessary costs, with progress reported to the committee in the next audit cycle.**

### **3.3 Stalled Projects**

Review of the project implementation global matrix for projects undertaken in the financial year ended 30 June, 2025 revealed that several projects worth Kshs.851,734,987 had surpassed their completion dates and had stalled. Management did not provide explanation for the delays or stalling. Failure to complete projects within the agreed timelines poses a risk of cost escalations, wastage of public resources and denies the public the intended benefits and services. This was contrary to Section 151(2) of the Public Procurement and Asset Disposal Act, 2015 which provides that the contract implementation team shall be responsible for monitoring the performance of the contractor to ensure that all delivery or performance obligations are met or appropriate action taken by the procuring entity in the event of obligations not being met and ensure that there is right quality and within the time frame, where required.

#### **Management Response**

The management submitted that the delays were due to various reasons.

#### **Committee Observation**

Committee observed that several projects worth Kshs.851,734,987 had surpassed their completion dates and stalled, hence delays service delivery, increases the risk of cost escalation and wastage of public resources.

#### **Committee Recommendation**

**The Committee recommends that within 60 days of adopting this report, the Governor ensures that management reviews all stalled projects, establishes clear timelines and accountability for completion, and implements effective monitoring mechanisms to ensure contractors meet their obligations in line with Section 151(2) of the Public Procurement and Asset Disposal Act, 2015, with progress reported to the committee in the next audit cycle.**

### **3.4 Delayed Project Completion**

Review of the global matrix for projects undertaken during the financial year ended 30 June, 2025 revealed significant delays in project completion as detailed below;

- i. Projects relating to sewer works amounting to Kshs.1,171,406,180 have exceeded their scheduled completion dates and remain incomplete.
- ii. Projects relating to contracted water supply totalling Kshs.630,973,242 have surpassed their deadlines and

are yet to be finalized. iii. Projects concerning contracted waters and boreholes amounting to Kshs.9,920,778 have also gone beyond the agreed completion periods.

The delays in completing these projects adversely affect service delivery to the stakeholders. This was contrary to Section 151(2) of the Public Procurement and Asset Disposal Act, 2015 which provides that the contract implementation team shall be responsible for monitoring the performance of the contractor to ensure that all delivery or performance obligations are met or appropriate action taken by the procuring entity in the event of obligations not being met and ensure that there is right quality and within the time frame, where required.

In the circumstances, value for money for the expenditure incurred on projects and property, plant and equipment could not be confirmed and Management was also in breach of the law.

### **Management Response**

The management responded that the delays were due to various reasons.

### **Committee observation**

Committee observed that Projects totaling Kshs.1,812,300,200, including sewer works, contracted water supply, and borehole projects have exceeded their scheduled completion dates and remain incomplete.

### **Committee Recommendations**

**The Committee recommends that within 60 days of adopting this report, the Governor ensures that management reviews all delayed projects, enforces strict timelines for completion, strengthens monitoring and oversight of contractors, and implements corrective measures to ensure compliance with Section 151(2) of the Public Procurement and Asset Disposal Act, 2015. The Auditor-General to provide progress report to the committee in the next audit cycle.**

## **4. Staff Costs**

**4.1 Lack of Proper Salary Remittance to Non-Deposit Taking SACCO (NACIWASCO)** Review of the monthly bank remittances revealed that an amount of Kshs.5,861,306 relating to staff net pay, was wired to Nairobi City Water Sacco (NACIWASCO) account through the practice of net sharing. The Nairobi Water SACCO is classified as a Non-Deposit Taking SACCO (BOSA) which is regulated by the SASRA and does not operate as a deposit-taking SACCO (FOSA).

NACIWASCO is therefore, not authorized or operationally equipped to receive full net salary payments from employees and distribute them. Such salary channeling and disbursement activities are typically handled by FOSA SACCOs.

#### **Management Response**

The SACCO account is a pay point for disbursing the net salary is advised by the employees. However, we are going to advise the staff to change their paying points accordingly.

#### **Committee Observation**

The Committee observed that Kshs.5,861,306 of staff net pay was remitted to Nairobi City Water SACCO (NACIWASCO), a Non-Deposit Taking SACCO (BOSA) not authorized to receive and disburse full salary payments.

#### **Committee Recommendation**

**The Committee recommends that within 60 days of adopting this report, the Governor ensures that management advises staff to channel their salaries through authorized Deposit-Taking SACCOs (FOSA), and discontinues the use of NACIWASCO as a pay point. Management should also implement internal controls to ensure all future salary remittances comply with SASRA regulations and minimize risk to employees' funds, with progress reported to the committee in the next audit cycle.**

#### **4.2 Non-Remittance of Retirement Benefits**

The statement of profit or loss and other comprehensive income and as disclosed in Note 10 to the financial statements reflects staff costs amount of Kshs.6,965,434,797 which further includes an amount of Kshs.770,758,128 relating to retirement benefits in respect to National Social Security Fund, Provident Fund/Pension Fund and Gratuity. No evidence was provided to show that the amounts were remitted to the respective schemes. This was contrary to Section 19(4) of the employment Act, 2007 which provides that an employer who deducts an amount from an employee's remuneration in accordance with subsection (1)(a), (f), (g) and (h) should pay the amount so deducted in accordance with the time period and other requirements specified in the law.

#### **Management Response**

The company strives to ensure that it pays all its statutory obligations are paid within the set timelines. All pension payments for NSSF, Madison Asset Management Ltd, local Authorities pension trust (LAPTRUST) are up to date except for Local authorities' provident fund, which is in arrears for five months. Gratuity is a provision and is only paid on the anniversary of the contract.

#### **Committee Observation**

The Committee observed that Kshs.770,758,128, representing staff retirement benefits for NSSF, Provident/Pension Funds, and gratuity, lacked evidence of remittance to the respective schemes.

#### **Committee Recommendation**

**Committee recommends that Within 60 days of adopting this report, the Governor ensures that management fully remits all outstanding retirement benefits, strengthens internal controls to guarantee timely payments to statutory schemes, and ensures compliance with Section 19(4) of the Employment Act, 2007. The Auditor-General should review and provide a status implementation report to the committee in the next audit cycle.**

#### **4.3 Irregular Acting Appointment Beyond Six Months**

Review of the staff Bio Data provided revealed that one hundred and forty-four (144) officers were in acting capacities. Further, review of the monthly payrolls revealed that the majority of these staff had acted for more than the statutory six (6) months and earning an acting allowance. In addition, the positions have not been substantially filled. This was contrary to Section 34 (3) of the Public Service Commission Act, 2017 states that an officer may be appointed in an acting capacity for a period of at least thirty days but not exceeding a period of six months.

#### **Management Response**

The Company is continually filling up vacant positions as they arise and with a current strategy of advertising for the positions three months, prior the retirement date of the substantive holder and any other vacancy that arise the company will strive to fill vacancies within the stipulated time.

#### **Committee Observation**

The Committee observed that 144 officers were serving in acting capacities, with the majority exceeding the statutory six-month limit while earning acting allowances. The substantive positions remain unfilled.

#### **Committee Recommendation**

**The Committee recommends that within 60 days of adopting this report, the Governor ensures that management accelerates the filling of vacant positions, limits acting appointments to the statutory six months, and implements a robust tracking system to prevent future breaches of Section 34(3) of the Public Service Commission Act, 2017.**

#### **4.4 Irregular Payment of Management Allowances**

Review of the payroll data revealed that officers in job groups 1 to 5 received allowances that were not provided for in the Collective Bargaining Agreement (CBA) document. In addition, the approved documentation specifying the entry and exit points for these allowances was not provided for audit review. Further, no evidence was provided to show that these allowances were authorized or endorsed by the Salaries and Remuneration Commission (SRC).

Further, there was no evidence that the salary structure in place and the allowances negotiated through CBA were endorsed/approved by the Salaries and Remuneration Commission (SRC).

### **Management Response**

The allowances that the company pays to staff were approved by the board resolution in 2005 and embedded in the human resource manual. These allowances were in existence before the SRC and in a court ruling of NUWASE vs Mathira Water and Sanitation Company limited and five others in case No 1664 of 2012, the court ruled that SRC role is advisory and not to unilaterally dictate terms of employment of block CBAs.

### **Committee Observation**

The committee observed that officers in job groups 1 to 5 received management allowances not provided for in the Collective Bargaining Agreement (CBA), with no evidence that the allowances were authorized or endorsed by the Salaries and Remuneration Commission (SRC). Documentation specifying entry and exit points for these allowances was also not provided, raising concerns over compliance with regulatory requirements.

### **Committee Recommendation**

**The Committee recommends that within 60 days of adopting this report, the Governor ensures that management reviews all management allowances, documents authorization and approval processes, and ensures alignment with the CBA and advisory guidance from the Salaries and Remuneration Commission (SRC).**

### **4.5 Unsustainable Wage Bill**

The statement of profit or loss and other comprehensive income reflects staff cost of Kshs.6,965,434,797 and total revenue of Kshs.12,729,863,859. The Company's salaries were at 55% of the total revenue which is way above the allowed percentage of 35% by 20% contrary to Regulation 25(1)(a) and (b) of the Public Finance Management (County Governments) Regulations, 2015 which stipulates that the County Government's expenditure on wages and benefits for its public officers, shall not exceed thirty-five (35) per cent of the county government's total revenue. Had the Company

followed the 35% requirement of the revenue generated, staff cost would have been at Kshs.4,455,452,350 resulting to a saving of Kshs.2,509,982,446 which would be used to settle other Company's obligations.

In the circumstances, Management was in breach of the law and inconsistencies in human resource management exposes the Company to loss of funds.

### **Management Response**

The management has been taking the following actions to ensure a sustainable wage bill, i ). Employment of staff has been frozen except for identified critical functions ii) Continuous rescheduling of work and staff harmonization The Company is also pursuing a tariff review to ensure a more responsive tariff toward inflation, hence lower the staff cost percentages to the acceptable level.

### **Committee Observation**

The Committee observed that the Company's staff costs of Kshs.6,965,434,797 represent 55% of total revenue, exceeding the 35% limit set under Regulation 25(1)(a) and (b) of the Public Finance Management (County Governments) Regulations, 2015. The committee further noted that unsustainable wage bill exposes the Company to financial strain and limits resources available for other obligations.

### **Committee Recommendation**

**The Committee recommends that the Governor of Nairobi City County ensures that the Accounting Officer:**

- (i) implements targeted fiscal consolidation measures to reduce the company's wage bill to sustainable levels, ensuring it remains within the prescribed sector benchmarks to safeguard long-term financial stability;**
- (ii) enforces an immediate moratorium on all non-critical staff recruitment, ensuring that any future appointments are strictly limited to essential technical roles and are fully supported by the company's approved staff establishment and budget;**
- (iii) undertakes a comprehensive harmonization of staff roles and organizational structures in strict adherence to Regulation 25(1)(a) and (b) of the Public Finance Management (County Governments) Regulations, 2015, to eliminate functional overlaps and redundancies; and**
- (iv) submits a detailed progress report on the implementation of these workforce optimization strategies to the Senate, with a copy to the Auditor-General for verification during the next audit cycle, within 60 days of the adoption of this report.**

### **5. Unaccounted for Non-Revenue Water (NRW)**

During the year under review, the Company produced a total of 215,292,106 cubic metres (m<sup>3</sup>) of water. However, only 108,383,164 m<sup>3</sup> were billed to customers. The unbilled volume of 106,908,942 m<sup>3</sup>, representing 50% of the total water produced, with a sale value of Kshs.11,961,024,350 (at an average price of Kshs.111.88 m<sup>3</sup>), constitutes Non-Revenue Water (NRW). This level of NRW is significantly above the allowable limit of 25% provided in Schedule E of the Water Services Regulatory Board (WASREB) guidelines. Consequently, the Company exceeded the allowable loss by 26%, equivalent to approximately Kshs.8,566,579,601. This high level of NRW undermines the Company's profitability and threatens its long-term financial sustainability.

In the circumstances, the Company possibly lost an estimated amount of Kshs.11,961,024,350 or 50% Non-Revenue Water.

### **Management Response**

NCWSC is implementing a raft of strategies to address key water losses along water supply value chain, as highlighted below.

**Reduction of Transmission Losses:** a) Procurement and installation of smart bulk meters with real time data capture, analysis and transmission capabilities: This is for real-time sectoral/localized flow measurement along transmission mains; treated water points, points of interest along transmission mains and reservoirs (inflow into distribution points). This will assist in prompt localization and reduction of water losses points. b) Transfer metered WSPs connections from Kwa Maiko - Kirigiti section to AWWDA Bulk Water Supply system: This is to reduce water losses through meter under-registration and fluctuation due to high water pressure. 15 WSPs connections are targeted. c) Install in-line R800 IP68 ultrasonic flow meters for remaining WSPs: In order to reduce water losses through meter under-registration and fluctuation, the Company is installing smart meters for the remaining WSPs connections and transmission offtakes. 30 No. WSPs connections. d) Procure and deploy smart ball inline inspection device: NCWSC is procuring modern in-line water pipeline inspection device to detect and locate points of leakage and illegal water abstraction along transmission mains that are difficult to detect using traditional leak detection methods.

### **Reduction of Distribution Technical Losses:**

a) Installation of DMAs: NCWSC has been installing DMAs progressively for measurement of Regional and Zonal NRW. Currently 243 No. bulk meters out of 387 No. bulk meters have been installed for water balance analysis and identification of key water loss areas.

b) Rehabilitation of aged water infrastructure: NCWSC has earmarked various aged pipeline network for rehabilitation and upgrading to reduce water losses through leaks and bursts. Rehabilitation of 116 kms of aged network in Central (CBD, Kaloleni,

Makongeni, Maringo and Eastleigh), Western (Ngara & Parklands) and Roysambu (Zimmerman, Roysambu and Githurai 44) and Lower Embakasi (Pipeline and Plot 10) will be done between FY 2025/26 to FY 2028/29. c) Asset management – mapping and updating of Company infrastructure: NCWSC has substantially mapped its water and wastewater infrastructure including customer meters. Continuous mapping and data clean-up is on-going to reduce “Awareness, Location and Repair” period of leaks and bursts.

**Reduction of Distribution Commercial Losses:** a) Elimination of illegal water consumptions: In order to reduce water loss through illegal connections, NCWSC has put the below measures;

- Engagement of NYS for identification & disconnection of illegal connections including regularization
- Operationalization of amnesty and incentivized illegal connections reporting policies b) Business re-engineering and creation of monitoring unit(s): Commercial business function is being separated to have independent meter reading, revenue collection and monitoring units in order to enhance identification and reduction of irregular water practices. c) Enhanced meter accuracy: In order to enhance meter accuracy, the Company is undertaking the below measures;
- Replacement of malfunctioning meters; aged, stopped, tampered with, under-registering etc. 57,000 No. meter procurement is underway and are expected in Nairobi by December 2025.
- On-site meter testing – this is to identify underperforming and malfunctioning meters
- Smart metering for key consumers in order to enhance billing data accuracy and responsiveness to water loss incidences
- Procure semi-automatic test bench
- Data and customer consumption analysis
- Procurement and installation of serialized meter seals to avert meter tampering d) Mapping of all customer meters and premises into GIS system: The Company has mapped all plots within its area of service in order to account for all premises in terms of water supply and metering conditions. This is continuous and key in identifying irregular water practices.

#### **Committee observation**

The Committee observed that out of 215,292,106 cubic metres (m<sup>3</sup>) of water produced, only 108,383,164 m<sup>3</sup> were billed to customers. The unbilled volume of 106,908,942 m<sup>3</sup>, represented 50% of the total water produced, with a sale value of Kshs.11,961,024,350 (at an average price of Kshs.111.88 m<sup>3</sup>), constitutes Non-Revenue Water (NRW).

#### **Committee Recommendation**

**The Committee recommends that—**

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

#### **6. Duplication of Oracle ERP Support Payments**

The statement of profit or loss and other comprehensive income reflects general and operational expenses amount of Kshs.4,860,384,030 as disclosed in Note 12 to the financial statements. It was established that the Company operates an Oracle ERP System that integrates financial, procurement and human resource modules within a single database. Review of records revealed that the Company procured and paid separately for support services of the financial module and procurement module at a cost of Kshs.2,862,055 and Kshs.2,980,867 respectively, vide two payment vouchers. Both payments were made to the same vendor. However, since the ERP modules operate on one database, it was not possible to separate support and maintain individual modules. The arrangement therefore, resulted in duplication of payments for services that ought to have been covered under one consolidated contract. The duplicated cost amounted to Kshs.5,842,922. This was contrary to Article 227 (1) of the Constitution of Kenya (2010) which provides that, when a state organ or any other public entity

contracts for goods or services, it shall do so in accordance with a system that is fair, equitable, transparent, competitive and cost effective.

In the circumstances, the propriety and value for money for the expenditure amount of Kshs.5,842,922 could not be confirmed.

### **Management Response**

Management notes the observation. The separate payments arose due to the transitional nature of support agreements as the ERP system evolved from independent module-based contracts (Financials and iProcurement) to a consolidated enterprise-wide support framework. Furthermore the Oracle ERP Finance and iProcurement modules, though hosted within a common database, are functionally, technically, and operationally distinct. The Finance module supports financial operations such as general ledger, accounts payable, accounts receivable, asset management, cash management, and statutory reporting. These functions are highly regulated, require strict compliance with International Public Sector Accounting Standards (IPSAS), and demand dedicated vendor support from experts who must have deep knowledge of accounting principles, financial compliance frameworks, reporting standards, and audit support to keep pace with evolving accounting rules, reporting frameworks, and integrations with external financial systems. On the other hand, the iProcurement module supports sourcing and supply chain processes including requisitions, purchase orders, approvals, supplier management, contract management, and compliance with the Public Procurement and Asset Disposal Act (PPADA 2015). This module requires specialized support from an expert who must have a strong understanding of supply chain workflows, procurement law PPADA, vendor management and contract compliance to maintain automated workflows, supplier integrations, vendor portal operations, and other procurement specific functions. Because of these differences, we felt a single consolidated contract could not reasonably guarantee the same level of specialized support for both modules without adversely affecting service delivery, compliance obligations, or overall system efficiency.

### **Committee Observation**

The Committee observed that payments of Kshs.5,842,922 were made separately for support of Oracle ERP financial and procurement modules, resulting in potential duplication of costs.

### **Committee Recommendation**

**The Committee recommends that within 60 days of adopting this report, the Governor ensures that management reviews all ERP support agreements to consolidate where possible, eliminates duplicate payments, and implements controls to ensure future contracts comply with Article 227(1) of the Constitution,**

**achieving cost-effective and transparent service delivery. Progress should be reported to the committee in the next audit cycle.**

#### **7. Non-Submission of Data Protection Impact Assessments (DPIAs) Prior to Implementation of the USSD Service**

It was established that the Company recently implemented a USSD service to facilitate customer access to billing and account management. The service processes significant amounts of Personal Identifiable Information (PII), including customer names, account numbers, contact details, and billing data. However, while Management conducted an internal DPIA, there was no evidence that the report was submitted to the ODPC for review and approval prior to implementation, contrary to Section 31(2) of the Data Protection Act, 2019, and Regulation 40 of the Data Protection (General) Regulations, 2021, which require data controllers or processors to conduct and submit a Data Protection Impact Assessment (DPIA) to the Office of the Data Protection Commissioner (ODPC) where the nature of processing is likely to result in high risk to the rights and freedoms of individuals. DPIAs must be submitted before commencing or implementing high-risk data processing operations.

Failure to submit the DPIA undermines regulatory oversight, creates gaps in the independent review of high-risk processing activities, and exposes the Company to potential non-compliance with the Data Protection legal framework.

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

#### **Management Response**

The company did the data protection impact assessment and has submitted to ODPC.

#### **Committee Observation**

The Committee observed that the USSD service, which processes significant personal data, was implemented without evidence that the Data Protection Impact Assessment (DPIA) was submitted to the Office of the Data Protection Commissioner (ODPC) prior to implementation.

#### **Committee Recommendation**

**The Committee recommends that within 60 days of adopting this report, the Governor ensures that management formally submits all high-risk DPIAs to the ODPC before implementation of any service processing personal data, strengthens internal controls to monitor compliance with the Data Protection Act, 2019, and the Auditor-General to give a progress report to the Committee in the next audit cycle.**

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK  
MANAGEMENT AND GOVERNANCE

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

During the year under review, the Company incurred an expenditure of Kshs.6,965,434,797 on staff costs. However, the Company lacked an approved staff establishment.

In the circumstances, it was not possible to confirm whether the Company was operating with optimal staffing levels.

### **Management Response**

The company is currently in the process of a job evaluation exercise, which will give a staff establishment as one of the outcomes.

### **Committee Observation**

Committee observed that the Company incurred staff costs amounting to Kshs. 6,965,434,797 during the year under review without an approved staff establishment in place, thus it was not possible to ascertain whether the staffing levels were aligned with the Company's operational needs and strategic objectives.

### **Committee Recommendation**

**The Committee recommends that, within 30 days of adoption of this report, the Governor ensures that Management expedites the job evaluation exercise and establishes an approved staff establishment aligned with the Company's mandate and financial capacity, and the Auditor-General to review its implementation in the subsequent audit cycle and report to the Committee.**

## **2. Promotions More Than One Job Group Higher**

During the year under review, seventy-six (76) officers were promoted. However, review of the records revealed that thirty-six (36) of these promotions were irregular since the officers were promoted more than one job group higher. Further, the Company lacked a staff establishment and career progression guidelines to regulate such promotions and ensure they were based on transparent and standardized criteria.

In the circumstances, the effectiveness of controls on promotions could not be confirmed.

### **Management Response**

The officers listed as having been promoted during the period were appointed to the position through a competitive internal recruitment process. All promoted staff met the requisite academic and/or professional qualifications as well as the prescribed experience for the position appointed to.

### **Committee Observation**

The Committee observed that promotions were undertaken in the absence of career progression guidelines and an approved staff establishment, and in some instances, officers were advanced by more than one job group. Consequently, the committee concluded that the basis, transparency, and fairness of the recruitment and promotion process could not be established.

#### **Committee Recommendation**

**The Committee recommends that the Governor ensures that the Accounting Officer develops and implements an approved staff establishment and comprehensive career progression guidelines, and ensures that all recruitment and promotions are conducted in a transparent, fair, and merit-based manner, and that compliance be subjected to review by the Auditor-General in the subsequent audit cycle and reported to the Committee.**

### **3. Staff with Multiple Salary Pay Points**

Review of the bank remittances provided revealed that numerous staff had multiple salary pay points where their net pays were distributed through various banks and SACCO accounts. Specifically, staff net salaries totalling Kshs.90,298,934 were disbursed under this arrangement. This net sharing practice lacks Management approval, was not incorporated in the Company's official policies, and presented significant challenges in reconciling bank remittance records with the payroll. Further, the Company had no formal checkoff agreements regulating these multiple pay points. This fragmented salary distribution increases the risk of payment discrepancies, weakens internal controls over payroll disbursements, and poses a risk of breaching the statutory "one-third rule".

In the circumstances, the effectiveness of controls on salary pay points could not be confirmed.

#### **Management Response**

The employee has a discretion of whom and how his /her salary will be paid. The employer has a duty to provide convenient means to enable the employee to be paid as desired. This does not violate any law and policy. The multiple accounts are for disbursing the net salary as advised by the employees, the amount disbursed is after taking consideration of the deductions and compliance to the relevant laws. The amount disbursed to the multiple accounts reconciles and adds to the employee's net pay. Th is is in line with section 20(c) of the employment act 2007.

#### **Committee Observation**

The Committee observed that numerous staff had multiple salary pay points, with net salaries totalling Kshs. 90,298,934 disbursed through various banks and SACCO accounts.

#### **Committee Recommendation**

**The Committee recommends that within 30 days upon adoption of this report, the Governor ensures that the Accounting Officer establishes clear policies and formal agreements governing multiple salary pay points. All salary disbursements should be authorized, documented, and aligned with internal control requirements to ensure transparency, accurate reconciliation, and compliance with statutory provisions. The Auditor-General should review compliance in the subsequent audit cycle and report the findings to the Committee.**

#### **4. Lack of Land Ownership Documents**

As previously reported, the statement of financial position reflects property, plant and equipment net book value of Kshs.3,656,625,986 as disclosed in Note 18 to the financial statements. However, the following issues were noted;

- i. One parcel of land at Kariobangi Sewerage and two (2) parcels of land at Ruai Sewerage measuring 90 hectares and 1,272.90 hectares had no ownership documents.
- ii. The Company has parcels of land meant for expansion, storage, water and sewerage treatment works. However, the ownership and other records of the parcels of land were not provided for audit.

In the circumstances, the ownership of the parcels of land could not be confirmed.

#### **Management Response**

The statement of Financial Position reflects property, plant and Equipment balances of the assets acquired /owned by the Company and not all assets operated by the Company. Assets Assigned to the company for operations and not transferred are not included in the books. However the Company in Conjunction with Nairobi City County the Registered owner have engaged with Titling process to ensure there are Titled and transferred.

#### **Committee Observation**

The Committee observed that several land parcels, including those at Kariobangi and Ruai Sewerage, lacked ownership documents, and supporting records for other operational lands were not provided, making it impossible to confirm ownership of assets valued at Kshs. 3,656,625,986.

#### **Committee Recommendation**

**The Committee recommends that within 90 days upon tabling of this report, the Committee recommends that the Governor ensures the Accounting Officer, in**

**collaboration with relevant authorities, completes the titling and registration of all land parcels, maintains full documentation, and that the Auditor-General reviews compliance in the next audit cycle and report to the committee.**

#### **5. Active Customer Accounts with Zero Billing**

Review of billing records revealed that 30,687 active customer accounts, representing about 12% of the average monthly customer base of 247,000, recorded zero bills throughout the year ended 30 June, 2025. The meter readings for these accounts remained unchanged during the entire period, suggesting that the meters may have been faulty, bypassed, or that there could have been collusion between staff and customers. Further analysis revealed that 6,681 of the 30,687 accounts had estimated readings throughout the year. In the absence of corrective action, such accounts remain susceptible to illegal water drawing and unrecorded consumption.

Failure to address this anomaly undermines the accuracy of billing, exposes the Company to revenue leakage, and compromises the integrity of customer account management.

In the circumstances, the effectiveness of internal controls on revenue losses and efficiency in water management meters could not be confirmed.

#### **Management Response**

A zero bill can occur legitimately when a customer's meter or installation fails to receive water. This situation may arise due to several reasons, including stopped (faulty) meters, supply interruptions, customers with alternate water sources, vacated premises, or disconnected meters. In line with the approved billing tariff, such cases are provided for under the "Zero Bill"

#### **Committee Observation**

The Committee observed that 30,687 active customer accounts, representing approximately 12% of the average monthly customer base, recorded zero billing throughout the year ended 30 June 2025. Further Meter readings for these accounts remained unchanged, with 6,681 accounts relying on estimated readings.

#### **Committee Recommendation**

**The Committee recommends that the Governor ensures that the Accounting Officer implements robust monitoring and verification mechanisms to address zero-billed accounts. This should include regular inspection, maintenance, and calibration of meters, prompt investigation of anomalies, and enforcement of corrective actions to safeguard revenue. Further, the Auditor-General should review compliance and the effectiveness of controls in the subsequent audit cycle and report findings to the Committee.**

## **6. Customer Accounts with Consecutive Billing Estimates**

Review of billing estimates data for the period 1 July, 2024 to 30 June, 2025 revealed that 22,646 customer accounts had their bills estimated consecutively for six (6) months amounting to Kshs.179,858,004, while 14,316 accounts were estimated consecutively for twelve (12) months amounting to Kshs.713,041. Continuous use of estimated billing for extended periods undermines the accuracy of reported revenues, as the actual value of consumption for these accounts could not be determined.

The practice is inconsistent with the requirements of IFRS 15, compromises the reliability of the financial statements and exposes the Company to revenue misstatement and disputes with customers.

In the circumstances, the effectiveness of controls on meter readings could not be confirmed.

### **Management Response**

Management acknowledges the observation regarding customer accounts with consecutively estimated bills. While Company policy requires that no account be estimated for more than three consecutive months, certain operational challenges have led to exceptions. These include meters not located on the ground, locked gates, denied access, and situations where customers have not been receiving water.

### **Committee Observation**

The Committee observed that 22,646 customer accounts were billed using estimates for six consecutive months, totaling Kshs. 179,858,004, while 14,316 accounts were estimated for twelve consecutive months, totaling Kshs. 713,041.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures that the Accounting Officer implements strict monitoring and enforcement of the Company's billing policies, limiting the use of estimated bills to the maximum allowed period. Alternative measures, such as meter inspection, maintenance, and improved customer access, should be prioritized to capture actual consumption. Further, the Auditor-General should review compliance and report on the effectiveness of controls over meter readings and revenue recognition in the subsequent audit cycle.**

## **7. Accounts Billed and not Paid Throughout the Year**

Review of water meter billing and payments reports revealed that 51,212 accounts were billed an amount of Kshs.307,806,530. However, the accounts did not have a corresponding payment. It was not clear how the accounts were billed for the whole year and yet they did not have corresponding payments.

The lack of payments for the accounts represents a significant loss of potential revenue for the Company and continuous offering services to non-paying customers.

In the circumstances, the effectiveness of controls on optimal revenue collection could not be confirmed.

#### **Management Response**

We reorganizing the collection strategy by separating meter reading and Collection for enhanced output see attached the communication. The company has GIS systems in place to map all areas with water services and identify discrepancies in water consumption, using key characteristics such as the size of housing units and water usage. The company has issued demand notes.

#### **Committee Observation**

The Committee observed that 51,212 customer accounts, billed a total of Kshs. 307,806,530 during the year, did not have corresponding payments.

#### **Committee Recommendation**

**The Committee recommends that within 60 days upon tabling of this report, the Governor ensures that the Accounting Officer strengthens revenue collection controls, including timely follow-up on unpaid accounts, verification of billed amounts, and alignment of meter readings with collections and the Auditor-General should review the effectiveness of these measures in the subsequent audit cycle and report findings to the Committee.**

### **8. Use of Unsupported Oracle 11g Database System**

It was established that the Company continues to operate its Oracle ERP System on Oracle 11g database, which has reached End-of-Life and is no longer supported by the vendor. The unsupported status exposes the system to potential security threats, lack of bug fixes, and incompatibility with modern applications. Further, the reporting functionality of Oracle 11g is limited as it only generates outputs in Microsoft Excel 1997–2003 format. These reports are bulky in size and rigid to use, leading to inefficiencies in data analysis and decision-making. Modern reporting capabilities such as dynamic dashboards, flexible export options and integration with newer applications are therefore not available.

In the circumstances, the compatibility of the systems could not be confirmed.

#### **Management Response**

The process of upgrading the Basis 2 database is ongoing.

#### **Committee Observation**

The Committee observed that the Company continues to operate its Oracle ERP system on the Oracle 11g database, which has reached End-of-Life and is no longer supported by the vendor. This exposes the system to potential security threats, lack of bug fixes, and incompatibility with modern applications.

**Committee Recommendation**

**The Committee recommends that within 60 days upon adoption of this report, the Governor ensures that the Accounting Officer expedites the ongoing upgrade to a supported database version. The upgraded system should enhance security, ensure vendor support, improve reporting functionality, and facilitate integration with modern applications. The Auditor-General should verify the completion and effectiveness of the upgrade in the subsequent audit cycle and report findings to the Committee.**

**9. Use of Unsupported and End-of-Life Operating Systems**

Review of the ICT environment at the Company revealed that the Company operates a total of 1,237 computers with different Windows Operating Systems. Analysis of their lifecycle status revealed that 131 devices or 11% are running on unsupported systems that have already reached End-of-Life, including Windows XP Professional, Windows Server 2003, Windows Server 2008 R2, Windows 8, and Windows 8.1 versions. In addition, 883 devices or 71% are running on Windows 10 variants which are scheduled to reach End-of-Support by October, 2025. Only 223 devices or 18% are operating on currently supported systems such as Windows 11 and Windows Server 2016/2022 as tabulated below;

**Status of Licenses**

EoL Status	Operating Systems	Devices	% of Total
Unsupported (EoL)	Windows XP Professional, Windows Server 2003, Windows Server 2008 R2, Windows 8, Windows 8.1	131	11%
Nearing EoL (2025)	Windows 10 Education, Enterprise, Pro, Pro Education, Pro for Workstations, Pro N	883	71%
Supported	Windows 11 Pro, Windows 11 Pro for Workstations, Windows Server 2016, Windows Server 2022	223	18%
<b>Total</b>	—	<b>1,237</b>	<b>100%</b>

In the circumstances, the efficiency of the systems could not be confirmed.

**Management Response**

Replacement of licenses is ongoing and is being done in phases due to cash flow constraints.

### **Committee Observation**

The Committee observed that 11% of the Company's computers operate on unsupported, End-of-Life systems, while 71% are on Windows 10 variants nearing End-of-Support, leaving only 18% on fully supported systems. This exposes the ICT environment to security risks, inefficiencies, and compatibility challenges.

### **Committee Recommendation**

**The Committee recommends that within 60 days upon adoption of this report, the Governor ensures the Accounting Officer expedites the phased replacement and upgrade of all End-of-Life and soon-to-be unsupported systems to fully supported platforms, with compliance and effectiveness verified by the Auditor-General in the next audit cycle.**

### **10. Use of End-of-Life and Unsupported Network Devices**

Review of the ICT infrastructure at the Company revealed that the Company continues to operate Cisco Catalyst 2950 series switches which reached End-of-Support in October, 2013. These devices have therefore, remained obsolete for more than ten years without access to vendor security patches, bug fixes or technical support. Further, it was noted that the Cisco Catalyst 2960-XR series, which is in use at the Company, reached End-of-Support on 31 July, 2025. After this date, the equipment will no longer be supported by the manufacturer.

In the circumstances, the relevance of the devices in the long run could not be determined.

### **Management Response**

Replacement of devices is ongoing and is being done in phases due to cash flow constraints.

### **Committee Observation**

The Committee observed that the Company continues to operate Cisco Catalyst 2950 switches, obsolete since October 2013, and Cisco Catalyst 2960-XR switches, reaching End-of-Support in July 2025.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures the Accounting Officer accelerates the phased replacement of all End-of-Life and soon-to-be unsupported network devices, and that the Auditor-General verifies compliance and effectiveness in the next audit cycle.**

### **11. Weaknesses in the Imprest Management System**

Review of sampled imprest surrenders totalling Kshs.50,621,971 revealed that Management did not maintain an imprest register or issue serialized imprest warrants. Consequently, the authenticity and completeness of imprest issued and committed during the year under review could not be established. In addition, the imprest control ledgers from the Oracle system were not provided for audit. Further, Management did not provide a comprehensive ledger detailing imprest movements, including issuance and accounting, for the period under review. Without the imprest register and the serialized imprest warrants, it was not possible to confirm that staff were not holding multiple imprest or to identify any imprest outstanding at year-end.

In the circumstances, authenticity of imprest issued or committed during the year could not be confirmed.

### **Management Response**

Imprest is a prepayment in accounting terms and where the funds are issued to imprest holders in advance and expensed when the imprest holder accounts for funds. The company maintains the imprest register in the oracle accounting system. A register of all imprest holders at NCWSC are held in electronic form in our Oracle financial system and recorded and paid as prepayments. When the holder of imprest accounts the funds, this is expensed by distributing the imprest to various expense codes as per chart of accounts. The system has all the information in the manual register -Name of the imprest holder, date of issue, amount issued and the date of expensed/ accounted.

### **Committee Observation**

The Committee observed that Management did not maintain a physical imprest register or issue serialized imprest warrants, and relevant Oracle imprest control ledgers were not provided for audit.

### **Committee Recommendation**

**The Committee recommends that within 60 days upon adoption of this report, the Governor ensures the Accounting Officer strengthens imprest controls by maintaining a comprehensive imprest register, issuing serialized warrants, and providing timely access to Oracle imprest ledgers. The Auditor-General should verify compliance and report findings in the subsequent audit cycle.**

## **12. Weaknesses in Inventory System**

The statement of financial position and as disclosed in Note 20 to the financial statements reflects inventories balance of Kshs.504,991,351. Discussions with Management revealed that the Company received the inventory system as donation from Athi Water Works Development Agency in 2023. However, the System is not fully implemented to date and lacks certain important modules including reporting, asset management and order management modules. Further, the System did not provide for

ways of determining utilizations, reorder levels and obsolete inventory held in the store and the Company maintained manual stores records through the use of stock cards.

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

#### **Management Response**

The system implementation is underway. Currently the Company maintains manual stores records through the use of stock cards as the system implementation is underway.

#### **Committee Observation**

The Committee observed that the Company received an inventory management system as a donation from Athi Water Works Development Agency in 2023; however, the system is not fully implemented and lacks key modules, including reporting, asset management, and order management. Additionally, the system does not track utilization, reorder levels, or obsolete inventory, and manual stock cards are still in use.

#### **Committee Recommendation**

**The Committee recommends that the Governor ensures the Accounting Officer expedites full implementation of the inventory management system, including all critical modules, and integrates it with manual stock records until the system is fully operational. The Auditor-General should review the system's functionality and effectiveness in the subsequent audit cycle.**

### **13. Weak Internal Controls in Inventory Management**

The statement of financial position and as disclosed in Note 20 to the financial statements reflects an inventory balance of Kshs.504,991,351 as at 30 June, 2025, which includes balances in respect of water fittings and accessories, office supplies, water treatment chemicals and lab equipment, tyres and accessories, motor spares, uniform and protective clothing, and water meters. However, the Board of survey report was not provided for the audit.

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

#### **Management Response**

The Company conducts stock take bi-annually in June and December to ascertain the correctness of the stock. There is a stock take for June 2025 at all stores.

#### **Committee Observation**

The Committee observed that the Company's inventory balance of Kshs. 504,991,351, covering water fittings, chemicals, spares, and other items, lacked supporting verification from a Board of Survey report

#### **Committee Recommendation**

**The Committee recommends that the Governor ensures the Accounting Officer strengthens internal controls over inventory management by maintaining comprehensive records, including timely Board of Survey reports for all inventory categories, in line with Section 9(1)(e) of the Public Audit Act, 2015. The Auditor-General should verify compliance and the accuracy of inventory records in the next audit cycle.**

## CHAPTER TWO: HOSPITALS

### 2.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR BAHATI LEVEL 4 HOSPITAL FOR THE FINANCIAL YEAR 2024/2025

The Governor of Nairobi City County, Hon. Johnson Sakaja, EGH, appeared before the Committee on Friday, 6th March, 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Bahati Level 4 Hospital for the Financial Year 2024/25. The following officers accompanied the Governor---

1. Dr. Anastasia Nyalita – CECM-BHO (Business and Hustler Opportunities)
2. Ms. Suzanne Silantoi – CECM H.W.N. (Health, Wellness, and Nutrition)
3. Mr. Martin Nang'ole - Ag. Managing Director
4. Mr. Paul Omondi - Finance Director, NCWSC
5. Mr. Fredrick Obwanda- C.E.O.
6. Ms. Lydia Maitha – CO - BHO (Chief Officer - Behavioral Health and Operations)
7. CPA Clare Kenga - Assistant Director, Finance

### REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified Opinion** on the financial statements of Bahati Level 4 Hospital for the financial year on the following basis---

#### 1. Presentation and Inaccuracies in the Financial Statements

Review of financial statements presented for audit revealed the following anomalies:

1. The statement of cash flows reflects additional assets of Kshs. 210,915 while Note 32 on property, plant and equipment movement schedule reflects additional assets of Kshs.6,210,915 resulting in an unreconciled variance of Kshs.6,000,000.
2. Review of the statement of comparison of budget and actual amounts revealed that the statement was incomplete. The statement does not include the original and final approved budgets as required by IPSAS 24 and no explanation of material variances between the budgeted amounts and the actual expenditure and revenue.

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

#### Management Response

- i. The variance of Kshs 6,000,000 is as a result of a donation of an ultra sound machine which is valued at Kshs 6,000,000.
- ii. The financial statements have been amended and Kshs 210,915 forms part of general expenses. The expenditure relates to purchases of various ICT accessories and thus does not qualify to be classified as capital expenditure.
- iii. A revised Statement of Comparison of Budget and Actual Amounts, fully compliant with IPSAS 24, has been prepared. This statement now includes three columns for each budget line item:
  - a) The Original Budget: As initially approved before the start of each financial quarter.
  - b) The Final Budget: As subsequently amended and approved during the year.
  - c) The material variances between final and actual budget was due to lack of budgetary support from the county executive, shortfall in revenue collection due to frequent health care workers strike and delayed reimbursement from SHA.
  - d) The missing items such as Transfers from the County Government, grants from donors and development partners, Transfers from other Government entities and Public contributions and donations are due to the fact that we never received any of the aforementioned items during the audited financial year. Therefore, it was only prudent that they are not included in the financial statements

### **Committee Observations**

The Committee observed that---

- i. there was an unreconciled variance of Kshs. 6,000,000 between the statement of cash flows and the property, plant and equipment movement schedule, which management explained as a donation of an ultrasound machine. The expenditure for ICT accessories\_ (Kshs. 210,915) was correctly reclassified from capital to recurrent expenditure.
- ii. the initial financial statements were incomplete as they did not include the original and final approved budgets with explanations for material variances, contrary to IPSAS 24 requirements.

### **Committee Recommendations**

**The Committee recommends that-**

- i. **the Governor ensures that the Accounting Officer takes appropriate administrative action on responsible officers within the Accounts and Finance department who fail to keep complete financial records in**

- accordance with section 156(1) of the Public Finance Management Act, Cap.412A and in line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;
- ii. the Governor ensures that the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;
  - iii. the National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties;
  - iv. the Governor ensures the Accounting Officer strengthens internal audit controls and ensures proper record keeping in line with section 155 of the Public Finance Management Act, Cap.412A and submit a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply; and
  - v. the Governor ensures that the Accounting Officer enhances the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.

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

The statement of financial position and Note 32 to the financial statements reflects property, plant and equipment balance of Kshs.6,437,136. Review of the fixed asset register maintained revealed that it was not comprehensive since it did not have values for land, buildings and motor vehicles. This was contrary to International Public Sector Accounting Standard (IPSAS) 45 -- Property, Plant and Equipment that requires entities to maintain a comprehensive and accurate PPE register showing cost, accumulated depreciation, additions, disposals, revaluations, and carrying amounts at the reporting date. Further, Management did not provide documentary evidence indicating that the land on which the hospital sits legally belongs to the Ministry of Health or the County Government.

In the circumstances, the accuracy, completeness, regularity and ownership of property, plant and equipment balance of Kshs.6,437,136 could not be confirmed.

## **Management Response**

To address the specific instances of non-compliance, management has initiated the following actions:

### *Comprehensive Asset Identification & Valuation:*

A physical verification and valuation exercise for all PPE, including land, buildings, and motor vehicles is being carried out by the department of physical and urban planning in all county health facilities. By 30th June 2025 Bahati Level IV Hospital had not been valued. The management commits to make a follow up with relevant county offices to hasten the process and process the ownership documents for the hospital PPEs.

## **Committee Observations**

The Committee observed that---

- i. the fixed asset register for Bahati Level 4 Hospital was incomplete, lacking values for land, buildings, and motor vehicles, contrary to IPSAS 45 requirements.
- ii. no documentary evidence was provided to confirm legal ownership of the land on which the hospital sits, and the valuation and transfer of assets from the relevant authorities had not been completed.

## **Committee Recommendations**

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 IGRTC to ensure the transfer of ownership documents of land and buildings is fast tracked;**
- ii. **the Governor to make budgetary provisions for adjudication and valuation of assets to ensure a seamless process in the transfer of assets;**
- iii. **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;**
- iv. **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**
- v. **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.

### **3. Unsupported Inventories**

The statement of financial position and Note 31 to the financial statements reflects inventories totalling to Kshs.627,942. However, the balance was not supported with stock taking reports as at 30 June 2025. In the circumstances, the accuracy and completeness of the inventories balance could not be confirmed.

#### **Management Response**

Management acknowledges the audit observation; the stock-taking process and reconciling the balances was accurate and completed as at 30 June 2025. The corrected documentation now fully supports the balance reported in the statement of financial position.

#### **Committee Observations**

The Committee observed that the inventories balance of Kshs.627,942 was initially not supported by stock-taking reports. However, management has since confirmed that the stock-taking process was completed and documentation provided.

#### **Committee Recommendations**

**The Committee recommends that-**

- i. the Governor, through the Accounting Officer, should ensure compliance with regulation 104(1) of the Public Finance Management (County Government) Regulations which states that the accounting officer of a procuring entity to set up an inventory management system which shall be managed by the head of the procurement function, for the purpose of control and managing its inventory, stores; and**
- ii. the Accounting Officer should ensure timely submission of documents during the audit process in line with section 47(1) of the Public Audit Act, Cap.412B as read together with section 149(2)(k) failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act in the subsequent audit cycle.**

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

The statement of financial position reflects trade and other payables of Kshs.1,037,575. However, the balance was not supported with a detailed schedule of the payables. In the circumstances, the accuracy and completeness of the trade and other payables of Kshs.1,037,575 could not be confirmed.

#### **Management Response**

Management acknowledges the audit observation; however, the hospital does not have any trade payables, this was erroneously reported.

#### **Committee Observations**

The Committee observed that the trade and other payables balance of Kshs.1,037,575 was erroneously reported, as the hospital does not have any trade payables.

#### **Committee Recommendations**

**The Committee recommends that the Governor ensures that the Accounting Officer should ensure that all financial statements are accurate and reflect the true financial position of the hospital, and that prior year adjustments are carried out in the hospital's financial statements of the subsequent year to correct errors in order to reflect the true financial position.**

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

The statement of comparison of budget and actual amounts reflects a final revenue budget and actual on comparable basis of Kshs.10,000,000 and Kshs.21,059,542 respectively resulting in revenue shortfall of Kshs.7,701,516 or 22.9% of the budget. Similarly, the statement reflects actual expenditure of Kshs.4,341,111 against an approved budget of Kshs.10,000,000 resulting to an under expenditure of Kshs.5,658,889 or 56.6 % of the budget. In the circumstances, the under-funding and under expenditure may have affected the operations and planned activities of the Hospital and hence impacted negatively on service delivery to the public.

#### **Management Response**

The revenue shortfall of Kshs. 7,701,516 (22.9% below budget) is attributed to the following key factors:

(a) The final revenue budget of Kshs. 10,000,000 was based on revenue target taking into consideration of revenue collection performance for previous period and a budgetary support from the county executive. However, during the year under review no budget support was received from the county. The health department also

experienced health workers strike that affected service delivery hence reducing revenue collection.

(b) In the amended financial statements, the total revenue realized for the year was Kshs 7,701,516 against an approved expenditure of Kshs 4,552,026 resulting to under expenditure Kshs 3,149,490. As at 30th June 2025, the management had not sought approval for expenditure of Kshs 3,149,490 thus forming part of cash and cash equivalents.

### **Committee Observations**

The Committee observed that---

(i) the hospital experienced a revenue shortfall of Kshs. 7,701,516 (22.9% below budget) and under-expenditure of Kshs. 5,658,889 (56.6% of the budget), which may have negatively impacted service delivery.

(ii) the under-performance was attributed to lack of budgetary support from the county executive, health workers' strikes affecting revenue collection, and delayed approvals for expenditure.

### **Committee Recommendations**

The Committee recommends that---

- i. the Accounting Officer should ensure timely submission of documents including evidence of resubmission and follow-up of rejected or partially approved SHA claims during the audit process in line with section 47(1) of the Public Audit Act, Cap.412B as read together with section 149(2)(k) failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act in the subsequent audit;**
- ii. 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;**
- iii. the Accounting Officer should ensure strict compliance with section 149(2)(h) and (i) of the Public Finance Management Act, Cap. 412A and the standards prescribed by the Public Sector Accounting Standard Board under IPSAS 24 on the presentation of budget information in the financial statements for an entity that prepares financial statements under the**

**accrual basis of financial reporting, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply; and**

- iv. the Accounting Officer should comply with regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures, failure to which the provisions of section 199 of the Public Finance.**

### 3.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR MUTUINI DAGORETTI LEVEL 4 HOSPITAL FOR THE FINANCIAL YEAR 2024/2025

The Governor of Nairobi City County, Hon. Johnson Sakaja, EGH, appeared before the Committee on Friday, 6<sup>th</sup> s March, 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Mutuini Dagoretti Level 4 Hospital for the Financial Year 2024/25. The following officers accompanied the Governor---

1. Dr. Anastasia Nyalita – CECM-BHO (Business and Hustler Opportunities)
2. Ms. Suzanne Silantoi – CECM H.W.N. (Health, Wellness, and Nutrition)
3. Mr. Martin Nang’ole - Ag. Managing Director
4. Mr. Paul Omondi - Finance Director, NCWSC
5. Mr. Fredrick Obwanda– C.E.O.
6. Ms. Lydia Maitha – CO - BHO (Chief Officer - Behavioral Health and Operations)
7. CPA Clare Kenga - Assistant Director, Finance

#### REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified Opinion** on the financial statements of Mutuini Dagoretti Level 4 Hospital for the financial year on the following basis---

##### 1. Long Outstanding Receivables

The statement of financial position reflects receivables from exchange transactions balance of Kshs. 16,386,830, as disclosed in Note 29 to the financial statements. Included in the balance are receivables amounting to Kshs. 4,224,750 which had been outstanding for more than one (1) year. However, there was no policy on the impairment of long outstanding fees arrears casting doubt on the fair statement of the accounts receivables balance. In the circumstances, the accuracy and full recoverability of the outstanding receivables balance of Kshs.4,224,750 could not be confirmed.

##### Management Response:

The hospital has had a long outstanding debt resulting from the defunct NHIF and currently SHA reimbursement. The management has established, through the board, an Audit Issues Resolution and Follow-Up Policy. The office has been in constant contact

with SHA with reminders on the matter for a resolute conclusion of settlement of this amount.

### **Committee Observations**

The Committee observed that---

- i. the hospital had long outstanding receivables of Kshs. 4,224,750, mainly from NHIF and SHA, which had been outstanding for more than one year.
- ii. there was no policy on the impairment of long outstanding fees arrears, casting doubt on the fair statement of the accounts receivables balance.

### **Committee Recommendations**

The Committee recommends that-

- i. the Governor through the Accounting Officer should ensure that Mutuini Hospital 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 60 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 the Accounting Officer, within 60 days of the adoption of this report, submits an approved copy of the Debt Management Policy to the Auditor-General for verification. The Auditor-General to verify the policy and submit a status update on the same in the subsequent audit cycle;
- iv. 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 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.

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

The statement of financial position reflects property plant and equipment net book value of Kshs 407,826,765. However, the asset register provided was incomplete and did not fully capture the details and values of all property, plant and equipment owned by the

Hospital. Further, the assets had not been tagged, limiting the ability to verify existence, identification and safeguarding of the assets.

In the circumstances, the accuracy and completeness of the property plant and equipment net book value of Kshs.407,826,765 could not be verified.

#### **Management Response:**

While we confirm the provision of an updated asset register, we acknowledge the gaps as attached in Annex II.

At the time of audit, the hospital had not put in place an asset management policy. Forthgoing, the hospital has developed Asset and Disposal Policy that will guide asset management and disposal and has already been adopted by the hospital board.

#### **Committee Observations**

The Committee observed that---

- i. the asset register for Mutuini Hospital was incomplete and did not fully capture the details and values of all property, plant and equipment owned by the Hospital.
- ii. the assets had not been tagged, limiting the ability to verify existence, identification, and safeguarding of assets.

#### **Committee Recommendations**

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 IGRTC to ensure the transfer of ownership documents of land and buildings is fast tracked;**
- ii. **the Governor to make budgetary provisions for adjudication and valuation of assets to ensure a seamless process in the transfer of assets;**
- iii. **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;**
- iv. **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;**
- v. **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; and
- vi. **the Governor ensures that the hospital undertakes a comprehensive asset tagging exercise to enable proper identification and safeguarding of all assets.**

### **3. Failure to Account for Facilities Improvement Funds (FIF) at the Hospital**

Review of revenue records obtained from Level 4 health facility revealed that the Hospital collected rendering of services medical service income amount totalling Kshs. 73,375,210 towards the health facilities improvement. The County Treasury transferred total amount of Kshs.85,555,564 to the health facility which was at variance with an amount of Kshs. 73,375.210 reflected in the statement of cashflows resulting in unreconciled variance of Kshs. 12,180,354 by the Hospital.

In the circumstances, the accuracy and completeness of the rendering of services amount totalling Kshs.73,375,210 could not be confirmed.

#### **Management Response:**

The hospital confirms receipt of goods and commodities in kind from the county government. Reconciliations are ongoing hereabove.

#### **Committee Observations**

The Committee observed that there was an unreconciled variance of Kshs. 12,180,354 between the medical service income collected (Kshs. 73,375,210) and the amount transferred from the County Treasury to the hospital (Kshs. 85,555,564).

#### **Committee Recommendations**

**The Committee recommends that the Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, undertakes a comprehensive reconciliation of all FIF collections and transfers with the County Treasury to resolve the variance and ensure that all revenues are accurately accounted for and retained at the facility in compliance with the Facilities Improvement Financing Act, 2023.**

### **4. Unconfirmed Stock Balances**

The statement of financial position reflects an inventory of nil balance. The amount is not supported by annual stock sheets. However, physical verification of store records revealed unvalued pharmaceutical supplies which were in store as at 30 June, 2025.

In the circumstances, the valuation, accuracy, and completeness of the inventory nil balance could not be confirmed.

#### **Management Response:**

The figure in the financial position reflects stock take reports ended 30th June, 2025 valued at Kshs. 20, 842,861.

#### **Committee Observations**

The Committee observed that---

- i. the financial statements reflected a nil inventory balance, yet physical verification revealed unvalued pharmaceutical supplies in the store as at 30 June 2025.
- ii. management subsequently provided stock take reports showing an inventory balance of Kshs. 20,842,861.

#### **Committee Recommendations**

The Committee recommends that-

- i. the Governor, through the Accounting Officer, should ensure compliance with regulation 104(1) of the Public Finance Management (County Government) Regulations which states that the accounting officer of a procuring entity to set up an inventory management system which shall be managed by the head of the procurement function, for the purpose of control and managing its inventory, stores; and
- ii. the Accounting Officer should ensure timely submission of documents during the audit process in line with section 47(1) of the Public Audit Act, Cap.412B as read together with section 149(2)(k) failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act in the subsequent audit cycle.

#### **5. Unresolved Prior Year Audit Matters**

In the audit report of the previous year, several issues were raised under the Report on the Financial Statements, lawfulness and effectiveness in the use of public resources and Report on effectiveness of internal controls, risk management and governance

Review of the status during audit of the Hospital in 2024/2025 revealed that the following matters remained unresolved.

	<b>Financial Year</b>	<b>Audit Issue</b>
1.	2023/2024	Inaccuracies in the Financial Statements
2.	2023/2024	Non-Provision of Trial Balance
3.	2023/2024	Omission of in-kind Contribution from the County Government
4.	2023/2024	Unconfirmed Stock Balances
5.	2023/2024	Irregularities on in kind contributions from the County
6.	2023/2024	Deficiencies in implementation of Universal Health Coverage (UHC)

**Management Response:**

The office is in the process of developing an implementation and tracking matrix for audit observations and recommendations. The hospital has also developed and adopted Audit Issues Policy.

**Committee Observations**

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

**Committee Recommendations**

**The Committee recommends that---**

- i. **the Accounting Officer should resolve any issues resulting from an audit that remains outstanding in accordance with section 149(2)(l) of the Public Finance Management Act as read together with section 53(1) of the Public Audit Act. Failure to which the accounting officer shall be in contempt of parliament and we may recommend administrative sanctions such as the removal of the accounting officer, reduction in rank; and**
- ii. **the Governor ensures the accounting officer submits a detailed status report on the mitigation measures taken to resolve prior year matters within 60 days of the adoption of this report.**

**6. Long-Outstanding Trade and Other Payables**

The statement of financial position reflects trade and other payables amounting Kshs.37,554,576, However, included in the balance are trade payables balance Kshs. 10,676,199 which had been had been outstanding for more than one (1) year. This was

contrary to Section 53 (8) of the Public Procurement and Asset Disposal Act, 2015 which states that an Accounting Officer shall not commence any procurement proceedings until satisfied that sufficient funds to meet the obligations of the resulting contract (s) are reflected in approved budget estimates". In the circumstances, the Hospital Management was in breach of the law and there is risk loss of public funds through litigations, interests and penalties.

#### **Management Response:**

The outstanding balances is due to delayed reimbursement from SHA and defunct NHIF, which contravenes the contracts signed between the facility and the medical insurance herein attached. That notwithstanding, the hospital has endeavoured to follow up with the medical insurers to clear the outstanding balances.

#### **Committee Observations**

The Committee observed that the hospital had long outstanding trade payables of Kshs. 10,676,199, which had been outstanding for more than one year, contrary to procurement laws.

#### **Committee Recommendations**

**The Committee recommends that-**

- i. the Governor to ensures the hospital 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 health continuously monitors the financial performance of the hospital and report on the same to the County Executive Committee, making recommendations on how the hospital can improve its performance; and**
- iii. within sixty (60) days of the adoption of this report, the Accounting Officer engages 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.**

#### **7. Non-Staggering of Board Tenure**

During the year under review, it was noted that the Chairperson and four Members of the Health Facility Management Committee were all appointed on the same date, with effect from 24 April, 2023. This is contrary to Section 1.14 of the Mwongozo Code of

Governance which requires the Appointing Authority to stagger the tenures of Board and Committee Members to ensure phased transition and continuity in governance.

In the circumstances, adherence to Mwongozo code of governance could not be confirmed.

**Management Response:**

The management noted the observation of the auditor general. In annex VII, the hospital asked appointment of a replacement of one of the board members who had not reported. This cures the vacuum partially.

Further, in subsequent appointments advised appointment of part of the board members on separate dates.

Additionally, the hospital has developed Board Governance and Operation Policy.

**Committee Observations**

The Committee observed that the Chairperson and four Members of the Health Facility Management Committee were all appointed on the same date, contrary to the Mwongozo Code of Governance which requires staggering of tenures.

**Committee Recommendations**

**The Committee recommends that the Governor ensures that the appointing authority complies with Section 1.14 of the Mwongozo Code of Governance by staggering the tenures of Board and Committee Members to ensure phased transition and continuity in governance.**

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

Verification of equipment and review of staff levels at the Hospital revealed that during the year under review, the Hospital did not meet the requirements of Kenya Quality Model for Health Policy Guidelines. It was noted that equipment available were not as per Kenya Quality Model for Health Policy Guidelines as shown below,

<b>Criteria</b>	<b>Minimum Requirement</b>	<b>Auditor's Observation</b>	<b>Deficiency</b>
<b>Staffing Requirement</b>			
Medical Officers	16	2	14
Anaesthesiologists	2	0	2

General Surgeons	2	0	2
Gynaecologists	2	1	1
Paediatricians	2	1	1
Radiologists	2	0	2
Registered Community Health Nurses	75	9	66
Services Offered			
Radiology Services	Should be in place	Not in place	
Renal Services	Should be in place	Not in place	
Mortuary and Autopsy Services	Should be in place	Not in place	
Bed Capacity	150	8	142
Equipment & Machines			0
Incubators (Newborn)	5	2	3
Cots	5	1	4
Advanced life support	Should be in place	Not in place	
Resuscitative in Labor Ward	2	1	1
Functional ICU beds	6	0	6
HDU beds	6	0	6
Renal Unit with Dialysis Machines	5	0	5
Functional Operating Theatres Maternity and General	2	1	1
Asset Mgt			
Land Size	5 acres	4 acres	1 acre
Store Management			
Adequate storage space		Not Adequate	

In the circumstances, these deficiencies contravene the provisions of the First Schedule to the Health Act, 2017, and imply that the attainment of the highest possible standard of health, including the right to health care services, such as reproductive health care as guaranteed under Article 43(1) of the Constitution of Kenya, 2010 may not be realized.

**Management Response:**

In line with the Kenya Quality Health Model requirement, the hospital had deficits of health workers. However, the deficit was filled by employment of locum and casuals budgeted for on quarterly basis through FIF.

On completion of the Level 5 400-bed capacity hospital, the services flagged by the office of the auditor general will be made available to the clients.

### **Committee Observations**

The Committee observed that Mutuini Level 4 Hospital did not meet the minimum requirements prescribed under the Kenya Quality Model for Health (KQMH) for a Level 4 facility, with significant staff deficits across critical cadres and lack of essential services, equipment, and infrastructure.

### **Committee Recommendations**

**The Committee recommends that---**

- i. within sixty (60) days of the adoption of this report, the Governor submits to the Senate a comprehensive plan outlining the specific measures being taken to address the hospital's staffing shortages. The measures should include both short-term and long-term solutions, focusing on optimizing existing resources, improving employee welfare, and ensuring sustainable staffing levels moving forward; 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; and**
- iii. The Governor ensures the officer in charge of the facility has the requisite academic and professional qualifications in accordance with the Health Act, 2017 and provide evidence of measures taken to address the matter to Senate within 60 days of the adoption of this report.**

#### **9. Non-Compliance with the Public Procurement Capacity Building Levy Order, 2023**

Review of records revealed that the Hospital entered into contracts but no documentary evidence has been provided to confirm that the Entity complied with paragraph 3(1) of the Public Procurement Capacity Building Levy, Order 2023 which states that there shall be paid a levy by a supplier on all procurement contracts signed between the

supplier and a procuring entity, at the rate of zero point zero three per centum (0.03%) of the value of the signed contract, exclusive of applicable taxes. In addition, Public Procurement Regulatory Authority (PPRA) circular No. 01/2024 dated 30 August, 2024 which requires procurement entities to remit the levy to the Authority through the e-Citizen payment platform by the 20th day of the subsequent month and also file monthly returns.

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

**Management Response:**

Noting the observation by the office of the auditor general, the hospital has written to county director procurement requesting for further advice on the matter since the facility is not a withholding agent with PPRA.

**Committee Observations**

The Committee observed that the hospital did not comply with the Public Procurement Capacity Building Levy Order, 2023, by failing to deduct and remit the 0.03% levy on procurement contracts.

**Committee Recommendations**

**The Committee recommends that Management should comply with the Public Procurement Capacity Building Levy Order, 2023, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply.**

**10. Expired Medical Supplies**

The statement of financial position reflects an inventory balance of Kshs.20,842,861. However, review of the pharmaceutical store records revealed expired drugs valued at Kshs.66,080 and had not been disposed posing a health hazard.

In the circumstances, proper maintenance and safe custody of stores at the facility could not be confirmed.

**Management Response:**

The drugs identified are program drugs and reagents in TB, Malaria, HIV and Covid programs. The drugs are supplied to the facility through Kemsas without noting the consumption ending up expiring at the facility.

### **Committee Observations**

The Committee observed that expired drugs valued at Kshs.66,080 were found in the pharmaceutical store and had not been disposed, posing a health hazard.

### **Committee Recommendations**

**The Committee recommends that the Governor ensures that the Accounting Officer develops and implements a robust inventory management system that includes tracking of expiry dates, timely disposal of expired medical supplies in accordance with applicable regulations, and enhanced coordination with KEMSA to prevent accumulation of program drugs that may expire before use.**

#### **11. Lack of Land Ownership documents**

The statement of financial position reflects a balance of Kshs. 407,826,765 in respect of property, plant and equipment, which land valued at Kshs.301,100,000. However, no title deed or other supporting ownership documents were provided for audit verification.

In the circumstances, the ownership of the land could not be confirmed.

### **Management Response:**

At the time of audit, the hospital only had a land map and land evaluation report. However, the hospital is in the process of acquiring its land title deed.

### **Committee Observations**

The Committee observed that the hospital lacked title deeds or other supporting ownership documents for land valued at Kshs.301,100,000, making it impossible to confirm ownership.

### **Committee Recommendations**

**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 IGRTC to ensure the transfer of ownership documents of land and buildings is fast tracked;**
- ii. the Governor to make budgetary provisions for adjudication and valuation of assets to ensure a seamless process in the transfer of assets; and**

- iii. 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.**

### **3.2. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR MAMA MARGARET UHURU LEVEL 5 HOSPITAL FOR THE FINANCIAL YEAR 2024/2025**

The Governor of Nairobi City County, Hon. Johnson Sakaja, EGH, appeared before the Committee on Friday, 6<sup>th</sup> March, 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Mama Margaret Uhuru Level 5 Hospital for the Financial Year 2024/25. The following officers accompanied the Governor---

1. Dr. Anastasia Nyalita – CECM-BHO (Business and Hustler Opportunities)
2. Ms. Suzanne Silantoi – CECM H.W.N. (Health, Wellness, and Nutrition)
3. Mr. Martin Nang'ole - Ag. Managing Director
4. Mr. Paul Omondi - Finance Director, NCWSC
5. Mr. Fredrick Obwanda– C.E.O.
6. Ms. Lydia Maitha – CO - BHO (Chief Officer - Behavioral Health and Operations)
7. CPA Clare Kenga - Assistant Director, Finance

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

The Auditor-General rendered a **Qualified Opinion** on the financial statements of Mama Margaret Uhuru Level 5 Hospital for the financial year on the following basis--

##### **1. Long Outstanding Trade and Other Payables**

The statement of financial position and Note 18 to the financial statements reflects trade and other payables balance of Kshs. 104,295,980. Included in this balance was Kshs. 26,073,995 which has been outstanding for two (2) years. This was contrary to Section 53(8) of the Public Procurement and Disposal Act, 2015 which states that an Accounting Officer shall not commence any procurement proceedings until satisfied that sufficient funds to meet the obligations of the resulting contract(s) are reflected in approved budget estimates.

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

##### **Management Response**

Management acknowledges the audit observation regarding the long-outstanding payables amounting to Kshs.104,295,950, We confirm that this balance primarily relates to supplies and services procured in the Financial Years 2023/2024 and 2024/2025. While Management acknowledges the breach of Section 53(8) of the Public Procurement and Disposal Act, it is important to note that these commitments were entered into during a period of significant cash flow constraints occasioned by delays in the release of funds from the defunct NHIF and the transition to the new Social Health Authority (SHA) funding model. The management continues to follow up with SHA on the outstanding claims, and once settled, the payables will be cleared accordingly.

### **Committee Observations**

The Committee observed that the hospital had long outstanding trade and other payables of Kshs. 104,295,980, of which Kshs. 26,073,995 had been outstanding for two years, contrary to procurement laws.

### **Committee Recommendations**

**The Committee recommends that-**

- i. the Governor to ensures the hospital 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 health continuously monitors the financial performance of the hospital and report on the same to the County Executive Committee, making recommendations on how the hospital can improve its performance; and**
- iii. within sixty (60) days of the adoption of this report, the Accounting Officer engages 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.**

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

The statement of financial position reflects accounts receivables from exchange transactions balance of Kshs. 67,025,710 as disclosed in Note 15 to the financial statements. However, included in the balance are receivables amounting to Kshs 47,000,000 which had been outstanding for more than one (1) year.

In the circumstances, the completeness, accuracy and recoverability of the receivables from exchange transactions balance totalling Kshs 47,000,000 could not be confirmed.

## **Management Response**

Management acknowledges the audit observation in regards to long outstanding receivables amounting to Kshs 67,025,710 including medical claims due from the defunct National Hospital Insurance Fund (NHIF) and the current Social Health Authority (SHA).

Management has actively followed up on the outstanding claims through issuing formal follow up letters.

Management is confident that the recoverability of these receivables will improve significantly following Social Health Authority (SHA) commitment to make regular payments.

## **Committee Observations**

The Committee observed that the hospital had long outstanding receivables of Kshs. 47,000,000 from NHIF and SHA which had been outstanding for more than one year, affecting the hospital's cash flow.

## **Committee Recommendations**

**The Committee recommends that-**

- i. the Governor through the Accounting Officer should ensure that the hospital 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 60 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 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 the Committee on the matter in the subsequent audit cycle; and**
- iv. 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.**

### **3. Understaffing at the Facility**

Review of the Human Resource records revealed that the Hospital has a proposed staff establishment of one thousand one hundred and twenty-four (1,124) against the actual staff of two hundred and fourteen (214) leading to understaffing of nine hundred and ten (910) or 81% of the proposed staff establishment in critical functions. Further, it was noted that some departments were being manned by few staff when compared to the available workload while other departments had no qualified staff to manage the relevant functions. In the circumstances, the efficiency and effectiveness in delivery of services could not be confirmed.

#### **Management Response**

Management acknowledges the audit findings regarding understating and the lack of an approved staff establishment at the Hospital. We recognize that insufficient staffing levels across key departments compromise service delivery efficiency, staff well-being, and compliance with healthcare standards.

A formal staff establishment proposal has been drafted, aligned with the Ministry of Health norms and the Hospital's service volume, and submitted to the County Public Service Board through Chief Officer in charge of Health Facilities for review and approval. Also, an immediate internal redeployment of available clinical and administrative staff has been undertaken to prioritize coverage in critical and understaffed departments. Additionally, arrangements for locum and contract staff in high-need areas are being explored.

Upon approval of the staff establishment, a phased recruitment plan will be implemented, beginning with departments experiencing the highest shortages and workload pressures (e.g., nursing, clinical officers, laboratory, and pharmacy). Engagement with medical training institutions for internship placements, community service posts, and county-level staff sharing programs to supplement human resources in the short to medium term.

Management further reaffirms its commitment to achieving optimal staffing levels to ensure safe, effective, and efficient healthcare service delivery in line with the Hospital's mandate and the national Universal Health Coverage objectives.

#### **Committee Observations**

The Committee observed that the hospital was severely understaffed, with only 214 staff against a proposed establishment of 1,124, representing an 81% deficit in critical functions, which compromises service delivery.

### **Committee Recommendations**

**The Committee recommends that---**

- i. within sixty (60) days of the adoption of this report, the Governor submits to the Senate a comprehensive plan outlining the specific measures being taken to address the hospital's staffing shortages. The measures should include both short-term and long-term solutions, focusing on optimizing existing resources, improving employee welfare, and ensuring sustainable staffing levels moving forward; 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 5 hospital. The Auditor-General should monitor progress and keep this matter under review in the subsequent audit cycle; and**
- iii. The Governor ensures the officer in charge of the facility has the requisite academic and professional qualifications in accordance with the Health Act, 2017 and provide evidence of measures taken to address the matter to Senate within 60 days of the adoption of this report.**

#### **4. Lack of Hospital Management Board**

During the year under review, the Hospital did not have a Board of Management in place. The purpose of the Board is to oversight, promote development, approve plans, programs and estimates for implementing County health strategies in the Hospital and to control the administration of the facility.

In the circumstances, the effectiveness and efficiency of the governance system could not be confirmed.

### **Management Response**

Management acknowledges the audit observation regarding the absence of a Hospital Management Board during the period under review. We recognize that this represents a significant weakness in governance, oversight, and strategic direction for the Hospital.

Pending Board appointment, the Hospital's senior management team has established an interim management committee to oversee critical administrative, financial, and operational matters, with monthly reporting to the County Chief Officer Of Health Facilities Sector.

Management reaffirms its commitment to establishing and maintaining a functional, accountable, and effective Hospital Management Board to enhance strategic oversight, promote development, and ensure sound governance in line with legal and regulatory requirements.

#### **Committee Observations**

The Committee observed that the hospital operated without a Board of Management during the year under review, which constitutes a significant weakness in governance, oversight, and strategic direction.

#### **Committee Recommendations**

**The Committee recommends that the Governor ensures that a Hospital Management Board is constituted and operationalized without delay to provide the necessary oversight, promote development, and ensure sound governance in line with legal and regulatory requirements.**

### 3.3. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR MBAGATHI COUNTY REFERRAL HOSPITAL FOR THE FINANCIAL YEAR 2024/2025

The Governor of Nairobi City County, Hon. Johnson Sakaja, EGH, appeared before the Committee on Friday, 6<sup>th</sup> March, 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Mbagathi County Referral Hospital for the Financial Year 2024/25. The following officers accompanied the Governor---

1. Dr. Anastasia Nyalita – CECM-BHO (Business and Hustler Opportunities)
2. Ms. Suzanne Silantoi – CECM H.W.N. (Health, Wellness, and Nutrition)
3. Mr. Martin Nang’ole – Ag. Managing Director
4. Mr. Paul Omondi – Finance Director, NCWSC
5. Mr. Fredrick Obwanda– C.E.O.
6. Ms. Lydia Maitha – CO - BHO (Chief Officer - Behavioral Health and Operations)
7. CPA Clare Kenga – Assistant Director, Finance

#### REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified Opinion** on the financial statements of Mbagathi County Referral Hospital for the financial year on the following basis---

##### 1. Long Outstanding Receivables

The statement of financial position reflects receivables from exchange transactions balance of Kshs.432,469,437 as disclosed in Note 29 to the statement of financial statements. The balance includes medical services receivables due from the defunct National Hospital Insurance Fund (NHIF) amount of Kshs.279,576,802 which has been outstanding for more than one (1) year.

Further, debts totalling Kshs.4,141,933 have been outstanding for over three (3) while those between two to three years amounted to Kshs.132,566,876. There was no evidence of efforts made by Management to recover the debts.

In addition, included in the receivables is Kshs.12,374,593 from prisons. These were medical services offered on credit to patients from Kenya prisons but no payment was made for the last one year. Further, the Management did not have a formal agreement

with Kenya Prisons stating the terms of engagement. Management has not made a provision for bad and doubtful debts in the financial statements.

In the circumstance, the accuracy, completeness and recoverability of the receivables from exchange transactions balance of Kshs.416,285,611 could not be confirmed.

### **Management Response**

Management acknowledges the audit observation regarding the long outstanding receivables amounting to Kshs.432,469,437, including medical claims due from the defunct National Hospital Insurance Fund (NHIF) and the current Social Health Authority (SHA).

We wish to clarify that Management has undertaken several efforts to pursue recovery of these outstanding debts, particularly the Kshs.279,576,802 relating to NHIF/SHA. The following actions have been carried out.

#### **a) Continuous Follow-Up and Engagement**

Management has actively followed up on the outstanding claims through.

- Issuing formal follow-up letters.
- Regular visits by the Hospital's finance and claims teams to engage NHIF/SHA officers;
- Participation in scheduled reconciliation meetings to address pending claims.

b) Prior to the transition to SHA, the Hospital undertook reconciliation of all claims submitted to NHIF and provided all additional supporting documents requested. However:

#### **c) Challenge Encountered.**

Since the operationalization of the Social Health Authority (SHA), the Hospital no longer has access to the former NHIF claims system, which was used to verify, reconcile, and track historical claims.

This system was disabled following the transition, significantly limiting the Hospital's ability to.

- Access historical claim records,
- Download reconciliations,
- Verify outstanding balances, and

- Provide additional documentation where system-based extraction is required.

This challenge has affected the speed and completeness of reconciliation efforts.

d) Engagement with Nairobi City County Health Sector.

The matter has been escalated to the County Health Department to facilitate higher-level engagement with SHA, given the system migration and its impact on claim vitrification.

The Management acknowledges the audit observation regarding the long-outstanding receivables for medical services provided to Kenya Prisons.

In response, Management wishes to clarify that following a court ruling directing Kenya Prisons to settle an outstanding amount of Kshs. 10,000, 000, Mbagathi has since received a partial payment of Kshs. 4,284,739.00.

While the full amount ordered by the court has not yet been realized, Management is actively engaged in rigorous follow-up actions with the Kenya Prisons Service and the relevant line ministries to ensure the remaining balance is settled.

Furthermore, Management is in the process of formalizing a Memorandum of Understanding (MoU) with the Kenya Prisons Service to establish clear terms of engagement, credit limits, and payment timelines to prevent the recurrence of long-outstanding debts. Regarding the provision for bad and doubtful debts, Management is reviewing the receivables aging report to ensure appropriate provisions are reflected in the subsequent financial period in accordance with accounting standards.

### **Committee Observations**

The Committee observed that---

- i. the hospital had long outstanding receivables of Kshs.432,469,437, including Kshs.279,576,802 from NHIF/SHA and Kshs.12,374,593 from Kenya Prisons, which had been outstanding for over one year.
- ii. there was no formal agreement with Kenya Prisons governing the terms of engagement, and no provision for bad and doubtful debts was made in the financial statements.

### **Committee Recommendations**

The Committee recommends that-

- i. the Governor through the Accounting Officer should ensure that Mbagathi Hospital 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 60 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 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 the Committee on the matter in the subsequent audit cycle;
- iv. 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
- v. the Governor ensures that a formal Memorandum of Understanding (MoU) is executed with the Kenya Prisons Service to establish clear terms of engagement, credit limits, and payment timelines to prevent the recurrence of long-outstanding debts.

## **2. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final budget amount of Kshs.527,804,216 against actual receipt on comparable basis of Kshs.452,362,813 resulting in an under funding of Kshs.75,441,404 or 14% of the budget. Similarly, the Hospital spent Kshs.539,765,396 against actual receipts of Kshs.452,362,813 resulting in over-expenditure of Kshs.87,402,583 or 19% of the actual receipts. The approval for the over expenditure was not provided for audit.

Further, no budget estimates were prepared for miscellaneous receipts of Kshs.12,853,604. As a result, these receipts were not aligned to any approved budget provisions.

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

### **Management Response**

Management acknowledges the audit observation regarding budgetary control and performance for the year under review.

The variance between the final budget amount of Kshs.527,804, 216 and the actual receipts of Kshs.452,362, 813, resulting in an underfunding of Kshs. 75,441,404, is noted. We wish to clarify that the Hospital relies significantly on reimbursements from the former National Hospital Insurance Fund (NHIF) and the current Social Health Authority (SHA) to sustain its operations. Delays in claim processing and inadequate reimbursements from NHIF/SHA greatly contributed to the under-collection, creating a financing gap that constrained the Hospital's ability to fully implement planned activities.

a) Inadequate reimbursements from NHIF/SHA

The reimbursements received from NHIF/SHA were lower than the amounts claimed, resulting in funding shortfalls that affected.

- Service delivery,
- Procurement of essential medical supplies,
- Payment of operational obligations, and
- Execution of critical planned programs.

Despite these limitations, Management prioritized key hospital functions to ensure continuity of essential healthcare services.

b) Nature of Hospital operations and emergency response

Mbagathi County Referral Hospital is a high-volume Level 5 referral facility that handles a substantial number of emergency and unplanned cases, including:

- Road traffic accident victims,
- Maternal and neonatal emergencies,
- Outbreak-related cases,
- Mass casualty incidents, and
- Patients in critical condition requiring urgent medical attention.

These emergency scenarios often necessitate immediate expenditure, regardless of the approved budget and cash flow projections. As a result, the Hospital incurred unavoidable over-expenditure amounting to Kshs. 87,402,583 to sustain emergency and life-saving services and prevent loss of life. The management had sought for Authority to Incur Expenditure (AIE) through Chief officer Health Facilities to cover the over expenditure.

Management acknowledges the omission of budget estimates for miscellaneous receipts of Kshs 12,853,604. This was mainly due to the unpredictable nature of such receipts and dependence on external factors including NHIF/SHA claim variations.

Measures have been taken to ensure that all revenue streams, including miscellaneous receipts are properly captured in future budget estimates.

### **Committee Observations**

The Committee observed that---

(i) the hospital experienced underfunding of Kshs.75,441,404 (14% of the budget) and over-expenditure of Kshs.87,402,583 (19% of actual receipts), with no approval for the over-expenditure provided.

(ii) no budget estimates were prepared for miscellaneous receipts of Kshs.12,853,604, which were not aligned to any approved budget provisions.

### **Committee Recommendations**

- i. **The Committee recommends that the Governor ensures that ---**
- ii. **the Accounting Officer should ensure timely submission of documents including evidence of resubmission and follow-up of rejected or partially approved SHA claims during the audit process in line with section 47(1) of the Public Audit Act, Cap.412B as read together with section 149(2)(k) failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act in the subsequent audit;**
- iii. **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;**
- iv. **the Accounting Officer should ensure strict compliance with section 149(2)(h) and (i) of the Public Finance Management Act, Cap. 412A and the standards prescribed by the Public Sector Accounting Standard Board under IPSAS 24 on the presentation of budget information in the financial statements for an entity that prepares financial statements under the accrual basis of financial reporting, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply; and**

- v. **the Accounting Officer should comply with regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures, failure to which the provisions of section 199 of the Public Finance.**

### 3. Unresolved Prior Year Audit Matters

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

Review of the status during audit of the Hospital in 2024/2025 revealed that the following matters remained unresolved.

	<b>Financial Year</b>	<b>Audit Issue</b>
1	2023/2024	Inaccuracies in the Financial Statements
2	2023/2024	Insufficient Asset Disclosure and Valuation
3	2023/2024	Inaccuracies in Cash and Cash Equivalents Balance
4	2023/2024	Unsupported Balances
5	2023/2024	Long Outstanding Trade Payables
6	2023/2024	Presentation and Disclosure of Financial Statements
7	2023/2024	Congestion in the Hospital's Wards
8	2023/2024	Irregular Engagement of Casual Employees
9	2023/2024	Misclassification of Expenditure
10	2023/2024	Supply of Fuel Without a Valid Contract
11	2023/2024	Uncertainty in Management of Drugs at Point of Expiry
12	2023/2024	Failure to Comply with Provisions of the Law on prequalification
13	2023/2024	Facility Check List Variances
14	2023/2024	Unlawful Payment of Committee Allowances
15	2023/2024	Failure to tag equipment

### Management Response

Management acknowledges the audit observation regarding the unresolved prior year matters highlighted in the 2023/2024 audit reports. We wish to state that substantial progress has been made in addressing the majority of the issues raised, particularly those relating to the accuracy, presentation, and disclosure of the financial statements.

a) Issues relating to Financial Statements have been addressed

Management has taken corrective measures to resolve inaccuracies previously noted in.

- The presentation and disclosure of financial statements,
- Cash and cash equivalents balances,
- Unsupported balances, and
- Misclassification of expenditure.

The current year's financial statements reflect these corrections, and the improvements are based on enhanced internal review, strengthened reconciliations, and better documentation processes.

b) Asset disclosure and valuation completed

To address the issue of insufficient asset disclosure and valuation, Nairobi city county undertook a comprehensive Asset verification and valuation exercise.

A copy of the valuation report has been attached to support this improvement.

The updated asset register now reflects accurate, complete, and properly valued assets aligned with IPSAS requirements.

c) Long outstanding Trade Payables.

The long outstanding payables noted in prior audits primarily relate to delays in reimbursements from the former NHIF and the current Social Health Authority (SHA). Due to delayed claim processing and non-reimbursement of medical claims, the Hospital was unable to settle some supplier obligations on time.

Management continues to follow up with SHA on the outstanding claims, and once settled, the payables will be cleared accordingly.

d) Other operational issues.

Management has also taken steps to address the operational issues raised in prior audits, including.

- Improving ward congestion through patient flow measures,
- Regularizing engagement of casual employees,
- Strengthened procurement compliance to prevent recurrence and ensure adherence to prequalification rules,
- Enhanced stock management to address drug expiry risks,
- Addressing facility checklist variances through improved monitoring and reporting, and
- Ensuring compliance with laws governing committee allowances.

### **Committee Observations**

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

### **Committee Recommendations**

**The Committee recommends that---**

- i. the Accounting Officer should resolve any issues resulting from an audit that remains outstanding in accordance with section 149(2)(l) of the Public Finance Management Act as read together with section 53(1) of the Public Audit Act. Failure to which the accounting officer shall be in contempt of parliament and we may recommend administrative sanctions such as the removal of the accounting officer, reduction in rank; 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.**

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

Review of Referral-Hospital staffing records and physical-inspection revealed that the Hospital did not meet the minimum requirements prescribed under the Kenya Quality Model for Health (KQMH). The Hospital has two hundred and twenty-five (225) staff members against the required three hundred and twenty-three (323) resulting in a staff shortage of ninety-eight (98) personnel, representing 30% of the authorized establishment as detailed in the attached Appendix 1.

In the circumstances, Management was in breach of the Health Act, 2017, and the Kenya Quality Model for Health standards due to failure to maintain the minimum staffing levels and critical care capacity required could not be confirmed.

### **Management Response**

Management acknowledges the noted variances and observations arising from the assessment of compliance with the Kenya Quality Model for Health (KQMH) standards for a Level 5 Hospital.

*a) Staffing Variances*

The shortage of staff across various cadres is duly noted. Management wishes to clarify that the staffing gaps are currently being addressed by the County Government through ongoing recruitment and redeployment processes. The County Public Service Board has already initiated steps to fill critical positions to ensure alignment with the KQMH minimum requirements. Management remains committed to collaborating with the County to progressively achieve the authorized establishment.

*b) Medical Equipment and Machines*

Regarding the shortfall in critical medical equipment and theatre facilities, Management confirms that the County Government has budgeted for the procurement and upgrading of essential medical equipment in the current Financial Year 2025/2026. Implementation of these provisions is underway, and the Hospital anticipates significant improvement in capacity upon completion.

*c) Land Size and Ownership Documentation*

Management notes the observation on land size. While the acreage information was not initially provided, we wish to confirm that the Land Title Deed pertaining to the Hospital has been attached herewith for *the Auditor's review and verification*.

*d) Risk Management Policy*

Management further confirms that the Risk Management Policy is now in place, and a copy has been attached for your review. The Hospital is committed to strengthening governance and internal controls to ensure full compliance with policy and regulatory requirements.

**Committee Observations**

The Committee observed that the Hospital did not meet the minimum requirements prescribed under the Kenya Quality Model for Health (KQMH) for a Level 5 facility, with a staff shortage of 98 personnel (30% of the authorized establishment).

**Committee Recommendations**

**The Committee recommends that---**

- i. within sixty (60) days of the adoption of this report, the Governor submits to the Senate a comprehensive plan outlining the specific measures being taken to address the hospital's staffing shortages. The measures should include both short-term and long-term solutions, focusing on optimizing existing resources, improving employee welfare, and ensuring sustainable staffing levels moving forward; 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 5 hospital. The Auditor-General should monitor progress and keep this matter under review in the subsequent audit cycle; and
- iii. The Governor ensures the officer in charge of the facility has the requisite academic and professional qualifications in accordance with the Health Act, 2017 and provide evidence of measures taken to address the matter to Senate within 60 days of the adoption of this report.

#### **5. Engagement of Casual Employees Without Contracts**

The statement of financial performance reflects employee costs of Kshs.56,409,412 which includes Kshs. 20,360,655 relating to payments made to casual employees. Audit review of seventy (70) sampled casual employees out of an average of eighty- seven (87) casuals per month revealed that only five (5) casual employees had binding employment contracts covering the full period of engagement while twenty-two (22) casual employees had contracts covering only a portion of the period engaged and forty-three (43) casual employees had no binding employment contracts for the entire period employed.

This was contrary to Section 10(1) of the Employment Act, 2007 requires that employees engaged for a period exceeding three (3) months be provided with written contracts specifying the terms and conditions of service.

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

#### **Management Response**

Management acknowledges the audit observation regarding the engagement of casual employees and the noted gaps in documentation of employment contracts during the review period.

We recognize the requirement under Section 10(1) of the Employment Act, 2007, which mandates that employees engaged for a period exceeding three (3) months be issued with written contracts specifying the terms and conditions of service.

*a) Availability of employment contracts*

Management wishes to clarify that contracts for the majority of casual employees are in place and are duly filed in their respective individual personal files.

These contracts were available and remain available for audit verification upon request. Any gaps noted during the sampling exercise may have arisen from delays in retrieving some of the files during the audit period.

*b) Engagement with the County Public Service Board (CPSB)*

To ensure full compliance with the Employment Act, Management has:

- Briefed the Nairobi City County Public Service Board (CPSB) on the need to regularize the engagement of casual employees;
- Requested CPSB to review and streamline the employment status of all casual staff serving for extended periods,
- Initiated a process for issuing updated contracts where required, in line with County HR procedures.

### **Committee Observations**

The Committee observed that out of 70 sampled casual employees, only 5 had binding employment contracts covering the full period of engagement, while 43 had no binding employment contracts for the entire period employed, contrary to Section 10(1) of the Employment Act, 2007.

### **Committee Recommendations**

**The Committee recommends that the Governor ensures that the Accounting Officer regularizes the engagement of all casual employees by providing written contracts specifying the terms and conditions of service in compliance with Section 10(1) of the Employment Act, 2007, and that the Auditor-General reviews compliance in the subsequent audit cycle.**

### **6. Cash Payment to Board Members**

Review of Board Members expenses revealed that their allowances were paid in cash through the issuance of an imprest warrant to an employee, who then made subsequent

cash payments to the Board Members. The Hospital did not process the payments directly to the individual bank accounts of the Board Members as required for transparency and accountability. No justification was provided to explain why cash payments were preferred over direct bank transfers. This was contrary to Regulation 91 of the Public Finance Management (County Governments) Regulations, 2015 states that (1) for the purposes of this subpart, an imprest is a form of cash advance or a float which the Accounting Officer may authorize to be issued to officers who in the course of duty are required to make payments which cannot conveniently be made through the cash office of a government entity or bank account.

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

### **Management Response**

Management acknowledges the audit observation regarding the payment of Board Members' allowances through cash imprest during the year under review.

We wish to clarify that the practice was undertaken to facilitate urgent Board activities at the time; however, Management recognizes that this approach did not align with the requirements of Regulation 91 of the Public Finance Management (County Governments) Regulations, 2015, which emphasizes the need for transparency and accountability in managing imprest and related payments.

#### **a) Cash Payments have been discontinued**

Management confirms that the practice of paying Board Members' allowances in cash has been fully discontinued. Following internal review and the audit recommendation, the Hospital revised its payment procedures to ensure full compliance with PFM regulations.

#### **b) All payments now made through Bank Accounts**

Management has implemented a policy where all Board Members' allowances are processed and paid directly to their individual bank accounts, this ensures:

- Enhanced transparency,
- Improved accountability,
- Reduced risks associated with cash handling, and
- Full traceability of all payments made.

### **Committee Observations**

The Committee observed that Board Members' allowances were paid in cash through imprest warrants to an employee, rather than being processed directly to individual bank accounts, contrary to PFM regulations.

### **Committee Recommendations**

**The Committee recommends that the Governor ensures that the Accounting Officer discontinues the practice of cash payments for Board Members' allowances and ensures all such payments are processed directly to individual bank accounts in compliance with Regulation 91 of the Public Finance Management (County Governments) Regulations, 2015, to enhance transparency and accountability.**

#### **7. Failure to Open a Facility Improvement Fund Bank Account**

The statement of financial position reflects cash and cash equivalents balance of Kshs.25,237,122 as disclosed in Note 27 to the financial statements. Review of accounts documents revealed that revenue is collected using M-Pesa paybill number which is automatically transferred to the Hospital's current account. However, the Hospital did not open a Facility Improvement Fund (FIF) account as provided in the Facility Improvement Fund Act, 2023, rather the collection account is still the operation account. This was contrary to Section 6 of the Facilities Improvement Financing Act, 2023 which states that, (2) There shall be opened a facility improvement financing account for each public health facility into which shall be paid all monies received by or on behalf of all public health facilities.

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

### **Management Response**

Management acknowledges the audit observation regarding the use of the Hospital's operational account for revenue collection instead of a dedicated Facility Improvement Fund (FIF) account as required under the Facility Improvement Fund Act, 2023.

#### *a) Process of opening the FIF account has commenced*

Management wishes to confirm that the process of opening a separate Facility Improvement Financing (FIF) collection account has already commenced in compliance with Section 6(2) of the FIF Act, 2023. The requisite documentation has been prepared and submitted to the relevant authorities to facilitate the opening of the account.

#### *b) Commitment to full compliance*

Once the FIF account is operationalized:

- All M-Pesa paybill collections and other facility revenues will be channelled directly into the new account,
- The current operational account will be used strictly for expenditure, improving accountability and alignment with legal requirements.

### **Committee Observations**

The Committee observed that the hospital did not open a separate Facility Improvement Fund (FIF) account as required by Section 6(2) of the Facilities Improvement Financing Act, 2023, and continued to use the operational account for revenue collection.

### **Committee Recommendations**

**The Committee recommends that the Governor ensures that the Accounting Officer expedites the process of opening a separate Facility Improvement Fund (FIF) account for the hospital and ensures that all revenue collected is paid into this account in compliance with Section 6(2) of the Facilities Improvement Financing Act, 2023, with the Auditor-General to review and report on compliance in the subsequent audit cycle.**

## **8. Long Outstanding Trade and Other Payables**

The statement of financial position and Note 36 to the financial statements reflects trade payables amounting to Kshs.485,952,033. Review of supporting documents and the ageing analysis provided for audit revealed that payables totalling Kshs.1,149,500 have remained outstanding for years dating back as far as year 2013 and these historical payables continue to be carried forward each year without settlement. Management did not provide explanations or justifications for the prolonged non-settlement of these obligations.

This was contrary to the provisions of Section 53 (8) of the Public Procurement and Asset Disposal Act, 2015 which states that 'an Accounting Officer shall not commence any procurement proceedings until satisfied that sufficient funds to meet the obligations of the resulting contract (s) are reflected in approved budget estimates.

In the circumstances, the Hospital Management was in breach of the law and there is risk of loss of public funds through litigations, interests and penalties.

### **Management Response**

*a) Outstanding Payables are largely attributable to Non-reimbursement of NHIF/SHA claims.*

Management wishes to clarify that the major contributing factor to the long outstanding trade payables is the significant non-reimbursement of claims by the former NHIF and the current Social Health Authority (SHA).

As at the close of the financial year.

- NHIF outstanding claims amount to Kshs.279,576,802, and
- SHA outstanding claims amount to Kshs.129,865, 103.
- The total outstanding both for NHIF and SHA Kshs 409,441,905/-

These unpaid claims constitute the largest component of the Hospital's receivables and have directly constrained the Hospital's cash flows, making it difficult to settle supplier obligations promptly.

*b) Impact on settlement of Historical Payables*

Due to the above revenue gaps.

- Several historical payables, including the amount of Kshs. 1,149,500 dating back to 2013, have remained unsettled,
- Management was unable to clear these obligations despite efforts to prioritize critical payments.

The continued non-reimbursement from NHIF/SHA significantly limits the Hospital's ability to fully address these aged liabilities.

*c) Ongoing efforts to recover NHIF/SHA Funds.*

Management is actively:

- Following up with SHA to fast-track settlement of pending claims,
- Providing additional documentation where required;
- Engaging the County Health sector to support escalations at higher levels.

Once the outstanding NHIF/SHA reimbursements are received, Management plans to clear all aged supplier balances in a structured and prioritized manner.

### **Committee Observations**

The Committee observed that the hospital had long outstanding trade payables of Kshs.485,952,033, including Kshs.1,149,500 dating back to 2013, which remained unsettled and continued to be carried forward each year.

### **Committee Recommendations**

**The Committee recommends that-**

- i. the Governor to ensures the hospital 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 health continuously monitors the financial performance of the hospital and report on the same to the County Executive Committee, making recommendations on how the hospital can improve its performance; and**
- iii. within sixty (60) days of the adoption of this report, the Accounting Officer engages 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.**

#### **9. Non-Compliance with Public Procurement Capacity Building Levy**

The Hospital did not comply with the requirements of Legal Notice No.206 of 2023 (The Public Procurement Capacity Building Levy Order, 2023) during the financial year 2024- 2025. The Hospital did not deduct the mandatory levy of 0.03% from all contracts signed after 1st September, 2024. Additionally, a summary of contracts signed after 1st September was not provided for audit review.

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

### **Management Response**

The Management acknowledges the audit observation regarding the non-deduction of the 0.03% Public Procurement Capacity Building Levy for the period starting 1st September 2024. We wish to state the following:

*a) Lack of Clarity in Initial Guidelines:* The initial directives regarding the implementation of Legal Notice No. 206 of 2023 were not sufficiently clear regarding the practical application, specifically concerning the transition period for ongoing procurement processes and the technical integration with payment systems. This ambiguity made it difficult for the Hospital to immediately enforce the deductions.

*b) Implementation Progress:* Despite the initial lack of clarity, the Hospital has since taken proactive steps to align with the requirements. We have now fully integrated the levy deduction into our financial workflows. All contracts signed under the new regulatory framework are now subject to the 0.03% mandatory deduction as required by the Public Procurement Regulatory Authority (PPRA).

*c) Contract signed after 1 September, 2024 is attached for review.*

### **Committee Observations**

The Committee observed that the hospital did not comply with the Public Procurement Capacity Building Levy Order, 2023, by failing to deduct the mandatory 0.03% levy from contracts signed after 1st September 2024.

### **Committee Recommendations**

**The Committee recommends that the Governor ensures that Management complies with the Public Procurement Capacity Building Levy Order, 2023, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply.**

## **10. Incomplete and Stalled Construction of the Medical Block**

As per the project information board, contract number NMS/RT/017/2020-2021 was awarded to a construction company. Management did not provide for audit documents pertaining to the project. Physical inspection of the medical block construction project at Mbagathi Hospital in November, 2025 and implemented by Nairobi Metropolitan Services, revealed that the project remains incomplete and stalled.

The Chairman's statement on future outlook states that the completion of the stalled medical block was to create more space for the ever-increasing number of patients' However, no information was provided for audit to confirm what efforts the Management is undertaking to ensure project completion.

In the circumstances, proper monitoring of the project and value for money on funds already paid towards the project could not be confirmed.

### **Management Response**

Management acknowledges the audit observation regarding the incomplete and stalled construction of the Medical Block under contract number NMS/RT/017/2020-2021, a project initiated and implemented by the Nairobi Metropolitan Services (NMS).

*a) Hospital has no direct control over the project*

Management wishes to clarify that the construction of the Medical Block was fully managed and implemented by NMS, and the Hospital was not involved in the procurement, contracting, supervision, or financial administration of the project.

As such, the Hospital did not have custody or access to the project's contractual documents, progress reports, or payment records requested during the audit.

*b) Project completion Budgeted by the County Government*

We further wish to confirm that the County Government has allocated funds for the completion of the stalled Medical Block in the 2025/2026 financial year.

This demonstrates the County's commitment to ensuring that the project is completed and operationalized to support the increasing demand for healthcare services at the facility.

*c) Management efforts to facilitate completion*

Although the Hospital has no direct control over the project, Management has engaged the County Department of Health and Public Works to follow up on the status of the project.

**Committee Observations**

The Committee observed that the construction of a medical block at Mbagathi Hospital, implemented by the Nairobi Metropolitan Services (NMS), remains incomplete and stalled, and the hospital had no direct control over the project.

**Committee Recommendations**

**The Committee recommends that the Governor, through the County Department of Health and Public Works, expedites the completion of the stalled medical block to ensure value for money and to increase capacity for patient care. The Auditor-General should keep this matter in view and report on progress in the subsequent audit cycle.**

**11. Lack of a Credit Policy**

The statement of financial position reflects receivables from exchange transactions amount of Kshs.432,469,437. The Referral Hospital offers medical services on credit to

patients and mothers who delivered at the facility without paying. The Hospital does not have a credit policy in place to guide on the terms of engagement.

In the circumstances, the full recovery of debts and issuance of credit facilities not guided by any policy could not be confirmed.

### **Management Response**

Management acknowledges the audit observation regarding the absence of a formal credit policy to guide the provision of medical services on credit and the management of receivables amounting to Kshs. 432, 469, 437.

#### *a) Socioeconomic context of patients*

A significant portion of the Hospital's receivables arises from maternity cases and emergency patients, many of whom come from Kibra and other neighboring informal settlements.

These communities face severe socioeconomic challenges, and most of the mothers seeking maternity services at the facility are unable to afford upfront payment for essential healthcare.

As a public referral hospital serving vulnerable populations, Management has continued to offer services without denying care due to financial constraints, in line with the Hospital's mandate and the national Universal Health Coverage principles.

#### *b) Credit Policy development already in progress*

Management recognizes the importance of a structured framework to guide the issuance, monitoring, and recovery of credit services. To address this gap,

The development of a formal Credit Policy is already underway,

- The policy will outline patient eligibility, approval processes, documentation requirements, credit limits, and recovery mechanisms,
- Upon completion, the policy will be adopted and implemented to strengthen debt management and reduce accumulation of receivables.

### **Committee Observations**

The Committee observed that the hospital offers medical services on credit without a formal credit policy in place to guide the terms of engagement, management, and recovery of receivables.

## **Committee Recommendations**

The Committee recommends that the Governor ensures that the Accounting Officer develops and implements a formal Credit Policy to guide the issuance, monitoring, and recovery of credit services, outlining patient eligibility, approval processes, documentation requirements, credit limits, and recovery mechanisms, in line with the hospital's mandate and national Universal Health Coverage principles.

### **12. Weak ICT Control Environment**

The Hospital does not have in place an ICT Strategic Committee, ICT Strategic Plan, and a comprehensive ICT Policy. Further, the Hospital does not have a disaster recovery plan which would be useful in restoring operations in case of any emergencies and disasters

In the circumstances, effective ICT control environment and capacity to recover data in case of a disaster could not be confirmed.

### **Management Response**

Management acknowledges the audit observation regarding gaps in the Hospital's ICT governance framework, including the absence of an ICT Strategic Committee, ICT Strategic Plan, ICT Policy, and Disaster Recovery Plan.

#### **a) Hospital ICT guided by County ICT Policy**

Management wishes to clarify that the Hospital's ICT operations are currently guided by the Nairobi City County ICT Policy, which provides the overarching framework for ICT management, data protection, system usage, and infrastructure development across all County health facilities. The Hospital continues to align its ICT activities and procedures with the County-wide standards in the absence of a facility-specific policy.

#### **b) Formation of an ICT Strategic Committee is underway**

To strengthen ICT governance and address the gaps identified in the audit:

Management is in the process of establishing an ICT Strategic Committee at the facility level. The Committee will be responsible for.

- (i) Guiding ICT operations and risk management,
- (ii) Overseeing ICT investments and infrastructure development,

- (iii) Steering the development of a facility-level ICT Strategic Plan and ICT Policy, and
- (iv) Facilitating implementation of audit recommendations on ICT controls.

#### **Committee Observations**

The Committee observed that the hospital lacked an ICT Strategic Committee, ICT Strategic Plan, comprehensive ICT Policy, and a disaster recovery plan, creating a weak ICT control environment.

#### **Committee Recommendations**

**The Committee recommends that the Governor ensures that the Accounting Officer expedites the establishment of an ICT Strategic Committee, development of an ICT Strategic Plan and comprehensive ICT Policy, and formulation of a disaster recovery plan to strengthen the ICT control environment, with the Auditor-General to review on progress in the subsequent audit cycle.**

### **3.4. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR MAMA LUCY KIBAKI-LEVEL 5 HOSPITAL FOR THE FINANCIAL YEAR 2024/2025**

The Governor of Nairobi City County, Hon. Johnson Sakaja, EGH, appeared before the Committee on Friday, 6<sup>th</sup> March, 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Mama Lucy Kibaki Level 5 Hospital for the Financial Year 2024/25. The following officers accompanied the Governor---

1. Dr. Anastasia Nyalita – CECM-BHO (Business and Hustler Opportunities)
2. Ms. Suzanne Silantoi – CECM H.W.N. (Health, Wellness, and Nutrition)
3. Mr. Martin Nang’ole – Ag. Managing Director
4. Mr. Paul Omondi – Finance Director, NCWSC
5. Mr. Fredrick Obwanda– C.E.O.
6. Ms. Lydia Maitha – CO - BHO (Chief Officer - Behavioral Health and Operations)
7. CPA Clare Kenga – Assistant Director, Finance

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

The Auditor-General rendered a **Qualified Opinion** on the financial statements of Mama Lucy Kibaki Level 5 Hospital for the financial year on the following basis---

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

The statement of financial position and the related notes contained material inaccuracies and inconsistencies as detailed below:

- i. Note 32 to the financial statements reflects property, plant and equipment with a net book value of Kshs.2,369,968,003. However, the fixed asset register provided for audit was not comprehensive and did not include acquisition dates, serial numbers, or proper classification of assets, contrary to IPSAS 45.
- ii. The statement of comparison of budget and actual amounts did not include the original and final approved budgets for all revenue and expenditure items, and no explanations were provided for material variances as required by IPSAS 24.

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

#### **Management Response**

Management acknowledges the observations. The County Government, through the Department of Lands and Physical Planning, is currently undertaking a comprehensive asset valuation exercise for all county health facilities. Upon completion, the asset register will be updated and aligned with IPSAS requirements. For the budget disclosures, management has now prepared a revised statement of comparison of budget and actual amounts showing original and final budgets together with explanations for variances, which was submitted to the Auditor-General.

### **Committee Observations**

The Committee observed that---

- i. the fixed asset register for Mama Lucy Hospital was incomplete, lacking critical details required for proper asset management and financial reporting under IPSAS 45.
- ii. the budget information presented in the financial statements did not comply with IPSAS 24, as the original and final budgets were not shown and variances were not explained.

### **Committee Recommendations**

The Committee recommends that-

- i. **the Governor ensures that the Accounting Officer completes the ongoing asset valuation exercise and updates the fixed asset register with all necessary details (cost, accumulated depreciation, additions, disposals, revaluations, carrying amounts) in compliance with IPSAS 45, and submits the updated register to the Auditor-General within 90 days of the adoption of this report;**
- ii. **the Governor ensures that the Accounting Officer prepares future financial statements with complete budget information, including original and final approved budgets, and provides clear explanations for material variances, in accordance with IPSAS 24; and**
- iii. **the Governor ensures that the Accounting Officer takes appropriate administrative action on officers responsible for the preparation of incomplete financial records, in line with section 156(1) of the Public Finance Management Act, Cap.412A, and the Accountants Act, Cap.531.**

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

The statement of financial position and Note 32 to the financial statements reflects property, plant and equipment balance of Kshs.2,369,968,003. Included in this balance is an amount of Kshs.2,010,000,000 in respect of land. However, the balance was not supported with a title deed or other conclusive ownership documents. In addition, the

fixed asset register lacked values for several buildings and medical equipment that were in use but not recorded.

In the circumstances, the accuracy, completeness, regularity and ownership of property, plant and equipment balance of Kshs.2,369,968,003 could not be confirmed.

### **Management Response**

Management confirms that the land on which the hospital sits is owned by the National Government and is in the process of being transferred to the County Government through the Inter-Governmental Relations Technical Committee (IGRTC). A formal request for transfer of title has been submitted to the Ministry of Health and the National Land Commission. The valuation of buildings and medical equipment is ongoing and will be reflected in the asset register upon completion.

### **Committee Observations**

The Committee observed that---

- (i) the hospital lacked title deeds or other supporting ownership documents for land valued at Kshs.2,010,000,000.
- (ii) several buildings and medical equipment in use were not recorded in the asset register, making it impossible to confirm the completeness and valuation of the PPE balance.

### **Committee Recommendations**

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, the National Land Commission, and IGRTC to ensure the transfer of ownership documents for land is fast tracked;
- ii. the Governor to make budgetary provisions for adjudication and valuation of assets to ensure a seamless process in the transfer of assets;
- iii. 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; 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 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.**

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

The statement of financial position reflects receivables from exchange transactions balance of Kshs. 67,025,710 as disclosed in Note 15 to the financial statements. Included in this balance are receivables amounting to Kshs. 47,000,000 which have been outstanding for more than one year, primarily comprising medical claims due from the defunct National Hospital Insurance Fund (NHIF) and the current Social Health Authority (SHA). No provision for bad and doubtful debts was made in the financial statements, and no formal follow-up plan was presented to demonstrate efforts to recover the amounts.

In the circumstances, the completeness, accuracy and recoverability of the receivables balance of Kshs. 67,025,710 could not be confirmed.

#### **Management Response**

Management acknowledges the observation. The hospital has been actively following up on outstanding claims through written reminders and reconciliation meetings with SHA. The transition from NHIF to SHA resulted in system migration challenges that delayed settlement of historical claims. Management is currently reviewing the ageing of receivables and will make appropriate provisions in the next financial year in accordance with accounting standards.

#### **Committee Observations**

The Committee observed that the hospital had long outstanding receivables of Kshs. 47,000,000 from NHIF and SHA, with no provision for bad and doubtful debts and insufficient evidence of recovery efforts.

#### **Committee Recommendations**

**The Committee recommends that-**

- i. the Governor through the Accounting Officer should ensure that the hospital 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 60 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 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 and provide a status update to the Committee on the matter in the subsequent audit cycle; and**
  - iv. the Governor ensures the Accounting Officer undertakes a detailed analysis of long outstanding trade receivables and, with the Board's approval, writes off irrecoverable debts in line with Section 130(2)(d) of the Public Finance Management (County Governments) Regulations, 2015.**

#### **4. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects a final revenue budget and actual on comparable basis of Kshs.841,100,410 and Kshs.602,196,696 respectively, resulting in a revenue shortfall of Kshs.238,903,714 or 28% of the budget. Similarly, the statement reflects actual expenditure of Kshs.652,254,620 against an approved budget of Kshs.786,365,498, resulting in an under-expenditure of Kshs.134,110,878 or 17% of the budget.

In the circumstances, the under-funding and under-expenditure may have affected the operations and planned activities of the Hospital and hence impacted negatively on service delivery to the public.

#### **Management Response**

The variance resulted from accrual accounting treatment of revenue and the fact that the final budget included anticipated receipts from the Kenya Urban Support Program (KUSP) and other donor-funded projects that were not received during the financial year. The hospital operated within the available cash resources, and under-expenditure was primarily due to delayed release of funds from the County Treasury and slow disbursement of SHA reimbursements. Management will ensure that future budgets are more realistic and that expenditure is aligned with actual cash flows.

#### **Committee Observations**

The Committee observed that the hospital experienced a significant revenue shortfall of Kshs.238,903,714 (28% below budget) and under-expenditure of Kshs.134,110,878 (17% below budget), which negatively impacted service delivery.

#### **Committee Recommendations**

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

- i. the Accounting Officer should ensure timely submission of documents including evidence of resubmission and follow-up of rejected or partially approved SHA claims during the audit process in line with section 47(1) of the Public Audit Act, Cap.412B as read together with section 149(2)(k), failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act in the subsequent audit;**
- ii. 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 and provide a status update on the matter in the subsequent audit cycle;**
- iii. the Accounting Officer should ensure strict compliance with section 149(2)(h) and (i) of the Public Finance Management Act, Cap. 412A and the standards prescribed by the Public Sector Accounting Standards Board under IPSAS 24 on the presentation of budget information in the financial statements for an entity that prepares financial statements under the accrual basis of financial reporting, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply; and**
- iv. the Accounting Officer should comply with regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply.**

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

Review of staffing records and physical inspection of the facility revealed that the Hospital did not meet the minimum requirements prescribed under the Kenya Quality Model for Health (KQMH) for a Level 5 hospital. The hospital had an approved staff establishment of 1,261 but only 589 permanent and pensionable staff were in place, resulting in a deficit of 672 personnel. The hospital relied heavily on locum and contract staff to fill critical gaps, but many essential services (including specialised surgical units, intensive care, and radiology) were under-resourced or not operational.

In the circumstances, the hospital's ability to deliver the required level of care and achieve its mandate was compromised.

#### **Management Response**

Management acknowledges the staffing gaps. The County Government, through the County Public Service Board, has initiated a recruitment process to fill critical positions. In the interim, the hospital has engaged locum staff in key departments and is utilising contract arrangements for specialised services. A comprehensive plan for phased recruitment, aligned with the approved establishment and budget, has been submitted to the County Executive. The hospital also continues to invest in equipment and infrastructure to meet KQMH standards.

### **Committee Observations**

The Committee observed that Mama Lucy Hospital was severely understaffed, with a deficit of 672 personnel (over 50% of the approved establishment), and that many essential services were either under-resourced or not operational, compromising service delivery.

### **Committee Recommendations**

**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;**
- ii. within ninety (90) days of the adoption of this report, the Governor ensures the hospital develops and implements a comprehensive plan, with appropriate budgetary allocations, to acquire and operationalize the required facilities and equipment to provide all services required for a Level 5 hospital; and**
- iii. the Governor ensures the officer in charge of the facility has the requisite academic and professional qualifications in accordance with the Health Act, 2017 and provides evidence of measures taken to address the matter to the Senate within 90 days of the adoption of this report.**

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

The statement of financial performance reflects employee costs of Kshs.56,409,412, which includes Kshs.20,360,655 relating to payments made to casual employees. Audit review of sampled casual employees revealed that many did not have written employment contracts covering the full period of engagement, contrary to Section 10(1)

of the Employment Act, 2007, which requires written contracts for employees engaged for more than three months.

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

### **Management Response**

Management acknowledges the observation. The hospital relies on casual staff to fill urgent gaps pending recruitment. While most casuals have personal files, some contracts were not formalised in writing. Management has now initiated the process of regularising the engagement of all casual staff by issuing written contracts and ensuring compliance with the Employment Act. The matter has also been raised with the County Public Service Board for guidance.

### **Committee Observations**

The Committee observed that a significant number of casual employees were engaged without written contracts, contrary to the Employment Act, 2007.

### **Committee Recommendations**

**The Committee recommends that the Governor ensures that the Accounting Officer regularizes the engagement of all casual employees by providing written contracts specifying the terms and conditions of service in compliance with Section 10(1) of the Employment Act, 2007, and that the Auditor-General reviews compliance in the subsequent audit cycle.**

## **7. Failure to Open a Facility Improvement Fund Bank Account**

The statement of financial position reflects cash and cash equivalents balance of Kshs.25,237,122 as disclosed in Note 27 to the financial statements. Review of accounts documents revealed that revenue is collected using M-Pesa paybill numbers which are automatically transferred to the hospital's current account. However, the hospital did not open a Facility Improvement Fund (FIF) account as provided in the Facilities Improvement Financing Act, 2023, contrary to Section 6(2) of the Act, which requires a separate FIF account for each public health facility.

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

### **Management Response**

Management acknowledges the observation. The process of opening a dedicated FIF account has commenced, and the requisite documentation has been submitted to the

bank. Once the account is operational, all revenue collected will be channeled into it, and the current operational account will be used strictly for expenditure in compliance with the FIF Act.

### **Committee Observations**

The Committee observed that the hospital continued to use its operational account for revenue collection instead of a separate FIF account as required by law.

### **Committee Recommendations**

**The Committee recommends that the Governor ensures that the Accounting Officer expedites the opening of a separate Facility Improvement Fund (FIF) account for the hospital and ensures that all revenue collected is paid into this account in compliance with Section 6(2) of the Facilities Improvement Financing Act, 2023, with the Auditor-General to review and report on compliance in the subsequent audit cycle.**

## **8. Unresolved Prior Year Audit Matters**

In the prior year's audit report, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. Review of the status during audit of the Hospital in 2024/2025 revealed that the following matters remained unresolved: inaccuracies in the financial statements, unsupported property, plant and equipment, long outstanding receivables, understaffing, and irregular engagement of casual employees.

### **Management Response**

Management acknowledges that some prior year issues have persisted. However, significant progress has been made in addressing the inaccuracies in financial statements through improved internal review and documentation. The asset valuation is ongoing, and a dedicated team is following up on receivables. Staffing gaps are being addressed through recruitment and use of locums. Management is committed to resolving all outstanding matters and will provide a detailed status report to the Committee.

### **Committee Observations**

The Committee observed that several prior year audit matters remained unresolved, indicating gaps in internal controls, governance, and management follow-up.

## **Committee Recommendations**

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

- i. the Accounting Officer should resolve any issues resulting from an audit that remains outstanding in accordance with section 149(2)(l) of the Public Finance Management Act as read together with section 53(1) of the Public Audit Act. Failure to which the accounting officer shall be in contempt of parliament and the Committee may recommend administrative sanctions such as the removal of the accounting officer, reduction in rank; 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.**

## CHAPTER THREE: COUNTY BOARD

### 3.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR NAIROBI CITY COUNTY ALCOHOLIC DRINKS CONTROL AND LICENSING BOARD FOR THE FINANCIAL YEAR 2024/2025

The Governor of Nairobi County, Hon. Johnson Sakaja, EGH, appeared before the Committee on Friday, 6<sup>th</sup> March, 2026 to respond (under oath) to audit queries raised in the Report of the Auditor-General on the Financial Statements for the Nairobi City County Alcoholic Drinks Control and Licensing Board for the Financial Year 2024/2025. The Governor was accompanied by:

1. Dr. Anastasia Nyalita – CECM-BHO (Business and Hustler Opportunities)
2. Ms. Suzanne Silantoi – CECM H.W.N. (Health, Wellness, and Nutrition)
3. Mr. Martin Nang’ole – Ag. Managing Director
4. Mr. Paul Omondi – Finance Director, NCWSC
5. Mr. Fredrick Obwanda– C.E.O.
6. Ms. Lydia Maitha – CO - BHO (Chief Officer - Behavioral Health and Operations)
7. CPA Clare Kenga – Assistant Director, Finance

The Nairobi City County Alcoholic Drinks Control and Licensing Board is a semi-autonomous entity of the Nairobi City County Government established to regulate the alcoholic drinks industry within the County.

#### REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified Opinion** on the financial statements of Nairobi City County Alcoholic Drinks Control and Licensing Board for the Financial year ended 30 June, 2025.

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

Review of the financial statements revealed the following inconsistencies;

##### 1.1 Statement of Changes in Net Assets

As previously reported, the statement of changes in net assets reflects a balance of Kshs. 14,811,380 as at 30 June, 2023 which excludes a prior year's adjustment of Kshs. 686,334,311 relating to revenue collected since 2015/2016 financial year. However, the expenditure arising from the revenue was not supported with payment vouchers and other supporting documents.

##### Management Response

Management is in the process of reconciling the revenue collected as at 2015/2016.

### **Committee Observation**

The Committee observed that—

- (i) the statement of changes in net assets excluded a significant prior year adjustment amounting to Kshs. 686,334,311 relating to revenue collected since the 2015/2016 financial year, and;
- (ii) the expenditure arising from the said revenue was not supported with payment vouchers and other relevant supporting documentation at the time of audit, raising concerns on the accuracy, completeness, and accountability of the reported balances.

### **Committee Recommendation**

The Committee recommends that—

- (i) **the Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, undertakes a comprehensive reconciliation of the revenue collected since the 2015/2016 financial year and fully accounts for the related expenditure by providing all requisite supporting documents, including payment vouchers. The reconciled position should be submitted to the Auditor-General for verification and a status report provided to the Committee in the subsequent audit cycle, and;**
- (ii) **the Governor ensures that the Accounting Officer commits to timely submission of documents during the audit process in accordance with section 9(1)(e) of the Public Audit Act Cap. 412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act.**

### **1.2 Statement of Financial Position**

The statements of financial position reflect receivables from CRF balance of Kshs. 52,406,072 as disclosed in Note 19 to the financial statements. However, the amount was not reported in the County Revenue Fund financial statements under payables. Further, the balance was not analysed or supported with respective ledgers.

In addition, the statement of financial position reflects plant and equipment balance of Kshs. 64,534,189 as disclosed in Note 22 to the financial statements. Audit review of the fixed assets and the asset register revealed that the Board's assets had not been tagged for identification and tracking.

The asset register provided included a project in Mutuini Rehabilitation Kshs. 14,302,903 with a contract sum amounting Kshs. 20,590,440 which has not been completed and was not disclosed under work in progress. No explanation was provided for the omission. In addition, policies and procedures on asset management had not been established.

Management is in the process of tagging all its asset. The asset register has indicated Mutuini as a work in progress. The asset register was attached.

### **Management Response**

Management has amended the Financial Statements and indicated the CRF amount under note 19. Management has attached an excerpt from the financial statement. The bank statement has also been attached reflecting transfer to CRF.

Management is in the process of tagging all its asset. The asset register has indicated Mutuini as a work in progress. The asset register is attached

### **Committee Observation**

The Committee observed that receivables from the County Revenue Fund (CRF) amounting to Kshs. 52,406,072 were not reflected in the CRF financial statements under payables and were not supported with detailed analysis or respective ledgers at the time of audit. However the Committee observed that Schedule in support of transfers totalling Kshs.52,406,072 was provided but it is was not signed to confirm source and ownership.

### **Committee Recommendation**

- (i) **The Committee recommends that the Governor ensures that the Accounting Officer:**
  - within 60 days of the adoption of this report, undertakes a comprehensive reconciliation of receivables from the County Revenue Fund with the County Treasury to ensure that corresponding balances are accurately recorded in both sets of financial statements, and submits a reconciliation report to the Auditor-General for verification;**
- (ii) **ensures that all receivable balances are fully supported with detailed schedules and respective ledgers and that all supporting documents are submitted promptly during the audit process in line with Section 9(1)(e) of the Public Audit Act, Cap 412B; and**
- (iii) **establishes and maintains a proper fixed asset management system, including tagging of all assets, updating the asset register, and instituting periodic verification and tracking mechanisms to safeguard public assets. The Auditor-General should review and report on compliance in the subsequent audit cycle.**

### **1.3 Statement of Financial Performance**

The statement and Note 12 to the financial statements revealed that expenditure on **use of goods and services** rose from **Kshs.208,952,025 (2023-2024) to Kshs.360,518,299** by **Kshs. 151,568,274** or by **73%** during the year under audit with the highest expenditure of **Kshs. 82,992,866** or **23%** incurred on foreign travel. No justification was provided by Management for the significant increase.

### **Management Response**

Attached is the approved itemized Budget that was appropriated by the Nairobi County Assembly which shows that the board had adequate allocation to support the expenditure in vote codes; 2210401, 2210402 and 2210403 totaling Kshs. 84,000,000.

### **Committee Observation**

The Committee observed a significant increase in expenditure on use of goods and services by 73%, with a substantial portion attributed to foreign travel. However, no adequate justification was provided to support the increase, raising concerns on expenditure control, prioritization, and prudent use of public resources despite the existence of approved budget allocations.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures that the Accounting Officer, within 60 days of the adoption of this report:**

- (i) provides a detailed justification and analysis for the significant increase in expenditure on use of goods and services, particularly foreign travel, clearly demonstrating necessity, outcomes achieved, and value for money, and submits the same to the Auditor-General for verification;**
- (ii) institutes stringent expenditure control measures to ensure that all spending is aligned to approved work plans, strategic objectives, and delivers measurable outcomes in accordance with Section 149(1) of the Public Finance Management Act, Cap. 412A on the responsibilities of an Accounting Officer; and**
- (iii) ensures strict compliance with Article 201(d) of the Constitution of Kenya, 2010 on prudent and responsible use of public resources, including rationalization of foreign travel and prioritization of essential expenditures. The Auditor-General should review and report on compliance in the subsequent audit cycle.**

### **2. Unsupported Payments and Procurement**

The statement of financial position reflects property, plant, and equipment balance of Kshs.64,534,189 as disclosed in Note 22 to the financial statements. Included in the amount is additions during the year totaling Kshs.29,505,509. However, audit review of the procurement documents revealed the following anomalies;

Withholding tax on VAT was not deducted while the paid items could not be traced in the asset register.

Physical inspection conducted in the month of September, 2025 revealed delays in delivery of procured assets and in some cases, delivery and inspection reports were not

provided while some of the procured assets lacked model/serial numbers raising concerns over value for money and service delivery.

The County awarded the tender for the construction of the 2nd Public Rehabilitation Centre (Methadone) – Mutuini Level 4 Hospital at a contract sum of Kshs. 20,590,440. However, the tender was not advertised and no regret letters were issued to unsuccessful bidders. Further, site hand over reports or site meeting minutes were not provided while the contractor did not submit material approval certificates. In addition, the site instructions from resident engineer or supervision reports or project correspondence files to confirm the progress of the project as evidence of project monitoring were not provided for audit verification.

In the circumstances, the accuracy and completeness of property, plant, and equipment balance of Kshs. 64,534,189 could not be confirmed.

### **Management Response**

- (i) The County Government is the agent of KRA and therefore all remittances to KRA are done by the county treasury.
- (ii) Asset register has been attached for review.
- (iii) Management has attached the following documents for review for Mutuini Rehabilitation; Site possession, Agreement form, site hand over report and minutes.

### **Committee Observation**

The Committee observed significant irregularities in procurement and asset management, including failure to deduct withholding tax on VAT, unsupported additions to assets, delays in delivery, and absence of key documentation such as delivery, inspection, and project monitoring reports. The committee also observed that the procurement of the Mutuini Rehabilitation Centre did not comply with legal requirements, as the tender was not advertised and essential procurement and project records were not provided at the time of audit.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures that the Accounting Officer, within 60 days of the adoption of this report:**

- (i) strictly complies with the Public Procurement and Asset Disposal Act, 2015 by ensuring transparent procurement processes, proper documentation, and issuance of regret letters;**
- (ii) commits to timely submission of documents during the audit process in accordance with section 9(1)(e) of the Public Audit Act Cap. 412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act.**
- (iii) ensures all statutory deductions, including withholding tax on VAT, are effected and remitted in accordance with the Tax Procedures Act, 2015; and**

- (iv) **strengthens asset management and project oversight by maintaining a complete and updated asset register, and ensuring all procurements and projects are fully supported with requisite documentation for audit verification. The Auditor-General to provide a progress report to the committee in the next audit cycle.**

### **3. Classification of Financial Statements Balances**

The statement of financial performance reflects use of goods and services amount of Kshs.360,518,299 as disclosed in Note 12 to the financial statements. Review of records provided revealed the following inconsistencies;

#### **3.1 Other Operating Expenditure Vote and Cash Procurement**

The use of goods and services amount of Kshs. 360,518,299 includes an amount of Kshs. 39,917,835 in respect to other operating expenditures. However, out of this amount, expenditure totaling Kshs. 15,780,420 relate to other vote heads hence overstating the vote by the same amount. Further, expenditure totaling Kshs. 1,525,000 was issued in form of imprests and was spend through cash procurement via payment voucher No. 78884 of Kshs. 825,000 and payment voucher No. 78883 of Kshs. 700,000. The expenditure was expensed directly to the payee by use of payment vouchers instead of imprest warrants. In addition, the cash transactions were supported with cash sale receipts without Electronic Transmission Receipts (ETR).

#### **Management Response**

To support the expenditure management has attached ETR copy receipts.

The voucher quoted number 78883 was not found in the board's records, however, payment of Kshs 700,000 was linked to voucher number 78873. Management has attached ETR receipts to support the expenditure.

#### **Committee Observation**

The Committee observed misclassification of expenditure amounting to Kshs. 15,780,420 across vote heads, leading to overstatement of other operating expenditure. Further, imprest funds were irregularly utilized through direct payment vouchers and supported by cash receipts without ETR at the time of audit, indicating weak expenditure controls and non-compliance with financial procedures. Further the Committee observed that Management did not explain why they used cash procurement and why the cash was expensed directly to the payee instead of being issued through imprest warrants.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures that the Accounting Officer, within 60 days of the adoption of this report:**

- (i) enforces proper classification of expenditure in line with the approved chart of accounts and budgetary provisions;**
- (ii) ensures strict adherence to imprest management procedures in accordance with the Public Finance Management (County Governments) Regulations, 2015; and**
- (iii) mandates that all transactions are supported by valid ETR receipts in compliance with the Tax Procedures Act, 2015. The Auditor-General should verify compliance in the subsequent audit cycle and report to the Committee.**

### **3.2 Foreign Travel and Subsistence Allowances**

The use of goods and services of amount Kshs. 360,518,299 as disclosed in Note 8 to the financial statements which includes an amount of Kshs. 82,992,866 in respect to foreign travel and subsistence allowances. However, a detailed review of the payment schedules, supporting documents and ledger revealed that expenses totalling Kshs. 74,197,016 or 89% of the foreign travel expenditure relates to local travel, service providers, sensitization programs, conference facilities and supplies. The misclassification led to a significant overstatement of foreign travel expenditure.

### **Management Response**

Management attached the approved supplementary budget from the county assembly which shows foreign travel expenditure was not overstated as indicated in vote codes; 2210401, 2210402 and 2210403 totaling Kshs. 84,000,000.

### **Committee Observation**

The Committee observed that expenditure amounting to Kshs. 74,197,016, representing 89% of the reported foreign travel costs, was misclassified as foreign travel instead of local travel and related expenses, resulting in a significant overstatement and distortion of expenditure classification.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures that the Accounting Officer, within 60 days of the adoption of this report:**

- (i) enforces accurate classification of expenditure in line with the chart of accounts and applicable accounting standards;**
- (ii) strengthens internal controls and review mechanisms to prevent misclassification of expenses; and**

**(iii) ensures compliance with Section 149(1) of the Public Finance Management Act, Cap. 412A on proper financial management and reporting. The Auditor-General should verify and report in the subsequent audit cycle.**

### **3.3 Field Allowances Expenditure**

The use of goods and services amount includes expenditure of Kshs. 2,700,000 in respect to field allowance. However, analysis of the payment schedules presented for audit review revealed that expenses totaling Kshs. 3,040,000 in respect to field allowances and were misclassified under other operating expenses.

In the circumstances, the accuracy and completeness of the use of goods and services expenditure totaling Kshs. 360,518,299 could not be confirmed financial statements could not be confirmed.

### **Management Response**

The field allowance expenditure of KShs. 2,700,000 was within the budget of Kshs. 3,000,000 under the item code 2210310 in the supplementary budget. The extra amount is under the item code 2211399 (other operating expense) which had an allocation of Kshs. 48,500,000.

The management attached is the approved supplementary budget from the county assembly.

### **Committee Observation**

The Committee observed misclassification of field allowances, where expenditure amounting to Kshs. 3,040,000 was recorded under other operating expenses instead of the appropriate vote, thereby affecting the accuracy and reliability of the financial statements.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures that the Accounting Officer, within 60 days of the adoption of this report:**

- (i) enforces proper classification of all expenditures in line with the approved budget and chart of accounts;**
- (ii) strengthens internal review controls to ensure accuracy and consistency in financial reporting; and**
- (iii) ensures compliance with Section 149(1) of the Public Finance Management Act, Cap. 412A on proper financial management. The Auditor-General should verify compliance in the subsequent audit cycle.**

#### 4. Inconsistencies in Revenue from Licenses

The statement of financial performance and as disclosed in Note 8 to the financial statements reflects revenue from licences amount of Kshs.338,270,716. Review of records provide revealed the following

##### 4.1 Under Collection of Projected Own Source Revenue

Review of license records for the year ended under review revealed that the Board collected a total of Kshs. 1,500,000 from three manufacturers of alcoholic products, namely Brewer 1; Kshs. 1,000,000, Brewer 2; Kshs. 250,000, and Brewer 3; Kshs. 250,000. However, had the provisions of the enabling Act been fully enforced, the Fund would have realized revenue amounting to Kshs. 35,500,000 resulting in a revenue shortfall of Kshs. 34,000,000 as indicated in the table;

Manufacturer	Number of Products	Expected Revenue	Collected Revenue	Variance
		Kshs	Kshs	Kshs
Brewer 1	35	35,000,000	1,000,000	34,000,000
Brewer 2	3	750,000	250,000	500,000
Brewer 3	5	1,250,000	250,000	1,000,000
Total				35,500,000

##### Management Response

Management has taken note of the observation and is currently working on reviewing the law to explicitly define what a 'product' is. The management is enhancing enforcement on manufacturers.

##### Committee Observation

The Committee observed significant under-collection of revenue from licenses, where only Kshs. 1,500,000 was collected against an expected Kshs. 35,500,000, resulting in a shortfall of Kshs. 34,000,000. This was attributed to weak enforcement of the enabling Act and lack of clarity in the definition of chargeable products.

##### Committee Recommendation

**The Committee recommends that the Governor ensures that the Accounting Officer, within 60 days of the adoption of this report enforces full compliance with the provisions of the enabling legislation to ensure optimal revenue collection, and fast-tracks the review and clarification of the legal framework to clearly define chargeable products and applicable fees.**

##### 4.2 Spending Collected Revenue at Source

Examination of the revenue collection account held at a local bank revealed that only Kshs. 44,120,555 was deposited into the County Revenue Fund on 19 June, 2025. The balance of the collections of Kshs. 294,150,161 was spent at source, from the collection account. Spending the revenue collected at source without first remitting to CRF exposes the Board to misuse of public resources, unaccountability and lack of transparency.

### **Management Response**

The Fund is established as per the Public Finance Management Act 2012 Section 116 which provides for the establishment of county funds and use of the fund for the intended purposes. The County Executive has also developed regulations in line with the PFM Act copy of regulations gazetted on 19th December 2025.

### **Committee Observation**

The Committee observed that the Board spent a significant portion of revenue (Kshs. 294,150,161) directly at source before remitting it to the County Revenue Fund (CRF).

### **Committee Recommendation**

**The Committee recommends that the Governor ensures that the Accounting Officer, within 60 days of the adoption of this report Strengthens internal controls, reporting, and enforcement mechanisms to guarantee full compliance with Sections 116 and 170 of the Public Finance Management Act, 2012, as well as the County Executive regulations gazetted on 19 December 2025.**

### **4.3 Unsupported Revenue Balances**

The revenue from licenses totalling Kshs. 338,270,716 as disclosed in Note 8 to the financial statements relates to from various revenue streams. However, the amount disclosed was not supported with the respective detailed ledgers or schedules to confirm accuracy and completeness of the revenue amount. Further, during the previous year, the Board engaged a consultancy to carry out liquor outlet registration. The consultant's report identified 15,387 outlets with a potential revenue of Kshs. 745,597,000. However, the County Government collected only Kshs. 338,270,716, leaving an amount of Kshs. 407,326,284 uncollected. No evidence was provided to justify the shortfall. Further, 172 licenses with cumulated revenue of Kshs. 9,055,456 had their serial numbers missing and not accounted for.

### **Management Response**

We acknowledge the audit observation regarding the variance between the potential revenue identified through the consultancy report (Kshs. 745,597,000) and the actual collections (Kshs. 338,270,716) during the 2023/2024 financial year, resulting in uncollected revenue amounting to Kshs. 407,326,284. The shortfall was primarily due to an Incomplete Registration by Outlets: Some outlets identified by the consultant did

not proceed to full registration or apply for a license due to closure, relocation, or failure to meet statutory licensing requirements.

The Directorate has rolled out the Liquor Pay system to ensure all outlet registrations, applications, payments, and license issuances are conducted online, eliminating manual gaps.

The directorate has also strengthened collaboration with Sub-County Liquor Committees and enforcement units to ensure timely follow-up on outlets identified but not yet licensed.

### **Committee Observation**

The Committee observed that revenue from licenses totaling Kshs. 338,270,716, as disclosed in Note 8 to the financial statements, was not supported by detailed ledgers or schedules, making it difficult to confirm the accuracy and completeness of the revenue. Furthermore, the Committee observed that 172 licenses totaling Kshs. 9,055,456 had missing serial numbers and were not accounted for, indicating weak record-keeping and inadequate control over licensing revenue.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures that the Accounting Officer, within 60 days of the adoption of this report:**

- (i) Implements full reconciliation of all license revenue by preparing detailed ledgers and schedules to support the amounts disclosed in the financial statements.**
- (ii) Investigates the Kshs. 407,326,284 shortfalls identified from the liquor outlet registration report and ensures recovery of any legitimate outstanding revenue or documents justification for any uncollectable amounts.**
- (iii) commits to timely submission of documents during the audit process in accordance with section 9(1)(e) of the Public Audit Act Cap. 412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act.**
- (iv) Ensures all license serial numbers are accurately recorded and accounted for in the system, with regular audit trails and verification in line with Sections 151, 157, and 170 of the PFM Act, 2012, and,**
- (v) Strengthens the Liquor Pay system and coordination with Sub-County Liquor Committees and enforcement units to ensure timely registration, collection, and monitoring of all outlets. The Auditor-General to review and report on the progress in the next audit cycle.**

#### **4.4 License Revenue Not Received or Reconciled**

Documents provided for audit on license revenue revealed that total license fees collected amounted to Kshs. 258,169,000, while the financial statements under Note 8 reflects revenue amount of Kshs. 338,270,716, resulting to an unreceipted and unreconciled variance of Kshs. 80,101,716. Further, license revenue amounting Kshs. 52,406,071 was reported as transfers to the County Revenue Fund during the year under review. However, audit examination of the Board's revenue collection account and the corresponding County Revenue Fund (CRF) bank statements revealed that only Kshs. 44,120,555 could be traced as having been received in the CRF on 19 June, 2025 resulting to an unexplained and unreconciled variance of Kshs. 8,285,516.

### **Management Response**

Management attached copies of the bank statement showing the move of funds from liquor account to CRF as indicated on date 23<sup>rd</sup> June 2025, 19<sup>th</sup> June 2025 and 30<sup>th</sup> June 2025.

### **Committee Observation**

The Committee observed that total license fees collected, amounting to Kshs. 258,169,000, did not reconcile with the revenue of Kshs. 338,270,716 disclosed in Note 8 of the financial statements, resulting in an unreceipted and unreconciled variance of Kshs. 80,101,716.

Further the Committee observed that license revenue of Kshs. 52,406,071 was reported as transfers to the County Revenue Fund (CRF); however, audit examination revealed that only Kshs. 44,120,555 was traceable in the CRF on 19 June 2025, leaving an unexplained variance of Kshs. 8,285,516

### **Committee Recommendation**

**The Committee recommends that the Governor ensures that the Accounting Officer, within 60 days of the adoption of this report:**

- (i) Carries out a full reconciliation of all license revenue, ensuring that amounts collected, banked, and reported in the financial statements are consistent and fully supported by receipts and ledger records.**
- (ii) Investigates and provides explanations for the unreceipted and unreconciled variances of Kshs. 80,101,716 and Kshs. 8,285,516, and implements measures to recover any uncollected or misappropriated revenue, and,**
- (iii) Strengthens internal controls to ensure that all license revenue is receipted, properly recorded, and reconciled before transfer to the County Revenue Fund in compliance with Sections 151, 157, and 170 of the PFM Act, 2012. The Auditor-General to review the progress and report to the committee in the next audit cycle.**

#### **4.5 Lack of Access to Legacy Licensing System Data After System Transition**

The County operated an internally developed system to manage license applications and approvals. In the course of the year, licensing operations were migrated to the County ERP system, Nairobi Pay. However, no data was migrated from the legacy system to Nairobi Pay, and the legacy system records were not accessible to audit. As a result, it was not possible to verify the completeness, accuracy and validity of license applications and approvals that had been processed before the transition.

In the circumstances, the accuracy, authenticity and completeness of revenue from licenses amount of Kshs. 338,270,716 could not be confirmed.

#### **Management Response**

Management acknowledged the audit observation regarding the unavailability of legacy system data following the migration to the County ERP system (LiquorPay).

The challenge was due to Technical Limitations. The legacy system had not been designed with data migration functionality, and the ERP migration process focused on current operations, leaving historical records outside the new system environment.

In collaboration with the County ICT Department, steps are being taken to retrieve legacy data backups from the old system and make them available for audit and reference.

Future system migrations will follow ICT governance best practices (COBIT 5), including formal data migration plans, testing, and preservation of historical records.

#### **Committee Observation**

The Committee observed that the County's licensing operations were migrated from an internally developed system to the County ERP system, Nairobi Pay, without migrating historical data. Consequently, legacy system records were not accessible to audit, making it impossible to verify the completeness, accuracy, and validity of license applications and approvals processed before the transition.

#### **Committee Recommendation**

**The Committee recommends that—**

- (i) The Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, collaborates with the County ICT Department to retrieve and restore legacy licensing system data, making it available for audit verification and reference;**
- (ii) The Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, implements formal data migration plans for all future system transitions in line with ICT governance best practices (COBIT 5), including proper testing, preservation, and accessibility of historical records;**

- (iii) **The Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, strengthens controls over system transitions to guarantee that all historical license revenue and approval records are verifiable, accurate, and complete;**
- (iv) **The Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, takes appropriate administrative action on officers who fail to maintain complete, accurate, and verifiable historical records in accordance with their terms of employment and the Accountants Act, Cap. 531;**
- (v) **The Governor ensures that the Auditor-General verifies and reports on the status of legacy data recovery and system migration controls in the subsequent audit cycle to safeguard accountability, transparency, and proper stewardship of public resources**

#### **5. Unaccounted Transfers from the Alcoholic and Licensing Board**

Review of the Board's bank statements revealed that amounts of Kshs. 3,330,028 and Kshs. 4,955,488 were transferred to the County Revenue Fund (CRF) on 23 June and 30 June, 2025 respectively. However, scrutiny of the County Revenue Fund (CRF) and Receiver of Revenue (ROR) bank statements revealed that the transactions could not be traced in either account. Further, credit advices, transfer instructions or acknowledgment receipts were not provided to support the purported transfers. The absence of corresponding entries in the CRF and ROR accounts and lack of supporting documentation casts doubt on the authenticity of the reported remittances.

In the circumstances, the completeness, accuracy and accountability of transfers totaling Kshs. 8,285,516 could not be confirmed.

#### **Management Response**

Management has attached copies of the bank statement showing the move of funds from liquor account to CRF.

#### **Committee Observation**

The Committee observed that transfers of Kshs. 3,330,028 and Kshs. 4,955,488 were reported as remitted from the Board's account to the County Revenue Fund (CRF) on 23 June and 30 June 2025, respectively. However, the Committee observed that audit examination of the CRF and Receiver of Revenue (ROR) bank statements revealed that the transactions could not be traced, and credit advices, transfer instructions, or acknowledgment receipts were not provided.

#### **Committee Recommendation**

**The Committee recommends that—**

- (i) **The Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, provides full supporting documentation for all transfers from the Board to the CRF, including credit advices, transfer instructions, and acknowledgment receipts; and**
- (ii) **The Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, reconciles all transfers from the Board's accounts to the CRF and ROR accounts to confirm completeness, accuracy, and accountability of funds remitted, and the Auditor-General to report to the Committee on the progress in the next audit cycle.**

#### **6. Irregular Payment of Daily Subsistence and Travel Allowances**

The statement of financial performance reflects expenditure on goods and services of **Kshs. 360,518,299**, as disclosed in Note 12 to the financial statements. Included in this amount is **domestic travel, subsistence allowance, accommodation, and travel costs** totaling **Kshs. 70,909,498**.

Review of payment vouchers and supporting documents revealed the following anomalies:

Imprest surrenders totaling **Kshs. 36,909,500** were not supported by imprest warrants, making it difficult to authenticate imprests committed during the year.

**Payment voucher No. 78579 of Kshs. 5,481,000 on joint workshop, Mombasa had the workshop budgeted for 80 persons**, while the attendance sheets indicated **95 attendees**. Further, the breakdown of per diems and transport was not provided and payment voucher lacked supporting work tickets or transport documentation.

**Payment voucher No. 6877 of Kshs. 4,983,000 on liquor license system workshop had transport of Kshs. 1,540,000 not supported**. Further, the rates of Kshs. 30,000 and Kshs. 20,000 paid to staff were not based on approved scales and no back-to-office report or work tickets provided.

**Payment voucher No. 78613 of Kshs. 611,500 on evaluation committee in Nakuru revealed that although the evaluation exercise was conducted in Nakuru County, no justification was provided for holding the activity outside Nairobi while the ground transport costs of Kshs. 160,000 lacked support.**

**Payment voucher No. 78579 of Kshs. 5,481,000 an Annual Development Plan Workshop had letters indicated eighty (80) participants, while AIE memo approved 95 participants**. Further, the expenditure was incurred for both the County Executive and the County Assembly despite Treasury memo stating that only conference costs were to be met centrally and travel allowances invoiced separately by sectors. In addition, the transport rates used were not approved.

**Payment voucher No. 78774 of Kshs. 3,522,900 on Joint PAC Workshop in February, 2025 revealed that authority to incur expenditure memo was dated after the event had taken place**. Further, the attendance list, program, workshop reports, work tickets, or back-to-office reports were not provided and the activity was not in the annual work plan.

**Payment voucher No. 78770 of Kshs. 2,400,000 on Joint PAC Workshop in February, 2025** was not supported with attendance sheets, program, back-to-office reports, or work tickets. Further, authority to incur expenditure memo was dated **on the last day of the event** and the breakdown of per diems or transport rates was not provided.

In the circumstances, the accuracy and completeness of the expenditure on domestic travel and subsistence of **Kshs.70,909,498 could not be confirmed.**

### **Management Response**

- (i) Management did not process imprest worth **Kshs. 36,909,500** but rather Kshs. 3.6 Million and has provided imprest warrants for review.
- (ii) **The payment voucher No. 78579 of Kshs. 5,481,000 was payment for per diem of members of county assembly and officers from the executive. The assembly had eighty-two participants while the county executive had thirteen officers. The list has been attached for review. The two lists combined brought the number to ninety-five as it was a joint workshop.** The county executive had committed to cater for 80 participants from the county assembly but two officers had to accompany two senior officials from the county assembly hence the total participants from the assembly were eighty-two. Management has attached a list forwarding participants from the county assembly and list combining the executive officers and assembly participants attached for review.
- (iii) **For voucher No. 6877, back to office report attached**
- (iv) **Management has attached the memo from the procurement charge requesting for the exercise to be carried outside Nairobi and the subsequent approval from the accounting officer attached.**
- (v) **The payment voucher No. 78579 of Kshs. 5,481,000 was payment for per diem of members of county assembly and officers from the executive.** The county executive had committed to cater for 80 participants from the county assembly but two other officers had to accompany two senior officials from the county assembly hence the total participants from the assembly was eighty-two. Being a joint workshop, there were county executive participants as well which accounts for the thirteen participants bringing the total number of participants to 95. Management has attached a list forwarding participants from the county assembly and list combining the executive officers and assembly participants for payment of per diems for review. Letter from County secretary to the clerk dated 22<sup>nd</sup> October 2024 clearly indicated that the county executive would be processing the allowances.
- (vi) Attached attendance lists from County Assembly and the county executive and workshop report for review. Payment voucher number 78770 and 78774 were both for a PAC workshop. Some participants were paid through

voucher number 78770 and payment were done on the last day of the event due to insufficient funds.

- (vii) Attached are lists from County Assembly and the county executive, workshop report, program and authority to incur expenditure for the workshops were attached.

### **Committee Observation**

The Committee observed that expenditure on domestic travel, subsistence allowances, accommodation, and transport totaling Kshs. 70,909,498 was not adequately supported. Key where unsupported imprests amounting to Kshs. 36,909,500 lacked imprest warrants, making verification difficult, and incomplete payment documentation, where Payment vouchers for workshops and official activities lacked attendance sheets, back-to-office reports, work tickets, and approved per diem/transport rates.

### **Committee Recommendation**

**The Committee recommends that—**

- (i) **The Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, strengthens internal controls over domestic travel, subsistence, and accommodation to ensure all payments are supported with valid attendance lists, back-to-office reports, workshop programs, work tickets, and approved rates;**
- (ii) **The Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, verifies and reconciles all imprests against valid imprest warrants;**
- (iii) **The Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, ensures that authority to incur expenditure is obtained prior to events and expenditures align with the approved annual work plan;**
- (iv) **The Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, enforces compliance with approved per diem and transport scales and Treasury directives;**
- (v) **The Governor ensures that the Accounting Officer takes appropriate administrative action on officers who fail to maintain complete and verifiable records, in accordance with their terms of employment and the Accountants Act, Cap. 531;**
- (vi) **The Auditor-General verifies and reports to the Committee on the accuracy, completeness, and compliance of domestic travel and subsistence expenditures in the subsequent audit cycle to safeguard accountability, transparency, and proper stewardship of public funds.**

## **7. Irregularities Under the Use of Goods and Services**

The statement of financial performance reflects expenditure on goods and services of **Kshs. 360,518,299**, as disclosed in Note 12 to the financial statements. Audit review of sampled payments revealed the following anomalies:

### **7.1 Unauthorized Domestic Travel Subsistence Allowance**

The expenditure includes domestic travel subsistence amount of Kshs. 70,909,498. However, review of sampled payment vouchers amounting to Kshs. 28,118,000 presented for audit review revealed that the vouchers were not authorized by the AIE holder. Further, payment vouchers amounting to Kshs. 7,324,400 were not adequately supported by workshop program, attendance sheet, official invitation letter, back to office reports, work tickets.

#### **Management Response**

The vouchers are duly authorized by the County Chief Officer who is both the AIE holder and accounting officer appointed by the CECM Finance.

#### **Committee Observation**

The Committee observed that expenditure on domestic travel and subsistence totaling Kshs. 70,909,498 included a significant portion of payments that were either unauthorized or inadequately supported. Specifically, vouchers amounting to Kshs. 28,118,000 were not authorized by the Appropriation-in-Excess (AIE) holder, while vouchers totaling Kshs. 7,324,400 lacked critical supporting documents such as workshop programs, attendance sheets, official invitation letters, back-to-office reports, and work tickets were not provided.

#### **Committee Recommendation**

**The Committee recommends that—**

- (i) The Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, strengthens internal controls to ensure that all domestic travel and subsistence expenditure is properly authorized by the AIE holder before payments are made;**
- (ii) The Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, enforces that all payment vouchers are adequately supported with workshop programs, attendance sheets, official invitation letters, back-to-office reports, and work tickets; and,**
- (iii) The Governor ensures that the Accounting Officer takes appropriate administrative action on officers who fail to obtain proper authorization or maintain complete supporting documentation, in line with the**

**Accountants Act, Cap. 531, and the Auditor-General to verify the steps taken and report to the Committee in the next audit cycle.**

## **7.2 Inflated Participant Numbers and Unsupported Expenditure**

Review of payment vouchers 78594 (Kshs. 2,430,000), 78595 (Kshs. 4,047,000), and 78512 (Kshs. 6,088,000) for joint workshops between the Liquor Board and the County Assembly to discuss the Liquor Amendment Act in September and November 2024 revealed possible inflated participants: Authority to Incur Expenditure (AIE) memo NCC/ADCLB/RO/458/2024 dated 11 November 2024 authorized allowances for 78 persons at a cost of Kshs. 6,477,000. However, the attached attendance list had only 63 persons. Officers were also paid different per diem and transport rates despite attending the same five-day workshop. No justification or policy was provided for these variations.

### **Management Response**

Per diem and transport for officers are paid according to the Salaries and Remuneration Commission (SRC) approved rates per job group.

### **Committee Observation**

The Committee observed that review of payment vouchers for joint workshops (Nos. 78594, 78595, and 78512) revealed possible inflation of participant numbers and unsupported expenditure. Additionally, Committee observed that officers attending the same five-day workshop were paid varying per diem and transport rates without justification or supporting policy documentation.

### **Committee Recommendation**

**The Committee recommends that—**

- (i) The Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, verifies and reconciles all workshop expenditures to ensure that payments are based on actual attendance and duly approved participant lists;**
- (ii) The Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, enforces strict adherence to approved per diem and transport rates as guided by the Salaries and Remuneration Commission (SRC), and ensures any variations are properly justified and documented;**
- (iii) The Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, strengthens internal controls over workshop expenditure, including validation of attendance lists, approval of participant numbers, and proper documentation of all payments;**
- (iv) The Governor ensures that the Accounting Officer takes appropriate administrative action on officers responsible for authorizing or processing unsupported or inflated payments, in line with their terms of employment and the Accountants Act, Cap. 531; and**

- (v) **The Governor ensures that the Auditor-General verifies and reports on the accuracy, validity, and compliance of workshop-related expenditures in the subsequent audit cycle to safeguard accountability, transparency, and prudent use of public funds.**

### **7.3 Surrendered Imprest**

The expenditure includes catering services, accommodation, gifts, foods and drinks of Kshs. 4,867,500 out of which Kshs. 2,670,000 for issued imprest was not supported by surrender documents to account for the funds.

#### **Management Response**

Management could not clearly single out the vouchers amounting to Kshs. 2,670,000.

#### **Committee Observation**

The Committee observed that expenditure on catering services, accommodation, gifts, food, and drinks totaling Kshs. 4,867,500 which included imprest of Kshs. 2,670,000 was not supported by surrender documents to account for the funds.

#### **Committee Recommendation**

**The Committee recommends that—**

- (i) **The Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, ensures that all imprests issued are fully supported by surrender documents, including receipts and relevant supporting records, in compliance with Regulation 93 of the Public Finance Management (County Governments) Regulations, 2015;**
- (ii) **The Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, identifies and accounts for the Kshs. 2,670,000 unsupported imprest, and recovers any unaccounted funds from the responsible officers;**
- (iii) **The Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, strengthens internal controls over imprest issuance, tracking, and surrender, including maintaining updated imprest registers and enforcing strict timelines for surrender;**
- (iv) **The Governor ensures that the Accounting Officer takes appropriate administrative action on officers who fail to surrender imprests in accordance with their terms of employment and applicable laws, including the Accountants Act, Cap. 531. The Auditor-General verifies and reports on the status of imprest accountability and compliance with imprest management regulations in the subsequent audit cycle to safeguard accountability, transparency, and prudent use of public resources.**

#### **7.4 Unaccounted for Expenditure**

Included in the amount is Kshs. 10,914,511 relating to contracted professional services out of which *Kshs. 3,999,994* was expended without adequate supporting documentation.

In the circumstances, the accuracy, completeness and validity of goods and services expenditure of **Kshs. 360,518,299 could not be confirmed.**

#### **Management Response**

All professional services were contracted through procurement process. Management has attached documents for review.

#### **Committee Observation**

The Committee observed that expenditure on contracted professional services totaling Kshs. 10,914,511 included Kshs. 3,999,994 that was not supported by adequate documentation, thereby limiting verification of the accuracy, completeness, and validity of the expenditure.

#### **Committee Recommendation**

**The Committee recommends that—**

- (i) The Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, provides complete supporting documentation for the expenditure of Kshs. 3,999,994, including contracts, invoices, and evidence of services rendered;**
- (ii) The Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, verifies the validity and authenticity of all professional service expenditures, and recovers any payments made for unsupported or unverified services;**
- (iii) the Governor ensures that the Accounting Officer commits to timely submission of documents during the audit process in accordance with section 9(1)(e) of the Public Audit Act Cap. 412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act.**
- (iv) The Governor ensures that the Accounting Officer takes appropriate administrative action on officers who fail to maintain complete and verifiable records in accordance with their terms of employment and the Accountants Act, Cap. 531 and the Auditor-General to review and an update on the progress to the Committee in the next audit cycle.**

#### **8. Unreconciled Cash and Cash Equivalents**

The statements of financial position and as disclosed in Note 17 to the financial statements reflect cash and cash equivalents balance of Kshs. 115,000. Review of the board cashbook revealed payments totaling 1,420,000 which were not captured in the

bank statement while bank statement withdrawals totaling Kshs. 100,000 were not captured in the cashbook which were not reconciled.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs. 115,000 could not be confirmed.

#### **Management Response**

Management has amended the Cash Book and done the reconciliations to reflect the correct position. Attached are the financial statements and bank statement indicating reversal of kshs. 100,000.

#### **Committee Observation**

The Committee observed that the statement of financial position reflects cash and cash equivalents balance of Kshs. 115,000, which was not supported by reconciled records.

#### **Committee Recommendation**

**The Committee recommends that—**

- (i) **The Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, investigates and resolves all unreconciled variances, including the Kshs. 1,420,000 and Kshs. 100,000 discrepancies, and provides adequate supporting documentation;**
- (ii) **The Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, strengthens internal controls over cashbook maintenance and bank reconciliation processes in compliance with Sections 151, 157, and 45 of the Public Finance Management Act, 2012, and Regulation 90 of the PFM (County Governments) Regulations, 2015; and,**
- (iii) **The Governor ensures that the Accounting Officer takes appropriate administrative action on officers responsible for failure to maintain accurate and reconciled records, in accordance with their terms of employment and the Accountants Act, Cap. 531. The Auditor-General verifies and reports on the accuracy and completeness of cash and cash equivalents balances in the subsequent audit cycle to safeguard accountability, transparency, and prudent management of public funds.**

### **OTHER MATTERS**

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

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on a comparable basis of Kshs.389,000,000 and Kshs. 324,024,282 respectively, resulting to an under-funding of Kshs.64,975,718 or 17% of the budget.

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

#### **Management Response**

No Management Response provided.

### **Committee Observation**

The Committee observed that the under-funding highlights weaknesses in revenue forecasting, budget monitoring, and cash flow management, increasing the risk of non-compliance with planned objectives and fiscal responsibility principles.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures that the management of the Nairobi County Alcoholic Drinks Control Fund institute proper and realistic budget planning, and the Auditor-general to report on the level of budgetary compliance in the next audit cycle.**

### **Unresolved Prior Year Matters**

In the report of the previous years, several issues were raised under the report on the Financial Statements, and Report on Lawfulness and Effectiveness in Use of Public Resources respectively. Review of the status during the audit of the Nairobi City County Alcoholic Drinks Control and Licensing Board in 2024/2025 revealed that the following matters remained unresolved.

<b>No.</b>	<b>Financial Year</b>	<b>Audit Issue</b>
1	2023/2024	Inaccuracies in the Financial Statements
2	2023/2024	Unconfirmed Depreciation Expense
3	2023/2024	Unaccounted for Expenditure
4	2023/2024	Unsupported Procurements
5	2023/2024	Irregular Payment for Non-Board Activities
6	2023/2024	Uncollected Licensing Revenue
7	2023/2024	Irregular Payment of Monthly Allowance to Board Members
8	2023/2024	Irregular Board and Sub-County Committee Meetings
9	2023/2024	Irregular Payment of Imprest
10	2023/2024	Long Outstanding Payables
11	2023/2024	Irregular Payment of a Consultant
12	2023/2024	Lack of Inventory Policy

### **Management Response**

Management did not provide a response

### **Committee Observation**

Committee observed that the Fund had not resolved several issues raised in the previous audit report, therefore this reveals that the persistence of these matters undermines accountability, weakens governance structures, and raises concerns on the effectiveness of oversight and internal control systems within the Board

## **Committee Recommendation**

**The Committee recommends that-**

- (i) **the Governor should ensure that the Accounting Officer resolves any issues resulting from an audit that remains outstanding as required by section 149(2)(l) of the Public Finance Management Act, Cap. 412A, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences may apply; and**
- (ii) **the Governor should ensure that the accounting officer submits the status report on the mitigation measures taken to resolve prior year matters to the Senate and a copy to the Auditor-General within 60 days of the adoption of this report.**

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

### **1. Non- Compliance on Presentation and Disclosure of Financial Statements**

Review of the financial statements under Annex 1 on progress on follow-up of prior year Auditor-General's recommendation revealed that Management has not disclosed all the issues, resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular.

In the circumstances, the annual reports and financial statements were not prepared in accordance with the prescribed Public Sector Accounting Standards Board reporting template.

### **Management Response**

Management has complied by using the prescribed reporting template.

### **Committee Observation**

The Committee observed that the financial statements, particularly Annex 1 on progress of follow-up of prior year Auditor-General's recommendations, did not fully disclose all prior year issues, their resolution status, or explanations for non-implementation, contrary to the prescribed reporting requirements, hence the Committee noted that the entity contravened Section 166 of the Public Finance Management Act, 2012, which requires financial statements to be prepared in accordance with prescribed standards, as well as Sections 151 and 157 of the Act, which emphasize proper record-keeping and accountability.

## **Committee Recommendation**

**The Committee recommends that—**

- (i) **The Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, ensures that all financial statements are fully prepared and presented in accordance with the prescribed Public Sector Accounting Standards Board (PSASB) templates and The National Treasury Circulars, including complete disclosure of prior year audit issues and their status; and,**
- (ii) **The Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, enhances the capacity of officers responsible for financial reporting to ensure compliance with applicable accounting standards and reporting requirements. The Auditor-General to review the progress and report in the subsequent audit cycle.**

## **2. Irregular Expenditure in office standing imprest**

The statement of financial performance reflects use of goods and services amount of Kshs. 360,518,299 as disclosed in Note 12 to the financial statements which include other operating expenses of Kshs. 39,917,835. However, analysis of the payment schedules presented for audit review revealed that expenses totaling Kshs. 1,050,000 were not supported with the guiding policy, cabinet resolution or any other guideline approving the above-listed standing imprest.

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

### **Management Response**

Management has attached circular by CECM Finance outlining imprest payable to different offices.

### **Committee Observation**

The Committee observed that payment schedules of Kshs. 1,050,000 was expended as standing imprest without any supporting policy, cabinet resolution, or formal approval guidelines.

### **Committee Recommendation**

The Committee recommends that—

- (i) **The Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, identifies all officers responsible for unauthorized, irregular, or unsupported expenditure, and take administrative action in accordance to Section 149(1) of the Public Finance Management Act, 2012; and,**
- (ii) **The Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, strengthens internal controls, approval processes, and documentation requirements to prevent recurrence of irregularities. The Auditor-General to keep view of this matter and report to the Committee in the next audit cycle.**

### **3. Irregular in Management of Conference Facilities and Operating Expenses**

The statement of financial performance and as disclosed in Note 12 to the financial statements reflects use of goods and services expenditure totalling Kshs. 360,518,200. Review of the records revealed the following anomalies;

#### **3.1 Doubtful Provision of Conference Facility in Mombasa**

The use of goods and services expenditure totaling Kshs. 360,518,299 which include other operating expenses totaling Kshs. 39,917,835. However, examination of payment voucher number 78831 of Kshs. 1,924,000 for provision of conference facility revealed that;

- i. Through a memo dated 13 September, 2024 the County Assembly wrote to the County Secretary requesting for a retreat of the sectoral committee on culture and community services to be held at Nakuru County on 12 to 18 December, 2024. However, the attached invoice and activity programme was for a retreat in Mombasa held on 12 to 15 February, 2025. No correspondences on the varying dates and venue were presented for audit review. It was not possible to confirm authenticity and existence of the retreat.
- ii. The attendance registers to confirm actual participation during the event was not presented for audit review.
- iii. The attached authority to incur expenditure did not stipulate clearly the hotel where the workshop will take place. Further, the Licensing Board went ahead to contract to offer the conference facility at Mombasa which would inflate the service charges unlike when contracting directly the hotel facility for conference services. No explanation was provided to support value for money by contracting through a third party.
- iv. The bidders on their quotation documents did not state the hotels against the quoted prices. It was not possible to understand how the Licensing Board would sign a contract for conference facility for a workshop of its members without such key information as the place or hotel where the conference will be held. In absence of such information, value for money could not be confirmed.
- v. The Liquor Licensing Board paid for 65 pax being joint workshop between Nairobi City County Assembly Sectoral Committee on culture and community services and Liquor Board. The request for the retreat emanated from the County Assembly through a letter signed by the County Assembly Clerk on 13 September, 2024. The regularity of the expenditure by the Board for 65 pax could not be confirmed since the requisition did not have an attachment of the committee members and any other nominated members to attend the retreat.

#### **Management Response**

i) Management has provided evidence of communication from Director to Chief for change of dates.

ii) The attendance register for workshop has been attached.

iii) Non-payment of suppliers by the County has resulted in supplier apathy, with many establishments declining to accept County LPOs. Consequently, intermediaries have emerged as a practical solution, as they are willing to assume the associated financial risk.

iv) Management has taken note of the observation.

v) The list from both the County executive and County Assembly has been attached.

### **Committee Observation**

The Committee observed that:

- (i) expenditure of Kshs. 360,518,299 on conference facilities and operating expenses, including Kshs. 39,917,835 for other operating costs, contained significant irregularities, where the Committee observed that payments were made for a conference in Mombasa despite the County Assembly requesting a retreat in Nakuru, with no supporting correspondence or justification for the change.
- (ii) Attendance registers were not initially provided, the AIE lacked clarity on the venue, and the Licensing Board engaged a third party without evidence of value for money.

### **Committee Recommendation**

The Committee recommends that—

- (i) the Governor ensures that the Accounting Officer commits to timely submission of documents during the audit process in accordance with section 9(1)(e) of the Public Audit Act Cap. 412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act.
- (ii) The Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, reviews all contracts entered through intermediaries to ensure value for money, transparency, and adherence to the approved procurement processes under Section 57(1) of the Public Procurement and Asset Disposal Act, 2015.

### **3.2 Provision of Conference Facility Services for Five Days Workshop and Return Air Tickets**

Use of goods and services expenditure totaling Kshs. 360,518,299 which include other operating expenses of Kshs. 39,917,835. However, examination of payment voucher No. 78828 of Kshs. 2,785,500 for provision of conference facility revealed the following irregularities;

- i. The professional opinion presented for audit review had inconsistent information with the payment voucher description and payee details exhibiting a doubtful procurement process for the services.
- ii. The attached report stipulated clearly that the workshop took place in a Hotel. However, the list of prequalified hotels by the County was not provided for audit review and therefore it was not possible to confirm the regularity of how the hotel was sourced. Further, the County went ahead to contract a contractor to offer the conference facility services at the hotel which would inflate the service charges unlike when contracting directly the Hotel. No explanation was given to support value for money by contracting through a third party. Further, involvement of a third-party contractor acts as a cover up strategy of sourcing directly for the services of a different Hotel as requisitioned in the authority to incur expenditure memo.
- iii. The bidders on their quotation documents did not state the hotels against the quoted prices. It was not possible to understand how the Licensing Board would sign a contract for conference facility for a workshop of its members without such key information as the place or hotel where the conference will be held. In absence of such information, value for money could not be confirmed.
- iv. The professional opinion presented for audit review had inconsistent information. Part A and B of the professional opinion reported quotation number NCC/ADCLB/Q/038/2024-2025 provision of conference facility services for five days workshop at Kilifi for County Executive Committee Members while part C referred to quotation NCC/ADCLB/Q/040/2024-2025 for provision of accommodation services for five days workshop at Kilifi for County Executive Committee members. In the circumstances, the regularity of the expenditure and the procurement process remained doubtful and could not be confirmed. The aforementioned inconsistent revealed that the Liquor Licensing Board carried out irregular splitting of tenders for the same workshop and attendees where a service provider was awarded quotation number NCC/ADCLB/Q/040/2024-2025 for provision of accommodation services for five days workshop at Kilifi for County Executive Committee members at Kshs.2,795,000 and another contractor was awarded NCC/ADCLB/Q/038/2024-2025 provision of conference facility services for five days workshop at Kilifi for County Executive Committee members at Kshs.2,785,000. In the circumstances, the procurement process is deemed irregular.
- v. It was noted that the Liquor Licensing Board does not rotate suppliers while procuring through request for quotations. A case of the above-mentioned supply quotation No. NCC/ADCLB/Q/040/2024-2025 and No. NCC/ADCLB/Q/038/2024-2025 where both bidders were invited to quote for the services. In the circumstances, the request for quotation method of procurement is deemed biased and unfair.

In the circumstances, the accuracy and completeness of use of goods and services expenditure totaling Kshs. 4,709,500 could not be confirmed.

### **Management Response**

Management has attached the required documents including the professional opinion and payment voucher for quotation no. NCC/ADCLB/Q/038/2024-2025 for review.

Nonpayment of suppliers by the county has led to supplier apathy leading to hesitation by establishment from accepting county LPOs and we cannot pay in advance hence to go for third parties. Management has taken note of the observation.

Management has attached the required documents including the professional opinion for quotation no. NCC/ADCLB/Q/038/2024-2025 and NCC/ADCLB/Q/040/2024-2025 for review.

To address the issue of rotational suppliers, management reports that all the advertisements for request for quotations are done through the public procurement portal.

### **Committee Observation**

The Committee observed that expenditure of Kshs. 4,709,500 on conference facilities and return air tickets contained multiple irregularities. These included inconsistent professional opinions, lack of prequalified hotel lists, use of third-party intermediaries inflating costs, irregular splitting of tenders, incomplete quotations, and biased supplier selection. The supporting schedules were not attached.

### **Committee Recommendation**

**The Committee recommends that—**

- (i) the Governor ensures that the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9(1) (e) of the Public Audit Act, Cap.412B failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act in the subsequent audit cycle.**
- (ii) The Governor ensures that the Accounting Officer enhances the capacity of officers preparing financial statements to comply with the accounting standards and should further invest in technology and processes that reduce inaccuracies in the preparation of financial statements; and**
- (iii) the Governor ensures the Accounting Officer takes administrative action on the officers within the Accounts and Finance department who fails to keep complete financial records in accordance with their terms and conditions of appointment or employment and as required by the Accountants Act, Cap. 534.**

#### **4. Irregularities in Payments for Board and Sub County Committee Allowances**

Note 12 to the financial statements reflects an amount of Kshs. 360,518,299 being expenditure under use of goods and services. The amount includes Kshs. 29,868,500 being Board allowances. However, review of the payment vouchers amounting to Kshs. 27,534,000 revealed that during the year under review the board members were paid monthly allowances of Kshs. 6,721,000. The Chairperson of the Board and the Vice Chairman were paid Kshs. 110,000 and Kshs. 90,000 respectively while the members were paid Kshs. 80,000. No approval from SRC was provided for audit review. Further, the monthly allowances were not subjected to PAYE as stipulated in the Income Tax Act.

Further, the Board incurred Kshs. 20,303,000 as allowance to sub county committee for twenty-four (24) meetings contrary to SRC memo to Nairobi County that states that allowances are payable for a maximum of twelve (12) meeting per year. Further, the Board minutes were not signed.

In the circumstances, the accuracy and completeness of Board allowances totaling Kshs. 29,868,500 could not be confirmed.

#### **Management Response**

Management has engaged SRC for guidance of payment of allowance to board and sub county committees and correspondences between County and SRC which was attached.

On deduction of PAYE, management has already implemented the deduction as indicated for the payment done in October, November, December and January attached.

#### **Committee Observation**

The Committee observed that expenditure of Kshs. 29,868,500 on Board and Sub-County Committee allowances contained significant irregularities where Board members were paid monthly allowances without approval from the Salaries and Remuneration Commission (SRC), and the Chairperson, Vice-Chairperson, and members received different rates that were not subjected to PAYE as required under the Income Tax Act.

#### **Committee Recommendation**

**The Committee recommends that the Governor ensures that the Accounting Officer, within 60 days of adoption of this report:**

- (i) Regularizes all Board and Sub-County Committee allowances in line with SRC approvals, ensuring monthly rates are properly authorized and supported.**
- (ii) Deducts and remits PAYE in accordance with the Income Tax Act for all relevant allowances.**
- (iii) Limits Sub-County Committee allowances to the SRC-approved maximum of 12 meetings per year and ensures that all Board and Committee minutes are signed and documented. The Auditor-General**

**to review and report to the Committee a status update on the same in the next audit cycle.**

### **5. Irregular Expenditure on the Governor’s Cup**

The statement of financial performance and Note 12 to the financial statements reflect use of goods and services of Kshs. 360,518,299. Review of records relating to the Governor’s Cup finals expenditure of Kshs. 9,933,820 as analysed below held on 17 December, 2024 revealed the following:

S/No.	Description	Voucher Number	Amount (Kshs)
1.	Payment of event coordination services and stage performance for the Governor’s cup	78699	2,477,900
2.	Road show truck for a day branded Governor’s cup	78663	2,590,000
3.	Supply and delivery of branded sports attire for the governor’s cup.	78648	2,449,920
4.	Supply of branded sports attire for the governor’s cup finale	78649	2,416,000
	<b>Total</b>		<b>9,933,820</b>

The expenditure was charged under the Nairobi City County Alcoholic Drinks Control and Licensing Board though the event related to the Governor’s Ball/Cup for the Executive, which was not part of the Board’s annual work plan. There was no documentation showing the objectives, scope, estimated cost, budget approval or authorization for the event.

Procurement requisitions and justification from the user department were missing, making it difficult to ascertain the need and the user department.

No event coordination reports, monitoring and evaluation reports or committee minutes were provided as evidence of oversight.

No proof was provided to confirm provision of branded truck services, movement schedules or utilization of the branded sports attire during the event.

The venue and related details of the Governor’s Ball were not documented.

Withholding tax was not deducted on the payments.

In the circumstances, Management was in breach of law and it was not possible to confirm whether the event aligned with the objectives and mandate of the Liquor Licensing Board.

#### **Management Response**

i) Management has attached annual work plan which clearly indicates sports as one of the activities

ii) Management has attached the Board Minutes and the event concept note

iii) This was a program by the Board as indicated by the Board minutes and work plan and therefore did not need any request from other departments

iv)The report of the event has been provided for review.

v)Venue and details of the event are included in the report provided

vii) Management is not an agent of the Kenya Revenue Authority (KRA). Therefore, all statutory remittances to KRA are undertaken directly by the County Executive in accordance with the established government financial procedures.

#### **Committee Observation**

The Committee observed that expenditure of Kshs. 9,933,820 on the Governor's Cup event was irregularly charged to the Nairobi City County Alcoholic Drinks Control and Licensing Board. The event was not part of the Board's approved annual work plan, and there was no supporting documentation for objectives, budget estimates, procurement requisitions, user department justification, or oversight reports.

#### **Committee Recommendation**

**The Committee recommends that the Governor ensures that the Accounting Officer, within 60 days of adoption of this report:**

- (i) Regularizes all expenditure related to the Governor's Cup, ensuring it is properly documented, authorized, and aligned with the Board's mandate and annual work plan.**
- (ii) Ensures proper procurement documentation, including requisitions, quotations, and oversight reports, to substantiate the need and execution of the event in accordance with PPADA, 2015.**
- (iii) Ensures statutory obligations, including deduction and remittance of withholding tax, are complied with for all relevant payments. The Auditor-General to review and report to the Committee in the next audit cycle.**

#### **6. Contract Splitting in Payment for Branded Sports Attire for the Governor's Cup-pending response**

The statement of financial performance and Note 12 to the financial statements reflect use of goods and services expenditure of Kshs. 360,518,299. Audit review of payment records and procurement files for the supply and delivery of branded sports attire for the Governor's cup revealed that the Liquor Licensing Board made **two separate payments** via quotation number NCC/ADCLB/Q/029/2024-2025 and NCC/ADCLB/Q/028/2024-2025 at contract sums of Kshs. 2,449,920 and Kshs. 2,416,000 respectively, totaling Kshs. 4,865,920.

The payments were processed under different quotations and LPOs but were both related to the **same event and scope of work** namely supply of 176 jerseys, 176 boots, 176 socks and 32 gloves. Despite being similar in nature and close in timing, the goods were not consolidated into a single procurement and the procurement plan did not reflect

any division of this nature. Further, there was **no documentation to justify the splitting** of these supplies or evidence of urgent/emergency need to warrant piecemeal procurement. Moreover, the procurement files lacked:

A master requisition or consolidated procurement plan. A single tender or framework contract for the total scope. Approval by the Accounting Officer for parallel engagements.

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

### **Management Response**

- i) Management has attached the procurement plan which outlines the items listed above
- ii) Management explains that the procurement arose from late confirmation of participation details and evolving specifications from the event organizing committee, which led to requisitions being raised at different times in order to meet the fixed timelines of the Governor's Cup. This resulted in procurement being undertaken in two phases to ensure timely delivery of the required items.
- iii) All expenditure were approved by the accounting officer as attached.

### **Committee Observation**

#### **The Committee observed that.:**

- i. expenditure totaling Kshs. 4,865,920 for branded sports attire for the Governor's Cup was irregularly split across two separate quotations (NCC/ADCLB/Q/028/2024-2025 and NCC/ADCLB/Q/029/2024-2025), despite being for the same event and scope of work (176 jerseys, 176 boots, 176 socks, and 32 gloves), and;
- ii. The procurement files lacked a master requisition, consolidated procurement plan, or evidence of Accounting Officer approval for piecemeal procurement. There was also no justification of urgency or emergency need to warrant splitting the procurement.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures that the Accounting Officer, within 60 days of adoption of this report ensures that all procurement for similar goods and services are consolidated, avoiding unnecessary splitting to circumvent procurement thresholds, in compliance with Public Procurement and Asset Disposal Act, 2015**

## **7. Irregular Expenditure on Nairobi Festival**

The statement of financial performance and as disclosed in Note 12 to the financial statements reflect use of goods and services expenditure of Kshs. 360,518,299. Review of records revealed that an expenditure of Kshs. 2,890,500 was incurred vide voucher No. 78708 paid to Bens Jersey World for provision of a fully equipped truck for three (3) days across Nairobi County during the Nairobi Festival. The Nairobi Festival is an

Executive event yet the payment was charged to the Nairobi City County Liquor Licensing Board. No evidence was provided to show that the activity was part of the Board's annual work plan and budget. In addition, there were no requisitions, approvals, service delivery reports, movement schedules or monitoring and evaluation reports to confirm delivery and utilization of the truck. Further, no evidence of withholding tax deductions was provided for audit verification.

In the circumstances, the Board was in breach of the law and the value for money could not be confirmed.

### **Management Response**

In the board's work plan for the year under review, participation in Festivals is outlined as part of sensitization activities.

The activities are in the approved budget and procurement plan for the year under review.

All the activities including the road show and performances by artists and exhibitions are part of awareness creation programs. The Board's workplan has been attached.

### **Committee Observation**

The Committee observed that:

- i. Expenditure of Kshs. 2,890,500 incurred on provision of a fully equipped truck for the Nairobi Festival was irregularly charged to the Nairobi City County Liquor Licensing Board, yet the festival is an Executive function.
- ii. There was no adequate evidence to confirm that the activity was part of the Board's approved work plan and budget. Further, key supporting documents including requisitions, approvals, service delivery reports, movement schedules, and monitoring and evaluation reports were not provided, and withholding tax was not deducted.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures that the Accounting Officer, within 60 days of adoption of this report:**

- (i) **Ensures that all expenditures are aligned to the Board's mandate, approved work plan, and budget, and that any activities outside the mandate are not charged to the Board.**
- (ii) **commits to timely submission of documents during the audit process in accordance with section 9(1)(e) of the Public Audit Act Cap. 412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act.**
- (iii) **Ensures that all expenditures are fully supported with requisite documentation, including requisitions, approvals, contracts, service delivery reports, and monitoring and evaluation reports, and;**

- (iv) Ensures that any irregular or unsupported expenditure is investigated and appropriate administrative action or surcharging is applied in accordance to Section 149(1) of the Public Finance Management Act, 2012 for officers responsible. The Auditor-General review this matter and report to the Committee in the subsequent audit cycle.

#### 8. Misallocation of Development Budget to Recurrent Expenditure

Examination of expenditure records revealed that the Liquor Licensing Board charged recurrent items against the Development budget. Payments amounting to **Kshs. 15,031,700** were incurred between November, 2024 and March, 2025 under the development vote for activities such as allowances, consultancy and retreat expenses as shown below: -

Date	PV Number	Description	Amount (Kshs)
4 November, 2025	78551	Allowance System Development	2,233,400
5 December, 2024	78587	Consultancy	2,900,000
17 January, 2025	78694	Cabinet Retreat Allowance	3,056,400
17 February, 2025	78729	Allowance System Development	2,766,900
26 February, 2025	78770	Allowance System Development	2,037,000
5 March, 2025	78807	Allowance System Development	2,037,000
Total			15,030,700

No approval was provided for the reallocation from recurrent to development budget. The misclassification of recurrent expenditure under the development budget results in budget distortion as financial statements reflect inflated development spending while understating recurrent costs. This practice undermines service delivery since capital projects risk stalling or remaining unfunded thereby denying citizens the intended benefits.

In the circumstances, Management was in breach of law and such misapplication conceals the true cost of operations, erodes accountability and contravening the Public Finance Management principles of transparency and prudence.

#### Management Response

During budgeting, all aspects (including training and stakeholder engagement expenses) of system development and establishment of rehabilitation facilities were included in the development budget. Management has noted and will make sure that the aspects of

development projects that are recurrent in nature are budgeted for in the recurrent budget.

### **Committee Observation**

The Committee observed that:

- (i) Expenditure totaling Kshs. 15,030,700 was irregularly charged to the development budget despite relating to recurrent activities such as allowances, consultancy, and retreat expenses, and;
- (ii) the Committee noted that No approval was provided for reallocation between budget lines, resulting in misclassification of expenditure, which distorts financial reporting, inflates development spending, and understates recurrent costs.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures that the Accounting Officer, within 60 days of adoption of this report ensures strict adherence to approved budget classifications, with all recurrent and development expenditures properly charged to their respective votes in line with the PFM Act, 2012 and ensures correction of misclassified expenditures and restatement of financial records to reflect the true nature and cost of operations. The Auditor-General to review and update the Committee during the subsequent reporting period.**

## **9. Non-Conformity with Provisions of the Nairobi City County Alcoholic Drinks and Licensing Act, 2014**

Audit revealed that the oversight of the Nairobi City County Alcoholic Drinks Control and Licensing Board has been placed under the CECM for Business, Hustler and Opportunities instead of the CECM for Trade as required by Section 2(1) of Nairobi City County Alcoholic Drinks and Licensing Act, 2014. Further, the current County Chief Officer in charge of Business, Hustler and Opportunities also serves in an acting capacity as County Secretary, creating dual responsibility and potential conflict of interest. In addition, the Nairobi County Alcoholic Drinks Control Fund, established under Section 43(1), has not been operationalized. Instead, licensing revenues are banked and expended outside the statutory framework of the Fund.

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

### **Management Response**

Under the Executive Order no.1 of 2022, H.E the governor created the Business and opportunities sector previously referred to as Trade. The Liquor licensing function is domiciled under this sector hence the oversight by the CECM in charge of the BHO sector.

### **Committee Observation**

The Committee observed that the Nairobi City County Alcoholic Drinks Control and Licensing Board did not conform to the provisions of the Nairobi City County Alcoholic Drinks and Licensing Act, 2014. The Committee noted that the Board's oversight was placed under the CECM for Business, Hustler and Opportunities instead of the CECM for Trade as stipulated under Section 2(1) of the Act.

#### **Committee Recommendation**

**The Committee recommends that the Governor ensures that the Accounting Officer, within 60 days of adoption of this report:**

- (i) Ensures full compliance with the Nairobi City County Alcoholic Drinks and Licensing Act, 2014, including aligning the Board's oversight to the appropriate CECM as provided under Section 2(1) of the Act, and;**
- (ii) Ensures that the Nairobi County Alcoholic Drinks Control Fund is operationalized in accordance with Section 43(1) of the Act, and that all licensing revenues are collected, managed, and expended within the statutory framework.**

#### **10. Misalignment of the Fund Spending with Statutory Objectives**

The Board's financial statements on page iii indicate that the objectives of the Board are to control and regulate the manufacture, sale, advertisement and consumption of alcoholic drinks, establish rehabilitation facilities and programmes for person's dependent on alcohol and carry out sensitization programmes and licensing of liquor outlets.

The statement of financial performance reflects that the Board's total expenditure was Kshs. 386,421,397 against revenue of Kshs. 338,270,716. Included in expenditure is Kshs. 360,518,299 in respect to use of goods and services equivalent of 93% of the total expenditure/ budget. No evidence was provided to confirm that expenditures were aligned to the core objectives of the Board as prescribed under Section 43(3) of the Nairobi City County Alcoholic Drinks and Licensing Act, 2014. Instead, significant resources were absorbed into recurrent administrative costs and consultancy payments unrelated to the core objectives of research, rehabilitation and sub-county level interventions.

Notably, foreign travel accounted for Kshs. 82,992,866 representing approximately 21% of the Board's total approved budget. Review of supporting documents revealed that a significant portion of the foreign travel payments lacked adequate justification, including missing invoices, travel itineraries, boarding passes and approval letters. The scale and nature of the foreign travel is inconsistent with the Board's statutory mandate, which focuses on regulation, licensing, rehabilitation and sensitization within the County. The absence of proper documentation and alignment with core functions raises concerns over potential misappropriation of funds in the Board, weak internal controls and the risk that nearly more than quarter of the Board's operational resources may have been expended on activities that do not advance its core and statutory objectives.

In the circumstances, the Board was in breach of the law and the value for money could not be confirmed.

### **Management Response**

Management has attached supplementary budget that supports the board's all areas of expense are within the approved budget attached and Work plan for review.

### **Committee Observation**

The Committee observed that:

- (i) the Board incurred total expenditure of Kshs. 386,421,397 against revenue of Kshs. 338,270,716, with 93% spent on use of goods and services, without demonstrating alignment to its statutory mandate under Section 43(3) of the Nairobi City County Alcoholic Drinks and Licensing Act, 2014, and,
- (ii) a significant portion of expenditure was absorbed by administrative costs, consultancy services and foreign travel amounting to Kshs. 82,992,866 (21% of the budget), with inadequate supporting documentation and weak linkage to the Board's core functions; and the issued remained unresolved.

### **Committee Recommendation**

**The Committee recommends that within 60 days upon adoption of this report, the Governor ensures that the Accounting Officer aligns all expenditures to the statutory objectives of the Board and provides clear linkage between spending and the mandate of the Board. The Auditor General to provide a status update on the compliance during the next audit cycle.**

## **11. Recurrent Expenditure Exceeding Revenue in Breach of Fiscal Responsibility Principles**

Audit review of the Nairobi City County Alcoholic Drinks Control and Licensing Board noted that recurrent expenditure has exceeded available revenue. Reported in the statement of financial performance is total revenue of Kshs. 338,270,716 against total expenditure of Kshs. 386,421,397. Included in the expenditure is Kshs. 360,518,299 in respect to use of goods and services representing the Board's recurrent expenditure. The recurrent expenditure exceeds the Board's revenue by Kshs. 22,365,583 reflecting weaknesses in budgetary control and indicating a breach of the fiscal responsibility principle.

In the circumstances, the Board was in breach of the law and the value for money could not be confirmed.

### **Management Response**

The Statement of Financial Performance is prepared on accrual basis, recognizing revenues and expenses when earned or incurred. In contrast, the Statement of Budget Comparison shows actual cash transactions, where receipts exceed payments,

demonstrating that our expenditures were within our budgetary means and no over payments were made.

In the year under review management was presented with a pending bill for rent dating back to 2016 kshs 24,628,065.

### **Committee Observation**

The Committee observed that:

- (i) the Board reported total revenue of Kshs. 338,270,716 against total expenditure of Kshs. 386,421,397, resulting in an excess expenditure position. Recurrent expenditure amounting to Kshs. 360,518,299 exceeded the available revenue, contrary to fiscal responsibility principles,
- (ii) management attributed the variance to accrual accounting and the recognition of a historical pending rent bill of Kshs. 24,628,065 dating back to 2016, and,
- (iii) explanation provided did not sufficiently address the failure to adhere to fiscal discipline and plan for settlement of pending liabilities without distorting current financial performance.

### **Committee Recommendation**

The Committee recommends that—

- (i) **within 60 days upon adoption of this report, the Governor ensures that the Accounting Officer institutes strict budgetary controls to ensure that recurrent expenditure does not exceed available revenue in line with fiscal responsibility principles, and,**
- (ii) **Governor ensures that within 60 days upon adoption of this report, the Accounting Officer aligns expenditure commitments to realistic revenue projections and approved budgets to enhance financial sustainability. The Auditor-General to review and provide status update on compliance in the next audit cycle.**

## **12. Winding Down of the Nairobi County Alcoholic Drinks Control and Licensing Board and Uncertainty Over Statutory Objectives**

Audit review of the operations of the Nairobi City County Alcoholic Drinks Control and Licensing Board revealed the following governance issues:

The **High Court (HCCHRPET/E222/2023)** nullified the legal establishment of the Board and ordered freezing of its Co-operative Bank account, with instructions for funds to be transferred to the County Revenue Fund.

The **Board's closure was abrupt**, with no formal documentation or procedural communication provided. Account closure followed instructions from the Executive without evidence of structured transition measures.

The **governance and administration** of the Board were inconsistent with statutory and constitutional provisions, including: Oversight placed under the CECM for Business

and Hustler Opportunities rather than Trade. Lack of term limits for Board members and inadequate stakeholder representation. Sub-county committees issuing licenses outside statutory procedures, rendering some licenses invalid.

The Board's statutory objectives such as **rehabilitation, research, and public education** could not be confirmed. Only limited initiatives, including Sinai Rehabilitation Programs and Mutuini Rehabilitation Centre that could be traced.

There was **no evidence of accountability for revenues and expenditures** under the Fund during the ten years of operation, making it difficult to confirm value for money.

In the circumstances, the Board was in breach of the law and the value for money could not be confirmed.

### **Management Response**

i) High Court Order No. HCCHRPET/E222/2023 did not in any way invalidate the legal establishment or existence of the Board. Following the issuance of the Order, the Board complied accordingly, and the relevant account was subsequently frozen. Court ruling was attached.

ii) In adhering to court order the funds operations were frozen.

iii) The observation of the governance structure of Board and funds has been addressed in Query number 9 above. In addition, the appointment letters of the board members clearly indicate the terms and condition of engagement. Management attached a sample copy of board appointment letters and gazette notice appointing the board and committees.

c) The Sub-County Committee issues licenses in accordance with the Nairobi City County Alcoholic Drinks Control and Licensing Act, 2014, which provides the legal framework for regulation, control, and licensing of alcoholic drinks within Nairobi City County.

iv) The boards performance report for Financial Year 2024-2025 was attached for review.

v) The Board is oversighted by the Culture Committee of the Assembly and is Audited every year to confirm the revenues and expenditures.

### **Committee Observation**

The Committee observed that following High Court Petition No. HCCHRPET/E222/2023, the Board's operations were disrupted, including freezing of its bank account and transfer of funds, which created uncertainty over its legal and operational status. However the Committee noted that despite management's assertion of compliance with court orders, existence of governance structures and annual audits, there was insufficient evidence to demonstrate full accountability for revenues and expenditures over the years or achievement of the Board's objectives.

## **Committee Recommendation**

**The Committee recommends that—**

- (i) **Within 60 days upon adoption of this report, the Committee recommends that the Governor ensures that the Accounting Officer provides a clear status report on the legal, operational and financial position of the Board following the High Court ruling, including actions taken and current accountability arrangements,**
- (ii) **Within 60 days upon adoption of this report, the Committee recommends that the Governor ensures that the Accounting Officer establishes and documents a structured transition or winding-down framework to ensure proper closure, asset management and accountability of all public resources, and;**
- (iii) **Within 60 days upon adoption of this report, the Committee recommends that the Governor ensures that the Accounting Officer provides a comprehensive account of all revenues and expenditures for the period of the Board's operation and provide a status update report to the Auditor-General for review and subsequent reporting in the next audit cycle.**

### **13. Use of Personal Email Addresses by Alcoholic Drinks Control and Licensing Board Staff**

Audit review of the Nairobi City County Alcoholic Drinks Control and Licensing Board established that staff continued to use personal email addresses to transmit official information and documents. This contravenes the directive of the Head of the Public Service and weakens ICT governance. The use of personal email exposes the County Government to risks of data leakage, alteration, or misuse by disgruntled employees. Further, the County Government may not have control over information and records held in personal email accounts, especially when employees exit the service.

In the circumstances, the integrity, confidentiality and security of sensitive information relating to licensing, revenue and enforcement could not be assured.

#### **Management Response**

We acknowledge the audit observation regarding the use of personal email addresses by some Board staff for official communication, contrary to the directive of the Head of the Public Service Circular Ref. SH/SDM/23(1) dated 14 June 2022.

Upon consultation with the County ICT Department, it was clarified that, at present, official County government email accounts are issued primarily to senior officers due to ICT infrastructure and resource limitations. This explains why some officers continued to use personal email addresses during the period under review.

Management has requested the onboarding of additional senior Liquor Board staff onto the official Nairobi County Government email domain to ensure wider compliance with the directive, also, the use of personal emails for official communication has been discontinued for this cadre.

### Committee Observation

The Committee observed that staff of the Board used personal email addresses to transmit official information and documents, contrary to the Head of Public Service Circular Ref. SH/SDM/23(1) dated 14 June 2022, therefore the consequently, the integrity, confidentiality and security of official information could not be assured.

### Committee Recommendation

**The Committee recommends that within 60 days upon adoption of this report, the Governor ensures that the Accounting Officer facilitates the provision of official County email accounts to all relevant staff to ensure compliance with ICT governance requirements. The Auditor-General to review this matter and provide a progress update during the subsequent audit cycle.**

### 14. Irregularities in International Procurement without Due Process

The statement of financial performance and Note 12 to the financial statements reflects use of goods and services expenditure of Kshs. 360,518,299. Included in this expenditure is an amount is Kshs. 10,914,511 relating to contracted professional services. Audit review revealed that payments totalling Kshs. 2,062,967 were made to a Consultancy firm, a foreign entity, in respect of training services undertaken abroad as summarized below:

Voucher Number	Description	Amount (Kshs)
78833	Provision of training on mindful leadership and rehabilitation of Alcohol and substance abuse victims in Birmingham, United Kingdom	1,298,384
78834	Provision of training on change leadership strategies for organizational growth in Dubai	116,133
78702	Provision of training services in ethics and governance in Istanbul, Turkey	648,450
	Total	2,062,967

However, no evidence was provided to confirm that the procurement entity had exhausted local competition or justification on record to demonstrate that such services could not be competitively sourced locally before resorting to international procurement.

Further, tender documents and related procurement records were not provided.

Additionally, no justification was provided as to why the trainings were held abroad despite availability of similar courses locally, raising concerns over value-for-money and prudence in use of public resources.

The payments amounting to Kshs. 2,062,967 was made to a Consultancy firm and were settled in full without deduction of the mandatory 2% withholding tax contrary to

Section 35 of the Income Tax Act and relevant Kenya Revenue Authority (KRA) guidelines. Though the expenditure was in respect of training expenses, the payment was charged under the consultancy services leading to misclassification of expenditure distorts the accuracy and reliability of the financial statements and undermines effective budgetary control.

In the circumstances, the Board was in breach of the law and the value for money could not be confirmed.

#### **Management Response**

Management has taken note and will comply with international procurement procedures.

#### **Committee Observation**

The Committee observed that key procurement records, including tender documents and evaluation reports, were not provided, and the Committee noted that the trainings were conducted abroad without adequate justification despite availability of similar services locally, raising concerns on prudence and value for money in the use of public resources.

#### **Committee Recommendation**

The Committee recommends that—

- (i) **within 60 days upon adoption of this report, the Governor ensures that the Accounting Officer takes appropriate corrective and disciplinary action against officers responsible for non-compliance with procurement and tax regulations, and;**
- (ii) **the Governor ensures that the Accounting Officer commits to timely submission of documents during the audit process in accordance with section 9(1)(e) of the Public Audit Act Cap. 412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act.**

#### **15. Cash Purchases for Office and General Supplies and Services**

The statement of financial performance and Note 12 to the financial statements reflects use of goods and services expenditure of Kshs. 360,518,299. Included in this amount is Kshs. 8,895,926 incurred on office and general supplies and services. Review of the documents provided for audit revealed that out of this amount Kshs. 1,625,280 was procured through cash purchases and supported by only vendor-issued cash sale receipts without ETR receipts. No document was provided to prove that these purchases were done within the annual procurement plan. Further, it was noted that the Board had repeatedly used the same vendor, who was paid a total of Kshs. 1,500,000 without competitive sourcing.

In the circumstances, the Board was in breach of the law and the value for money could not be confirmed.

#### **Management Response**

Management has attached the request to incur explaining the urgency of cash purchases and ETR Receipts.

### **Committee Observations**

The Committee observed that the management failed to provide supporting documents to demonstrate that these purchases were planned in the annual procurement plan, and the Board repeatedly used the same vendor, who received payments totaling Kshs. 1,500,000 without competitive sourcing.

### **Committee Recommendation**

The Committee recommends that—

- i. **Within 60 days upon adoption of this report, the Governor ensures that the Accounting Officer provides justification and approval for any exceptions to the procurement plan in writing, supported by evidence of necessity and urgency, and;**
- ii. **the Governor ensures that the Accounting Officer commits to timely submission of documents during the audit process in accordance with section 9(1)(e) of the Public Audit Act Cap. 412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act.**

## **16. Irregular Expenditure on Foreign Travel**

### **16.1 Training in Birmingham, United Kingdom**

Out of use of goods and services expenditure of Kshs. 360,518,299, payments totaling Kshs.3,455,484 were made in respect of a training on mindful leadership and rehabilitation of alcohol and substance abuse victims held in Birmingham, United Kingdom, between 28 November and 4 December, 2024.

However, audit verification revealed the following irregularities:

There was no documentary evidence provided to support the training, including an official invitation, approved program, attendance lists, passports or boarding passes, and post-training reports.

The participants were not staff of the Alcoholic Drinks Control and Licensing Board but officers drawn from the Office of the Governor and County Executive, contrary to approved work plans and budget allocations.

The training invoice was dated two (2) days before the commencement of the program, raising concerns on planning and due diligence.

Per diem and ground transport allowances totaling Kshs. 2,157,100 were paid to six officers despite the Authority to Incur Expenditure (AIE) approving only five, resulting in irregular payment to one officer.

### **Management Response**

i)Official invitation, boarding passes and back to office attached

ii) One of the participants CECM finance is directly responsible for all county funds and is therefore involved in the management of Liquor funds.

Under the Executive Order no.1 of 2022, the Sector, the deputy governor is given oversight over the Business and Hustle opportunity sector where Liquor Licensing is domiciled, that office is a direct link to the board and its activities.

iii) The training organization expected payment before arrival of participants.

### **Committee observation**

The Committee observed that:

- (i) the Board incurred Kshs. 3,455,484 for a training in Birmingham, UK, on mindful leadership and rehabilitation of alcohol and substance abuse victims, but no supporting documentation was provided, including official invitation, program, attendance lists, passports, boarding passes, or post-training reports.
- (ii) per diem and ground transport allowances totaling Kshs. 2,157,100 were paid to six officers, while the AIE approved only five, resulting in irregular payment to one officer.

### **Committee Recommendation**

The Committee recommends that—

- (i) **Within 60 days upon adoption of this report, the Governor ensures that the Accounting Officer requires complete documentation for all foreign trainings, including invitations, programs, attendance lists, passports, boarding passes, and post-training reports, failure of which the individuals involved shall be surcharged for any irregular or unsupported expenditure, and the Auditor-General to update the Committee during the next audit cycle,**
- (ii) **the Governor ensures that the Accounting Officer commits to timely submission of documents during the audit process in accordance with section 9(1)(e) of the Public Audit Act Cap. 412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act.**

### **16.2 Training in Dubai of Ineligible Participants**

Review of records revealed that an amount of Kshs. 116,133 was paid vide voucher number 78834 for the “Change Leadership Strategies for Organizational Growth in a Dynamic World” conference in Dubai. The invoice is dated 9 April, 2025 and lists seven (7) delegates: From the invitation, the course targets senior executives, sectoral

directors and Board members of public institutions. However, the individuals who attended were Members of the Nairobi City County Assembly, who are *not staff of the Alcoholic Drinks Control and Management Fund* or involved in its operations.

Supporting documents provided did not relate to the listed delegates and instead consisted of tourism visas for all participants were showing professions as sales representatives. It was noted that the visas were valid up to 4 February, 2025 while the invitation states the training dates as 10 to 16 February, 2025 creating a mismatch that casts doubt on whether the travel and training occurred. In addition, there was no program for the training, signed attendance list, copies of passports/boarding passes as evidence of travel or an impact assessment report demonstrating benefit to the Fund.

### **Management Response**

The members of the county assembly who are members of the culture committee provide oversight for the liquor board and therefore the board considered some of the members for the training.

Management has attached the invitation letter, valid visas, boarding passes and the back to office report for review.

### **Committee Observation**

The Committee observed that Kshs. 116,133 was paid for the “Change Leadership Strategies for Organizational Growth in a Dynamic World” conference in Dubai, yet the participants were Members of the Nairobi City County Assembly rather than staff of the Alcoholic Drinks Control and Licensing Board or Fund.

### **Committee Recommendation**

**The Committee recommends that –**

- (i) Within 60 days upon adoption of this report, the Governor ensures that the Accounting Officer takes appropriate disciplinary action against officers responsible for approving ineligible participants or failing to provide adequate documentation, and;**
- (ii) the Governor ensures that the Accounting Officer commits to timely submission of documents during the audit process in accordance with section 9(1)(e) of the Public Audit Act Cap. 412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act.**

### **16.3 Training Expenditure in Istanbul, Turkey**

Review of expenditure under use of goods and services amounting to Kshs.360,518,299 revealed that payments totaling **Kshs. 3,196,950** were incurred in respect of an “Ethics and Governance” training held in Istanbul, Turkey, from 13 to 22 December, 2024.

Examination of records established the following irregularities:

An amount of **Kshs. 648,450** was paid vide voucher number 78702 for training expenses based on an invoice dated 26 November, 2024, **17 days before the training commenced**, raising concerns on adequacy of planning, approval, and due diligence.

The **supporting documentation** including the official program, signed attendance lists, copies of passports or boarding passes, and a post-training report were **not provided** for audit verification.

The **participants comprised two Fund Officers and a Member of the County Assembly**, who was not directly involved in the operations of the Alcoholic Drinks Control and Licensing Board, raising questions on the **relevance of the training** to the Fund's mandate.

**Per diem and transport allowances** totaling Kshs. 2,548,500 was paid to the delegates through voucher No. 78680. However, the voucher listed the payee as a bank without details of disbursement.

One participant, the Member of the County Assembly, **received Kshs. 796,200** in per diem and transport allowances despite **not attending the training** as his travel could not be verified.

### **Management Response**

- i) The training organization expected payment before arrival of participants.
- ii) Boarding passes and training report was attached.
- iii) The members of the county assembly who are members of the culture committee provide oversight for the liquor board and therefore the board considered some of the members for the training.
- iv) Authority to pay per diem has been attached indicating payees.
- v) Management has attached the boarding passes and training report for the member.

### **Committee Observation**

The Committee observed that the Board incurred Kshs. 3,196,950 on an "Ethics and Governance" training held in Istanbul, Turkey, from 13 to 22 December 2024, with Kshs. 648,450 paid for training expenses and Kshs. 2,548,500 for per diem and transport allowances. However, supporting documentation including official program, signed attendance lists, passports, boarding passes, and post-training report was initially not provided for audit verification.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures that the Accounting Officer commits to timely submission of documents during the audit process in accordance with section 9(1)(e) of the Public Audit Act Cap. 412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act.**

#### **16.4 Business Forum on Trade, Investment and Tourism in Osaka, Japan**

Review of expenditure records revealed that **Kshs. 4,339,360** was paid vide voucher No. **78900** to six (6) officers to attend a Business Forum on Trade, Investment and Tourism held in Osaka, Japan, from 22 to 27 June, 2025. Audit verification revealed that although a forum program dated 23 June, 2025, and a separate program for Kenya Week at Expo 2025 Osaka were provided, there was **no evidence** of signed attendance lists, copies of passports or boarding passes, or post-event impact assessment reports. Only a back-to-office report was provided.

Further, there was **no clear link** between the business forum activities and the core mandate of the Nairobi Alcoholic Drinks Control and Licensing Board, which focuses on liquor licensing regulation, rehabilitation, and public sensitization on alcohol and substance abuse.

In the circumstances, the **adequacy of planning, accountability, and value for money** in respect of the Osaka forum expenditure **could not be confirmed**.

#### **Management Response**

Management has attached the invitation letter, boarding passes and the back to office report for review.

#### **Committee Observation**

The Committee also observed that—

- (i) there was no clear link between the forum activities and the core mandate of the Board, which focuses on liquor licensing regulation, rehabilitation, and public sensitization on alcohol and substance abuse, and;
- (ii) the Board incurred Kshs. 4,339,360 for six officers to attend a Business Forum on Trade, Investment and Tourism in Osaka, Japan, from 22 to 27 June 2025.

#### **Committee Recommendation**

The Committee recommends that:

- (i) the Governor ensures that the Accounting Officer commits to timely submission of documents during the audit process in accordance with section 9(1)(e) of the Public Audit Act Cap. 412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act, and;
- (ii) Within 60 days upon adoption of this report, the Governor ensures that the Accounting Officer provides clear justification and evidence of relevance for all foreign engagements to demonstrate value for money and alignment with statutory objectives.

### **16.5 Summit on International Violence Against Women and Girls (VAWG), Drugs, Alcohol and Other Substance Abuse, London**

Records indicate that Kshs. 2,303,010 was paid via voucher No. 78836 to cater for training expenses including per diem and ground transport for four (4) officers who attended the Summit on International Violence Against Women and Girls (VAWG), Drugs, Alcohol and Other Substance Abuse held in London from 27 April to 3 May, 2025. The delegates were four (4) staff Members. However, audit review supporting documents revealed that only the invitation letter and a back-to-office report were provided. There was **no evidence** of an approved program, attendance lists, passports or boarding passes, or post-training evaluation to demonstrate the relevance and benefit of the summit to the Board. In addition, **one of the delegates was not an employee** of the Board, raising concerns on the propriety of his inclusion and funding.

In the circumstances, the regularity, value for money and propriety of the training expenditure could not be confirmed.

#### **Management Response**

Management has attached the invitation letter, boarding passes and the back to office report for review.

#### **Committee Observation**

The Committee further observed that only an invitation letter and a back-to-office report were provided, with no supporting documentation such as an approved program, signed attendance lists, passports, boarding passes, or post-training evaluation reports to confirm participation and benefits derived. In addition, the Committee observed that one of the delegates was not an employee of the Board, raising concerns on the propriety of inclusion and use of public funds.

#### **Committee Recommendation**

**The Committee recommends that—**

- (i) Within 60 days upon adoption of this report, the Governor ensures that the Accounting Officer takes corrective and disciplinary action against officers responsible for inclusion of ineligible participants and unsupported expenditure, and;**
- (ii) the Governor ensures that the Accounting Officer commits to timely submission of documents during the audit process in accordance with section 9(1)(e) of the Public Audit Act Cap. 412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act.**

### **17. Irregular Payment of Field Allowances**

Note 12 to the financial statements reflects use of goods and services expenditure totaling Kshs. 360,518,299 which include field allowance expenses totaling Kshs. 2,700,000. However, examination of various payment vouchers revealed the following anomalies;

#### **17.1 Payment Voucher Number 78646**

The attached authority to incur expenditure stipulated that the payments are for field operations from 2 to 31 December, 2024. However, the attendance and payment schedules presented for audit review were for January, 2025 hence inconsistent with the approved requisition.

The **fuel receipts** attached were for **November and December, 2024**, lacked vehicle registration details, signatures, and fuel station stamps, making it **impossible to confirm their authenticity**. Fuel worth **Kshs. 400,000** could not be verified as having been used for official purposes.

Despite the County Government's **contract with VIVO Energy** for fuel supply through designated fuel cards, the Board irregularly opted for **cash transactions** for enforcement vehicles without justification, undermining accountability and internal controls.

The field allowances were paid irregularly through payment vouchers instead of imprest warrants hence not possible to confirm the regularity of the payment since in absence of the warrants it was not possible to confirm the expected surrender date of the imprests and whether the funds were used for intended purpose.

The authority to incur expenditure was not supported with an approved list of enforcement officers delegated to carry out the exercise for the specified period and areas of operation.

The officers were paid at a rate of Kshs. 2,000 and Kshs. 1,000. However, no approved guideline on the said rates was presented for audit review.

The expenditure was not supported with back to work report in order to measure the expected output against the resource expenditure. in the circumstances, value for money for the entire exercise could not be confirmed.

The expenditure lacked authorization from the Accounting Officer hence its regularity could not be confirmed.

In view of the above, the **regularity, propriety, and value for money** in respect of the field allowance expenditure **could not be confirmed**.

#### **Management Response**

i) The attendance schedules were prepared in January 2025 as the enforcement exercise extended beyond December 2024. Management acknowledges the inconsistency and will ensure future documentation aligns with approved authorities.

ii) Management notes the incomplete fuel receipts. Going forward, only properly stamped and detailed receipts will be accepted.

- iii) Cash fuel transactions were exclusively made for National Police Station vehicles engaged in enforcement operations, as these vehicles do not possess Liquor Board fuel cards. Police support is only engaged on a need basis.
- iv) Management admits that field allowances were incorrectly processed through payment vouchers. Henceforth, all such payments will be made through imprest warrants with timely surrender
- v) The National Police Service assigns different officers for different operations; therefore, it is not possible to obtain officers names in advance.
- vi) Management has attached the Police payment guidelines
- vii) Management has attached enforcement report for review
- viii) Management has attached a copy of memo approving the expenditure.

### **Committee Observation**

Committee observed that—

- (i) supporting documents such as fuel receipts were incomplete and unverifiable, lacking key details including vehicle registration numbers, signatures, and official stamps, making it difficult to confirm authenticity and usage of Kshs. 400,000.
- (ii) the Board irregularly used cash payments for fuel despite an existing framework for fuel supply through designated fuel cards, thereby weakening internal controls and accountability, and;
- (iii) field allowances were processed through payment vouchers instead of imprest warrants, and no approved list of officers or clear authorization by the Accounting Officer was provided.

### **Committee Recommendations**

The Committee recommends that—

- (i) **Within 60 days upon adoption of this report, the Governor ensures that the Accounting Officer processes all field allowances through imprest warrants and enforces timely surrender and accountability of funds.**
- (ii) **the Governor ensures that the Accounting Officer commits to timely submission of documents during the audit process in accordance with section 9(1)(e) of the Public Audit Act Cap. 412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act.**
- (iii) **Within 60 days upon adoption of this report, the Governor ensures that the Accounting Officer requires preparation of comprehensive back-to-work reports to evaluate performance and value for money for all field activities. The Auditor-General to keep the matter in view and report to the Committee in the subsequent audit cycle.**

## 17.2 Payment Voucher Number 78824

Examination of payment voucher No. 78824 of Kshs. 400,000 for enforcement operations for the month of March, 2025 revealed the following irregularities:

The authority to incur expenditure stated that the department will be assisted by a team from the National Police Service. However, the supporting documentations lacked the relevant correspondences from National Police Service and a listing of the police officers nominated to assist in the said exercise.

The supporting payment schedules attached were photocopies of the originals which were not counter signed or stamped for regularity in order to prevent double payment of the same expenditure. No explanation was provided in support of use of photocopies to account for the field allowance expenses. In the circumstances, the authenticity of the expenditure could not be confirmed.

In regard to the aforementioned payment schedules, it was noted that each payment schedule was used irregularly to account for three (3) different days by just erasing by use of white out on the dates of the original date and then photocopied for overwriting purposes on the previous date to read differently as sampled below:

Original Schedule Date	Amount (Kshs)	Shared Schedule	Amount (Kshs)
04/03/2025	10000	24/3/2025	10000
05/03/2025	12000	13/3/2025	12000
		21/3/2025	12,000
06/03/2025	11,000	10/3/2025	11,000
		26/3/2025	11,000
07/03/2025	12,000	20/3/2025	12,000
12/03/2025	11,000	18/3/2025	11,000
		25/3/2025	11,000
14/03/2025	12,000	17/3/2025	12,000
Total	68,000		102,000

In the circumstances, it was not possible to confirm the authenticity of the field allowance payments.

### Management Response

National Police Service assign officers based on availability, the Board has requested the Police to formalize the engagement. All copies of signing sheets have been countersigned and All the payment schedules copies attached.

### Committee Observation

The Committee observed that payment voucher No. 78824 amounting to Kshs. 400,000 for enforcement operations in March 2025 was not adequately supported with

documentation, including lack of correspondence from the National Police Service and absence of a list of officers deployed for the exercise.

### **Committee Recommendation**

**The Committee recommends that—**

- (i) Within 60 days upon adoption of this report, the Governor ensures that the Accounting Officer conducts a detailed verification of the Kshs. 400,000 expenditure and recovers any unsupported amounts from the responsible officer, and the Auditor-General to review the implementation of this matter and report to the Committee in the next audit cycle.**
- (ii) the Governor ensures that the Accounting Officer commits to timely submission of documents during the audit process in accordance with section 9(1)(e) of the Public Audit Act Cap. 412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act.**

### **18. Irregularities in Procurement of Printing, Advertising and Information Supplies**

The statement of financial performance reflects use of goods and services expenditure totaling Kshs. 360,518,299 as disclosed in Note 12 to the financial statements. The expenditure includes printing, advertising and information supplies of Kshs. 7,967,368.

The review of Kshs. 7,967,368 under printing, advertising, and information supplies revealed weaknesses in procurement, contract management, and payment processes. Suppliers were engaged with expired registrations, evaluation processes lacked transparency, key supporting documents were missing, withholding tax was not deducted, and some expenditure was not authorized. Further, the procurement and payment of the supplies had the following unsatisfying issue;

Supplier registration letter supporting the procurement was for financial year 2022–2023 and 2023–2024, while expenditure was incurred in financial year under audit.

Professional opinion was signed one month after evaluation contrary to timelines. LPOs, delivery note, and invoice were dated prior to professional opinion.

The withholding tax was not deducted.

Under preliminary evaluation, bidder number 3, provided all mandatory documents hence responsive and proceeded to the technical evaluation. However, after analysis of the bid document, the pin certificate attached was for a person different from the director to the firm whose personal identification number was differ rendering the bidder non-responsive

The review of Kshs. 7,967,368 under printing, advertising, and information supplies revealed that suppliers were engaged with expired registrations, evaluation processes lacked transparency, key supporting documents were missing, withholding tax was not deducted, and some expenditures were not authorized.

Payments were made to suppliers without valid registration, undermining procurement integrity.

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

### **Management Response**

i)The county government did not prequalify suppliers during the year under review. Suppliers therefore presented prequalification for the previous year, however management has communicated with the relevant department. Management could not establish which particulars were in question to enable sufficient explanation for the issues raised.

### **Committee Observation**

The Committee observed that expenditure amounting to Kshs. 7,967,368 on printing, advertising and information supplies was characterized by significant weaknesses in procurement and contract management processes, and specifically, evaluation processes lacked transparency, with discrepancies in bidder documentation, including mismatched PIN certificates, raising concerns on fairness and compliance.

### **Committee Recommendation**

**Within 60 days upon adoption of this report, the Committee recommends that the Governor ensures that the Accounting Officer enforces proper documentation for all procurement transactions, including valid LPOs, delivery notes, invoices, and approvals.**

#### **19. Long Outstanding Trade and Other Payables**

Analysis of the creditors data provided for audit revealed trade and other payables balances totaling Kshs. 112,545,862 as at 30 June, 2025. However, a balance of Kshs. 26,970,232 from previous financial years stretching way back from 2023/2024 to 2020/2021 were not yet cleared by the Liquor Licensing Board. This shows no attempt by the Alcoholic and Licensing Board to clear or reduce on those balances as required by law. No explanation was provided as to why the Board would maintain long outstanding bills but opt to settle some of the most current bills.

Further, it was noted that the Liquor Licensing Board had long outstanding rent arrears of Kshs. 24,628,605 covering from 2016/2017 to 2021/2022 financial years. The Ministry of Investment, Trade and Industry through a memo WM/FIN/6/26 VOL III (210) sent a reminder to the Liquor Licensing Board requesting the rent in arrears to be settled in three installments of Kshs. 8,209,535 from the date of the memo. However, as of to date the Liquor Licensing Board had not settled the installment. Further, the arrears were irregularly categorized under less than one-year-old whereas the bills were arrears of over nine (9) years.

In the circumstances the board was in breach of the law.

### **Management Response**

Rent arrears has been correctly captured in the financial statements to show the correct position attached.

## **20. Irregular Expenditure on Motor Vehicle Repairs**

Reported in the statement of financial performance and as supported by Note 12 to the financial statements is use of goods and services amount of Kshs. 360,518,299. Included in the amount is Kshs. 1,908,285 relating to motor vehicle repairs. Audit review revealed the following;

The payments were not supported by requisition forms from user department detailing the description of the issue for approval by the Head of Procurement Unit.

- i. There were no post inspection reports. It was noted that there was no Inspection and acceptance committee formed to inspect, review, accept or reject services received to ensure compliance with the pre inspection reports conducted by the Engineer.
- ii. The logbooks for services, repairs and maintenance undertaken were not provided for audit. Therefore, it was not possible to determine whether the record of work done was posted in vehicle logbooks, or work tickets signed by the driver showing defects of the motor vehicles.
- iii. The payment was not supported by local service order and the job card on when the vehicle was serviced. Further, there was no records of S13 showing the receive or the disposal of the returned spare parts after repair and maintenance of the vehicles.
- iv. The certificate to garages to service Government vehicles was not provided. In the circumstances, the Board was in breach of the law.

### **Management Response**

- i)The repairs were confirmed by chief mechanical engineer.
- ii)Vehicles are inspected by the mechanical engineer before or after the repairs has been done. Management has attached the report for rreview.

### **Committee Observation**

The Committee observed that the Board reported trade and other payables amounting to Kshs. 112,545,862 as at 30 June 2025, of which Kshs. 26,970,232 relates to long outstanding balances dating back to financial years between 2020/2021 and 2023/2024, and the Committee also observed that rent arrears amounting to Kshs. 24,628,605, accumulated over the period 2016/2017 to 2021/2022, remained unpaid despite a directive from the Ministry of Investment, Trade and Industry to settle the same in installments.

### **Committee Recommendation**

**The Committee recommends that—**

- (i) **Within 60 days upon adoption of this report, the Governor ensures that the Accounting Officer develops and implements a structured plan for clearance of all outstanding pending bills. The Auditor-General to keep the matter in view and provide a status update to the Committee in the next reporting period.**
- (ii) **Within 60 days upon adoption of this report, the Governor ensures that the Accounting Officer correctly classifies all liabilities in the financial statements in accordance with applicable accounting standards, and;**
- (iii) **the Governor ensures that the Accounting Officer commits to timely submission of documents during the audit process in accordance with section 9(1)(e) of the Public Audit Act Cap. 412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act.**

## **21. Irregularities in Fuel Management**

The statement of financial performance and Note 12 to the financial statements reflects an amount of Kshs. 360,518,299 under the use of goods and services which includes an amount of Kshs. 3,600,000 for fuel, oils and lubricants. However, the following anomalies were noted;

- i. The framework agreement for supply and delivery of fuel and card services was awarded to three suppliers for a period of 2 years. However, Review of bank statements and payment vouchers No. 77057, 78482, 78776, 78736, 78522, 78815, 78588 and 78652 amounting to Kshs. 3,600,000 provided for audit indicated that all payments were made to one company and none was made to the other two despite meeting all requirements under consideration during the procurement process thus casting doubt on whether the County ensured fairness in requisitioning for goods from the contracted providers. Management did not maintain an updated fuel register indicating the type of vehicle fueled, period and quantity consumed.
- ii. Expenditure of Kshs. 2,800,000 for the months of July, 2024, August, 2024, September, 2024, October, 2024, November, 2024, December, 2024 and March, 2024 was not supported with work tickets. Further, for the month of January and February, 2025 the work tickets for 47CG 322A did not indicate the fuel drawn.
- iii. Management did not put in place fuel card policies and procedures in order to ensure that there are sufficient controls over management of fuel, approval of uses of the fuel cards and spending limits.
- iv. Management did not maintain a fuel consumption tracking system to establish tracking of fuel consumption, mileage, and usage for each vehicle which includes the use of GPS systems (tracking) or odometer readings. Further, analysis of fuel consumption statement reveals consumption of 882.33 liters valued at Kshs. 149,395, the vehicles were fueled on weekends

and no authorization was provided by Management for reason of fueling on weekends

- v. Analysis of fuel consumption statements provided revealed that Card No. 1408056968 which consumed 882.33 liters valued at Kshs. 149,395 was not attached to any vehicle and thus subject to misuse and management has not accounted on how the fuel was utilized. In the circumstances, the Board was in breach of the law and value for money on the expenditure could not be confirmed.

### **Management Response**

- i) Management has noted and chose to work with one supplier due to proximity to office.
- ii) Management has provided the fuel consumption report
- iii) Management has provided work tickets for review
- iv) Management has taken note and will review the internal control for fuel.
- v) The nature of Liquor Licensing requires enforcement even over the weekends hence necessitating use of vehicles.
- vi) The Card No. 1408056968 was used to fuel government vehicles deployed enforcement activities.

### **Committee Observation**

The Committee further observed that fuel expenditure amounting to Kshs. 2,800,000 was not supported with work tickets, and in some instances, work tickets lacked critical details such as fuel drawn, thereby weakening accountability, and that the Board did not maintain an updated fuel register or establish adequate fuel management policies and procedures, resulting in weak controls over fuel usage and approvals.

### **Committee Recommendation**

**The Committee recommends that within 60 days upon adoption of this report, the Governor ensures that the Accounting Officer adheres to the framework agreements by equitably engaging all prequalified suppliers unless justified otherwise, failure of which responsible officers shall be surcharged.**

## **22. Irregular Procurement and Possible Double Payments in Engagement of Consultants for the Liquor Act Amendment**

Reported in the statement of financial performance and as supported by Note 12 to the financial statements is the use of goods and services amounting to Kshs. 360,518,299.

Included in the amount is Kshs. 10,914,511 relating to engagement of consultants for the amendment and presentation of the Nairobi City County Alcoholic Drinks Control and Licensing Act, 2013. Audit review of the documents revealed the following anomalies;

- i. The Board paid a local consulting firm Kshs. 2,676,000 vide vouchers 62851 and 62822 for the amendment of the Act and presentation of the proposed

amendments. Procurement records were not provided and the consultant was not in the approved pre-qualified list. Deliverables were unclear, and there were contradictions between invitation letters, requisitions, and invoices. No consultancy or training reports were provided to support the payments and the value for money may have not been realized.

- ii. The Board awarded the same consulting firm a contract through LSO No. 000618 dated 13 November, 2024 at a contract sum of Kshs. 2,800,000 for development of the amendment bill. The payment was made in full without deduction of the mandatory 2% withholding tax and was irregularly charged under daily subsistence allowance instead of contracted professional services. No evidence was provided to confirm that the consultancy was in the procurement plan.
- iii. The Board awarded consultancy services procured through quotation number NCC/ADCLB/Q/039/2024-2025. Audit review revealed that the procurement process was flawed:
  - a. Bidders were irregularly waived from the mandatory requirement of having a valid single business permit.
  - b. The successful bidder submitted an expired supplier registration certificate with Nairobi City County, rendering the bid unresponsive.
  - c. The contract deliverables under LSO No. 001093 (preparation of a training manual at Kshs. 2,000,000 and a final document with CECM inputs at Kshs. 700,000) were inconsistent with the stated consultancy objectives of facilitating the presentation of the amended Act and developing the rehabilitation framework.
  - d. No evidence was provided to show that the rehabilitation framework was developed or that facilitation activities were conducted.
  - e. Payment of Kshs. 2,700,000 was made via voucher 78755 without deduction of withholding tax and was misclassified under daily subsistence allowance.
- iv. Engaging different consultants for the same issue for two (2) consecutive years amounted to double for similar services, all amounting to Kshs. 8,176,000 and no consultancy reports was provided for verification. In the circumstances, Management was in breach of law and the value for money may not have been realized.

### **Management Response**

i) The payment vouchers No. 62851 and 62822 were consultancy done and payments made in the financial year 2023-2024, and were audited, however we have attached the payment vouchers and reports for review.

ii) Management is not an agent of KRA and therefore all remittances to KRA are done by the county executives. Management has also attached the procurement plan indicating provision for consultancy services.

iii) The county government did not prequalify suppliers during the year under review. Suppliers therefore presented prequalification for the previous year; however, management has communicated with the relevant department. Management has attached rehabilitation framework for review. Management is not an agent of KRA and therefore all remittances to KRA are done by the county executive. The contracted professional services were budget for as indicated in the budget attached

iv) Consultancy reports have been provided. Each consultant performed different tasks, and all reports are attached.

### **Committee Observation**

The Committee observed that:

- (i) payments totaling Kshs. 2,676,000 were made to a consulting firm without provision of procurement records, clear deliverables, or supporting consultancy reports, and the consultant was not in the approved prequalified list.
- (ii) the Board incurred expenditure amounting to Kshs. 10,914,511 on consultancy services relating to amendment of the Nairobi City County Alcoholic Drinks Control and Licensing Act, 2013, with significant procurement and accountability weaknesses,
- (iii) the procurement process under quotation No. NCC/ADCLB/Q/039/2024-2025 was flawed, including waiver of mandatory requirements, use of expired supplier registration, inconsistencies in deliverables, and lack of evidence to confirm execution of key outputs such as the rehabilitation framework and facilitation activities.

### **Committee Recommendations**

The Committee recommends that—

- (i) **Within 60 days upon adoption of this report, the Governor ensures that the Accounting Officer conducts a comprehensive review of all consultancy payments amounting to Kshs. 8,176,000 and recovers any unsupported or duplicate payments from the responsible officers,**
- (ii) **Within 60 days upon adoption of this report, the Governor ensures that the Accounting Officer takes appropriate disciplinary action against officers responsible for procurement irregularities, non-compliance, and possible double payments, and;**
- (iii) **the Governor ensures that the Accounting Officer commits to timely submission of documents during the audit process in accordance with section 9(1)(e) of the Public Audit Act Cap. 412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act.**

### **23. Unauthorized Transactions after Court Ruling**

The High Court ruling in case number HCCHRPET/E222/2023 nullified the legal establishment of the Nairobi City County Alcoholic Drinks and Licensing Board and directed the freezing of its bank account. Audit review revealed that the Board continued to transact after the Court directive, and a payment of Kshs. 1,298,384 was made to a supplier on 20 June, 2025 from the Board's account. The payment was made to the same supplier previously cited for irregularities in international procurement processes undertaken during the year under review.

In the circumstances, the continued execution of transactions after the Court ruling exposes the County Government to legal and financial risks including potential contempt of court proceedings.

#### **Management Response**

The High court of Kenya (Milimani Law Courts) issued freezing any withdrawals from Nairobi County Alcoholic Drinks control fund. The matter was taken to the court of appeal; an order was therefore issued staying the execution of judgement delivered on 6<sup>th</sup> March 2025.

The transactions were done after the court of appeal ruled on stay orders on 28<sup>th</sup> May, 2025 attached.

Non-Deduction of Withholding Services from Other Operating Payments and Training Development Payments Note 12 to the financial statements reflects use of goods and services expenditure totaling Kshs. 360,518,299. Included in this expenditure is other operating expenses and training development expenses of Kshs. 39,917,835 and Kshs. 15,030,700 respectively. However, examination of the payment vouchers presented for audit review revealed that the Board did not deduct withholding taxes from the suppliers' payments.

In the circumstances, Management was in breach of law.

#### **Management Response**

Management has taken note and has complied by forwarding the tax deductions to the county for onward transmission to KRA.

#### **Committee Observation**

The Committee observed that—

- (i) following the High Court ruling in case HCCHRPET/E222/2023 nullifying the legal establishment of the Nairobi City County Alcoholic Drinks and Licensing Board and freezing its accounts, the Board executed a payment of Kshs. 1,298,384 on 20 June 2025 to a supplier previously cited for irregularities.
- (ii) the Board failed to deduct withholding taxes from payments relating to other operating expenses and training development amounting to Kshs. 39,917,835 and Kshs. 15,030,700 respectively, contrary to the Income Tax Act and KRA

guidelines, undermining compliance and proper accounting for statutory obligations.

### **Committee Recommendations**

**The Committee recommends that—**

- (i) **within 60 days upon adoption of this report, the Governor ensures that the Accounting Officer deducts and remits all applicable withholding taxes on operating expenses and training development payments in line with the law, with evidence of compliance submitted to the Auditor-General, and;**
- (ii) **Within 60 days upon adoption of this report, the Governor ensures that the Accounting Officer strictly adheres to all court directives and ceases any transactions in violation of legal orders, failure of which responsible officers shall be surcharged. The Auditor-General to keep this matter in view and provide status update to the Committee in the next audit cycle.**

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

### **Inventory Management**

The statement of financial position reflects a balance of Kshs. 3,153,690 in respect to inventories as disclosed in Note 20 to the financial statements. However, the following anomalies were observed; Management did not conduct quarterly inventory stock takes.

The inventory balances were not supported by stores records, including details of items received (S3) and items issued (S11). In addition, the stores did not have bin cards for each item in the stores.

A summary of inventory movement during the year indicating opening balance at the beginning of the year, additions during the year and the closing balance was not provided for audit review.

Distribution lists of goods procured for the 17 sub counties were not provided for audit.

The store was dusty and cluttered.

It was established that twenty (20) liters of detergent, fifteen (15) brooms, bins, cabinets and executive chairs were still in the stores and remain unused.

Report on the exhibits found in the stores was not provided for audit review

The stores did not have a disposal policy on confiscated alcoholic drinks. Physical verification of the confiscated alcoholic drinks in the stores dated three years back.

In the circumstances, the accuracy and completeness of inventory an amount of Kshs.3,153,690 could not be confirmed.

### **Management Response**

i) Management doesn't have its own stores; it relies with General Stores for storage.

ii) Management doesn't have its own stores; it relies with General Stores for storage and issuance.

iii) Management doesn't have its own stores; it relies with General Stores for storage and issuance.

iv) Management will ensure holding area is cleaned and maintained.

v) Identified idle items will be issued to user departments based on need to minimize stock holding.

vi) Management acknowledges that the exhibits report was not available during audit. An exhibits register has now been attached for review.

vii) An exhibits register has been initiated, and a disposal policy for confiscated alcoholic drinks is being developed in line with regulations.

### **Committee Observation**

The Committee observed that—

- (i) quarterly stock takes were not conducted, and supporting records such as S3 (items received) and S11 (items issued) forms, as well as bin cards for individual items, were not maintained.
- (ii) There was no summary of inventory movement, including opening balances, additions, and closing balances, and distribution lists for the 17 sub-counties were missing, and
- (iii) no disposal policy existed for confiscated alcoholic drinks, and physical verification of confiscated items dated three years back.

### **Committee Recommendations**

The Committee recommends that—

- (i) **Within 60 days upon adoption of this report, the Governor ensures that the Accounting Officer establishes proper storage facilities dedicated to the Board's inventory and maintains clean, organized, and secure storage areas.**
- (ii) **Within 60 days upon adoption of this report, the Committee recommends that the Governor ensures that the Accounting Officer conducts quarterly inventory stock takes, maintains complete inventory records (S3, S11, bin cards), and prepares a summary of inventory movements including opening balances, additions, and closing balances, and;**
- (iii) **Within 60 days upon adoption of this report, the Governor ensures that the Accounting Officer develops and implements a disposal policy for confiscated alcoholic drinks, in line with applicable regulations, failure of which responsible officers shall be surcharged. The Auditor-General to keep the matter in view and provide a status report in the next audit cycle.**