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THIRTEENTH PARLIAMENT – FIFTH SESSION

REPORT OF THE SELECT COMMITTEE ON COUNTY PUBLIC INVESTMENTS AND SPECIAL FUNDS ON THE CONSIDERATION OF THE AUDIT REPORTS OF MERU COUNTY WATER COMPANIES, MUNICIPALITIES, HOSPITALS AND FUND FOR THE FINANCIAL YEAR 2024/25

SECTOR	NO.	ENTITY
WATER COMPANIES	2	MERU WATER AND SEWERAGE SERVICES COMPANY (MEWASS)
		MERU COUNTY RURAL WATER AND SANITATION COMPANY (MCWSC)
MUNICIPALITIES	2	MERU MUNICIPALITY
		MAUA MUNICIPALITY
HOSPITALS	3	MERU TEACHING AND REFERRAL HOSPITAL (MTRH)
		MIATHENE SUB-COUNTY HOSPITAL
		NYAMBENE SUB-COUNTY HOSPITAL
FUND	1	MERU COUNTY REVENUE BOARD (MCRB)

MARCH 2026

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ACRONYMS/ABBREVIATIONS

CBK	Central Bank of Kenya
CECM	County Executive Committee Member
COB	Controller of Budget
COG	Council of Governors
DPP	Director of Public Prosecutions
EACC	Ethics and Anti-Corruption Commission
FIF	Facilities Improvement Financing
GAAP	Generally Accepted Accounting Principles
HDU	High Dependency Unit
ICU	Intensive Care Unit
IGRTC	Intergovernmental Relations Technical Committee
IPSAS	International Public Sector Accounting Standards
KRA	Kenya Revenue Authority
MCWSC	Meru County Rural Water and Sanitation Company
MCRB	Meru County Revenue Board
MCIDC	Meru County Investment and Development Corporation
MEWASS	Meru Water and Sewerage Services Company
MTRH	Meru Teaching and Referral Hospital
NHIF	National Health Insurance Fund
NRW	Non-Revenue Water
NSSF	National Social Security Fund
OAG	Office of the Auditor-General
PAA	Public Audit Act
PFM	Public Finance Management
PPRA	Public Procurement Regulatory Authority
PSASB	Public Sector Accounting Standards Board
SHA	Social Health Authority
SO	Standing Orders
SRC	Salaries and Remuneration Commission
TNT	The National Treasury
UHC	Universal Health Coverage
WASREB	Water Services Regulatory Board
WRA	Water Resources Authority

DEFINITION OF TERMS

1. Unqualified opinion: This refers to a clean opinion, which is the most desirable, in which the auditor states that the financial condition, position, and operations of an organization are fairly presented in the financial statements in accordance with Generally Accepted Accounting Principles (GAAP).

2. Qualified opinion: This is an opinion expressed by the auditor if the financial statements appear to contain a small deviation from Generally Accepted Accounting Principles (GAAP) but are otherwise fairly presented. It is also rendered if the 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 the national allocated to County governments. The Select 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 Meru County water companies, Municipalities and Hospitals for the Financial Year 2024/2025. The entities considered include Meru Water and Sewerage Services Company (MEWASS), Meru County Rural Water and Sanitation Company (MCWSC), Meru Municipality and Maua Municipality, Meru Teaching and Referral Hospital (MTRH), Miathene Sub-County Hospital and Nyambene Sub-County Hospital.

The Governor of Meru County, Hon. Rev. Isaac Mutuma, 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. | - Chairperson |
| 2. Sen. Eddy Gicheru Oketch, MP. | - Vice-Chairperson |
| 3. Sen. Agnes Kavindu Muthama, MP | - Member |
| 4. Sen. William Kipkemoi Kisang', CBS MP. | - Member |
| 5. Sen. Peris Pesi Tobiko, CBS, MP | - Member |
| 6. Sen. Beth Kalunda Syengo, MP | - Member |
| 7. Sen. George Mungai Mbugua, MP | - Member |
| 8. Sen. Raphael Chimera Mwinzangu, MP. | - Member |
| 9. Sen. Hamida Ali Kibwana, MP | - Member |

COMMITTEE SECRETARIAT

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

ESTABLISHMENT OF THE COMMITTEE

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

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

EXECUTIVE SUMMARY

In the execution of its mandate, the Committee relied on the reports of the Auditor-General on audited Accounts of Meru County water companies, municipalities, hospitals and funds for the financial year 2024/2025 as the primary documents for the investigations. The Committee invited the Governor of Meru County 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, Hon. Rev. Isaac Mutuma, accompanied by relevant county officials, in response to the various audit queries raised by the Auditor-General in the reports under consideration on various dates.

This report presents the findings and recommendations of the Select Committee on County Public Investments and Special Funds following its consideration of the Auditor-General's reports on eight (8) entities in Meru County for the Financial Year 2024/25. The entities covered are: two (2) water companies namely Meru Water and Sewerage Services Company (MEWASS) and Meru County Rural Water and Sanitation Company (MCWSC), two (2) Municipalities which are Meru Municipality and Maua Municipality, three (3) hospitals which include Meru Teaching and Referral Hospital (MTRH), Miathene Sub-County Hospital, and Nyambene Sub-County Hospital; and one Fund which is Meru County Revenue Board (MCRB).

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

The Committee identified several significant issues across the eight entities. Both water companies recorded going concern uncertainties arising from accumulated losses and negative working capital, non-revenue water levels exceeding regulatory benchmarks, use of expired water tariffs without WASREB renewal, and excessive personnel costs as a proportion of operational costs. There was also non-remittance of statutory deductions and non-compliance with ethnic diversity requirements across several entities. The two municipalities exhibited weaknesses in operational delegation of functions under their respective charters. The hospitals recorded deficiencies in implementation of Universal Health Coverage standards, unresolved prior year audit matters, and weaknesses in asset management and governance. The Meru County Revenue Board had undisclosed revenue variances, questionable commission payments, a conflict of interests in revenue collection mandates involving multiple entities, and a wage bill that significantly exceeded the statutory ceiling. Internal control weaknesses were observed across all entities.

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 Meru County Water Companies for the Financial Year 2024/25, along with the Committee's observations and recommendations for each audit query.

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

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

CHAPTER FOUR is a record of the audit queries raised in the report of the Auditor-General for Meru Hospitals for the Financial Year 2024/25 and observations and recommendations of the Committee on each audit query.

GENERAL OBSERVATIONS FOR WATER COMPANIES

1. **Non-Revenue Water (NRW):** The Committee observed that both water companies recorded NRW levels that significantly exceeded the sector benchmark of 25% prescribed by the Water Services Regulatory Board (WASREB). MEWASS recorded NRW levels of 43% while MCWSC recorded 38%, both attributed to aging infrastructure, unmetered flat-rate connections, commercial losses from billing irregularities, and illegal connections.
2. **Use of Expired Water Tariffs:** The Committee noted with concern that both MEWASS and MCWSC continued to charge customers based on tariffs that were approved for prior financial years (2013/2014–2016/2017) without valid renewal from WASREB. This long-standing irregular practice denied the companies necessary cost-recovery returns, contributing to financial unsustainability.
3. **Deficiencies in Financial Reporting:** The Committee noted inaccuracies and errors in the preparation and presentation of financial statements by both water companies. These included unsupported trade receivables and payables, undisclosed inventories, and budgetary variances. Both Accounting Officers and Managing Directors exhibited challenges in complying with Section 47(1) of the Public Audit Act, Cap. 412B as read together with Section 149(2)(k) of the Public Finance Management Act, Cap. 412A, by failing to submit supporting documents to auditors on time.
4. **Non-Compliance with WASREB Personnel Cost Benchmarks:** The Committee observed that both water companies had personnel costs exceeding the applicable benchmarks prescribed by the WASREB Corporate Governance Guidelines on personnel costs as a share of operations and maintenance costs. MEWASS recorded 43% and MCWSC recorded 44%, both exceeding the respective benchmarks for their company size categories.
5. **Non-Compliance with Ethnic Inclusivity Requirements:** The Committee observed significant non-compliance with the National Cohesion and Integration Act, Cap. 7N. MEWASS had 62% of its management staff drawn from one dominant ethnic community, while MCWSC had 79% of its workforce from the same ethnic group. Neither company had any employee with disability, contrary to the Persons with Disabilities Act, 2003.
7. **Failure to Budget for Climate Change and Financing:** The Committee observed that both water companies failed to make any budgetary provisions for climate change mitigation, adaptation programs, or climate financing initiatives despite their heavy dependence on environmental sustainability, contrary to the National Climate Change Act, 2016.

GENERAL RECOMMENDATIONS FOR WATER COMPANIES

- 1. Mitigation of Non-Revenue Water:** The Governor ensures the Board of Directors and Accounting Officers institute comprehensive measures to reduce Non-Revenue Water, addressing both physical and commercial losses. These measures should include the adoption of Geographic Information System (GIS) technology for real-time detection of bursts and leakages, installation of smart meters to ensure accurate billing, rehabilitation of dilapidated infrastructure, and the development of institutional anti-corruption policies with robust enforcement mechanisms to curb illegal connections. Furthermore, management should disclose the proportional breakdown of physical and commercial losses, expressed as percentages, in their periodic reports.
- 2. Renewal of Water Tariffs:** The Governor should urgently engage WASREB to facilitate the review, approval, and gazettelement of cost-reflective tariffs for both MEWASS and MCWSC in compliance with the Water Act, 2016. The water companies must adhere to Section 72 of the Water Act, 2016, and implement the renewed tariff immediately upon approval, failure to which, the provisions of Section 199 of the Public Finance Management Act on penalties for offences shall apply.
- 3. Enhancement of Record Keeping and Audit Compliance:** The Governor ensures the Board and Accounting Officers implement proper record keeping and provide all requisite supporting documents to the Auditor-General within the stipulated audit timelines, in line with Section 47(1) of the Public Audit Act, Cap. 412B as read together with Section 149(2)(k) of the Public Finance Management Act, Cap. 412A. Adherence to the provisions of the Accountants Act, Cap. 531 is mandatory. Failure to comply shall attract the provisions of Section 62 of the Public Audit Act.
- 4. Compliance with Fiscal Responsibility on Wage Bill:** The Governor ensures the Board and Accounting Officers develop a staff rationalization plan with specific annual reduction targets to achieve comply with the applicable WASREB Corporate Governance Guidelines benchmark on personnel costs as a share of operations and maintenance costs (very large companies: <30%; large companies: <35%; medium companies: <40%; small companies: <50%), and report to the Senate and a copy to the Auditor-General within 90 days after adoption of this report. The companies should establish lean staff complements aligned to operational needs.
- 5. Compliance with Ethnic Inclusivity and Diversity Requirements:** The Governor ensures the Board and County Government make deliberate efforts to progressively comply with Section 7(1) and (2) of the National Cohesion and Integration Act and Section 65(1)(e) of the County Governments Act on diversity and ethnic inclusivity. The Board and the County Government should establish a diversity policy including

provisions for persons with disabilities in compliance with Section 13 of the Persons with Disabilities Act, 2003. Compliance status shall be reviewed in subsequent audit periods.

6.Climate Change Budgeting: The Governor ensures the Board and Accounting Officers mainstream climate change measures into their operational and development plans as required by the National Climate Change Act, 2016. Annual budgets should include specific provisions for water source protection, energy-efficient operations, and climate resilience measures.

GENERAL OBSERVATIONS FOR MUNICIPALITIES

- 1. Municipal Governance and Principal-Agent Relationship:** The Committee observed that Section 9 of the Urban Areas and Cities Act, 2011 establishes a principal-agent relationship between Municipality Boards and their respective County Governments, under which Boards carry out delegated functions, maintain financial accountability to the County Government, and govern for and on behalf of the County Government. The Committee noted that full delegation of functions to Meru Municipality only commenced in FY 2024/2025, six years after the grant of the Municipal Charter in 2018, while Maua Municipality revenue collection functions had not yet been formally delegated by the County Government.
- 2. Failure to Submit Financial Statements for Prior Years:** The Committee noted with grave concern that Meru Municipality did not submit financial statements for the years ended 30th June 2019 to 30th June 2024 to the Auditor-General as required under Section 46 of the Urban Areas and Cities Act, 2011, representing a six-year gap in public financial accountability.
- 3. Deficiencies in Financial Reporting and Standards Compliance:** The Committee observed that both municipalities faced challenges in the preparation of financial statements, including budgetary control variances. Meru Municipality had an underfunding of Kshs. 3,000,000 (33%) while Maua Municipality had not established its own revenue collection mechanisms, financed 100% through County Government transfers. Revenue collection functions had not yet been formally delegated by the County Government to the Municipality under Section 9 of the Urban Areas and Cities Act, 2011, contrary to Section 172(a) of the Public Finance Management Act, 2012.
- 4. Lack of Internal Control Policies:** The Committee observed that both municipalities lacked key governance and control documents including Risk Management Policies, IT Policies, Disaster Recovery Plans, and Data Protection Policies. These deficiencies exposed the municipalities to significant operational and financial risks.
- 5. Non-Compliance with Data Protection Act:** The Committee observed that both Meru Municipality and Maua Municipality had not registered with the Office of the Data Protection Commissioner as required under Section 18(1) of the Data Protection Act, 2019, despite collecting and processing personal data from residents and employees.
- 6. Non-Collection of Own-Source Revenue:** The Committee observed that Maua Municipality was financed solely through County Government transfers and had not established its own revenue collection mechanisms, contrary to Section 172(a) of the Public Finance Management Act, 2012, which allows municipalities to collect rates, fees, levies, and charges.

GENERAL RECOMMENDATIONS FOR MUNICIPALITIES

- 1. Enforcement of Municipal Autonomy and Adequate Funding:** The Governor ensures that the operationalization of municipalities is undertaken according to the functions delegated as gazetted by the County Government. Further, the Governor should ensure that municipalities are adequately funded in accordance with Section 172 of the Public Finance Management Act, 2012, to enhance their operational independence and enable effective service delivery. The Governor should further ensure that all municipalities in the county are operationalized to undertake their delegated functions in line with law by the commencement of the Financial Year 2026/2027.
- 2. Submission of Outstanding Financial Statements:** The Governor ensures the Municipal Manager of Meru Municipality submits audited financial statements for all outstanding years from 2019/2020 to 2023/2024 to the Auditor-General within ninety (90) days of the adoption of this report in compliance with Section 46 of the Urban Areas and Cities Act, 2011. The Auditor-General should provide a status update in the subsequent audit cycle.
- 3. Strengthening Financial Reporting Capacity:** The Governor ensures the Municipal Manager and the head of finance shall, in consultation with the County Treasury and the Public Sector Accounting Standards Board (PSASB), develop and implement a continuous capacity-building program for all finance officers on the application of International Public Sector Accounting Standards (IPSAS). Further, the Municipal Manager shall ensure that all financial statements prepared from the financial year 2025/26 onwards fully comply with the most current IPSAS framework as issued by the PSASB.
- 4. Establishment of Own-Source Revenue for Municipalities:** The Governor ensures that by the commencement of the Financial Year 2026/2027, all municipalities have established own-source revenue collection mechanisms in compliance with Section 172(a) of the Public Finance Management Act, 2012. The County Government should collaborate with municipalities to identify viable revenue streams and establish appropriate systems for accountability and reporting.
- 5. Development and Approval of Internal Control Policies:** The Governor ensures the Municipal Managers develop, approve, and operationalize comprehensive Risk Management Policies, IT Policies, Data Protection Policies, and Disaster Recovery

Plans within sixty (60) days of the adoption of this report. Evidence of adoption should be submitted to the Auditor-General for verification.

- 6. Compliance with Data Protection Act:** The Governor should ensure that all municipalities comply with the provisions of the Data Protection Act, 2019, and register as data controllers with the Office of the Data Protection Commissioner. Evidence of registration should be provided to the Auditor-General for verification and monitoring. The Auditor-General should provide a status update in the subsequent audit cycle.

GENERAL OBSERVATIONS FOR HOSPITALS

- 1. Non-Compliance with Kenya Quality Model for Health Policy Guidelines:** The Committee observed that all three hospitals did not fully comply with the Universal Healthcare standards. MTRH, Miathene Sub-County Hospital, and Nyambene Sub-County Hospital were all inadequately staffed and lacked essential equipment required under the Kenya Quality Model for Health Policy Guidelines. MTRH had a shortfall of 569 staff members (69% of the authorized establishment), Miathene had only 2 medical officers against a requirement of 16, and Nyambene lacked critical specialists including anesthesiologists and general surgeons.
- 2. Inaccuracies in Financial Statements:** The Committee observed that there were inaccuracies and errors in the preparation and presentation of financial statements in almost all hospitals. Nyambene Sub-County Hospital had misstatements in property, plant and equipment values and unreconciled variances between financial statements. Miathene Hospital had understated SHA revenue. Furthermore, hospitals faced challenges in submitting supporting documents to the auditors on time, contrary to Section 47(1) of the Public Audit Act, Cap. 412B as read together with Section 149(2)(k) of the Public Finance Management Act, Cap. 412A.
- 3. Failure to Deduct and Remit Public Procurement Capacity Building Levy:** The Committee observed that all three hospitals failed to deduct and remit the Public Procurement Capacity Building Levy of 0.03% from their contract payments effective 1 September 2024, in breach of PPRA Circular No. 01/2024.
- 4. Weak Budgetary Control and Performance:** The Committee observed that hospitals exhibited weaknesses in budget execution. MTRH had under-utilization of Kshs. 54,327,655 (13% of receipts), Nyambene Hospital had under-utilization of Kshs. 34,110,756 (17% of receipts). The under-expenditure was primarily attributed to delays in SHA reimbursements.
- 5. Expired Service Contracts for Managed Equipment:** The Committee observed that MTRH had Managed Equipment Service (MES) contracts between maintenance service providers and the Ministry of Health that had expired, leaving critical medical equipment unserviced and potentially hazardous, posing risks of healthcare-associated infections and regulatory non-compliance.
- 6. Deficiencies in Asset Management and Governance:** The Committee observed that hospitals lacked comprehensive and updated asset registers, had not tagged or serialized assets, and held assets with undetermined values. MTRH lacked approved staff establishment, operated a manual payroll system, and had medical equipment that was

neither insured nor valued. Nyambene Hospital's Board had served beyond its six-year term limit without proper reappointment documentation.

- 7. Loss of Revenue Data and SHA Claims Management:** The Committee observed that Miathene Hospital lost critical revenue data during the NHIF to SHA transition period (July–October 2024), and both Miathene and Nyambene hospitals had outstanding SHA claims that remained unpaid, adversely affecting hospital operations.

GENERAL RECOMMENDATIONS FOR HOSPITALS

- 1. Compliance with Kenya Quality Model for Health Policy Guidelines:** The Governor submits to the Senate a comprehensive plan outlining the specific measures being taken to address the staffing shortages in all three hospitals within sixty (60) days of the adoption of this report. The measures should include both short-term and long-term solutions, focusing on optimizing existing resources, improving employee welfare, and ensuring sustainable staffing levels moving forward. The Governor should ensure hospitals develop and implement comprehensive plans with appropriate budgetary provisions to acquire necessary equipment and operationalize required services.
- 2. Capacity Building on Financial Reporting Standards:** The Governor ensures the hospital management teams, in consultation with the Public Sector Accounting Standards Board (PSASB), facilitate continuous capacity building on financial reporting standards for finance officers and management in hospitals to improve the quality of reporting and enhance compliance. The hospital management teams should ensure that accountants possess the requisite competency and experience in financial management as required by the Accountants Act. Furthermore, the Accounting Officers should ensure compliance with the financial reporting template prescribed by the National Treasury.
- 3. Compliance with Procurement Levy Requirements:** The Governor ensures all hospital managements comply with the Public Procurement Capacity Building Levy Order, 2023, by deducting and remitting the 0.03% levy through the e-Citizen platform by the 20th day of each subsequent month. Non-compliance shall attract appropriate sanctions under Section 199 of the Public Finance Management Act.
- 4. Preparation of Realistic Budgets and Revenue Projections:** The Governor ensures hospital management teams and Accounting Officers prepare realistic budgets and revenue projections to avert revenue shortfalls that negatively impact hospitals' service delivery. Additionally, hospital management teams should seek the necessary approvals

by forwarding budget estimates to the County Executive Committee Member for Health. Hospitals should also ensure timely resubmission and follow-up of SHA claims to minimize revenue shortfalls.

5. **Resolution of Expired MES Contracts:** The Governor should urgently liaise with the Ministry of Health and the Council of Governors to expedite the renewal or replacement of expired Managed Equipment Service (MES) contracts for MTRH to ensure all critical medical equipment is serviced and operational. A status report should be submitted to the Senate within 60 days of the adoption of this report.
6. **Transfer of Assets and Maintenance of Fixed Asset Registers:** The Governor should ensure that all assets are formally transferred to hospitals to enable them to reflect their true financial position in their books of account. Hospital management teams should ensure that hospitals maintain updated fixed asset registers pursuant to Section 136(1) of the Public Finance Management (County Government) Regulations, 2015, in the format prescribed by the National Treasury. Assets should be properly tagged, serialized, insured, and valued. Fixed asset registers should be submitted to the Senate and a copy to the Auditor-General within sixty (60) days of the adoption of this report.
7. **Board Governance and Renewal:** The Governor should ensure that the Board of Nyambene Sub-County Hospital is formally reconstituted within sixty (60) days of the adoption of this report in accordance with Mwongozo Guidelines on Corporate Governance. All future Board appointments and renewals should be properly documented and comply with prescribed term limits and governance standards.

GENERAL OBSERVATIONS FOR FUNDS

- 1. Going Concern and Financial Sustainability:** The Committee observed that the Meru County Revenue Board recorded a deficit of Kshs. 3,397,953.80 during the year under review, bringing accumulated losses to Kshs. 11,517,954 as at 30 June 2025. Current liabilities of Kshs. 42,450,893.47 exceeded current assets of Kshs. 28,197,676.47, resulting in negative working capital of Kshs. 14,253,217. The Board's continued operations are wholly dependent on County Government financial support, raising material uncertainty about its long-term sustainability.
- 2. Integrity of Revenue Data and Systems:** The Committee observed that there were significant discrepancies in revenue figures reported by the Revenue Board. The service provider's commission demand implied revenue of Kshs. 389,025,271, while the Receiver of Revenue reported Kshs. 365,278,922 and the revenue system itself reflected Kshs. 319,966,363, representing a three-way discrepancy casting doubt on the integrity, accuracy, and completeness of the Board's revenue management systems.
- 3. Conflict of Interests in Revenue Collection:** The Committee observed that Meru County has three departments concurrently mandated to collect revenue, namely Meru and Maua Municipalities, the Revenue Board, and Meru County Investment and Development Corporation (MCIDC), without clear delineation of revenue streams. Revenue collected by MCIDC was not demonstrably remitted to the Receiver of Revenue as required under Section 158(2) of the Public Finance Management Act, 2012, creating risk of revenue leakage and lack of accountability.
- 4. Excessive Wage Bill:** The Committee observed that employee costs of Kshs. 261,350,758.22 represented 76% of total revenue of Kshs. 341,450,758, far exceeding the statutory ceiling of 35% prescribed under Regulation 25(1)(b) of the Public Finance Management (County Government) Regulations, 2015. This severely constrains the Board's operational efficiency and its ability to meet its mandate.
- 5. Non-Compliance with Ethnic Inclusivity Requirements:** The Committee observed that 483 out of 495 employees (98%) of the Revenue Board were from the dominant ethnic community, in gross violation of Section 7(2) of the National Cohesion and Integration Act, 2008, which prohibits any public establishment from having more than one-third of its staff from the same ethnic community.
- 6. Doubtful and Non-Transparent Contractual Payments:** The Committee observed that payments to the revenue collection system service provider were made outside the terms of the signed contract, including USSD set-up fees and monthly maintenance charges not provided for under the contract. The total demand of Kshs. 44,830,161.89

by the service provider included undisclosed and unapproved costs, raising concerns about the transparency and legality of contractual arrangements.

7. Unresolved Prior Year Audit Matters: The Committee observed with concern that several audit issues from prior years remained unresolved, including unsupported expenditure of Kshs. 15,000,000, unsupported receivables from non-exchange transactions of Kshs. 20,825,147, and long outstanding payables, indicating persistent weaknesses in management response to audit findings.

GENERAL RECOMMENDATIONS FOR FUNDS

- 1. Addressing Going Concern and Financial Sustainability:** The Governor ensures the Meru County Revenue Board develops and presents to the Senate a comprehensive financial sustainability plan within sixty (60) days of the adoption of this report. The plan should include measures to reduce the wage bill to within statutory limits, enhance own-source revenue performance, and reduce dependency on County Government budgetary allocations. The County Treasury should review the funding model for the Board with a view to ensuring long-term fiscal viability.
- 2. Strengthening Revenue Data Integrity:** The Governor ensures that an independent audit and reconciliation of all revenue collected through the Integrated County Revenue Management System (ICRMS) and all other parallel systems is undertaken and the results submitted to the Senate within sixty (60) days of the adoption of this report. The Board should migrate all revenue streams to a single integrated system and decommission legacy systems. The County should commission a forensic audit of all commission payments made to the revenue collection service provider.
- 3. Resolving Conflict of Interests in Revenue Collection:** The Governor ensures that a clear, legally-grounded revenue collection mandate framework is developed and operationalized among the Revenue Board, Municipalities, and MCIDC within ninety (90) days of the adoption of this report. All revenue collected by any County entity must be remitted to the County Receiver of Revenue in compliance with Section 158(2) of the Public Finance Management Act, 2012. A report on the framework and compliance status should be submitted to the Senate.
- 4. Reducing the Wage Bill:** The Governor ensures the Revenue Board implements a structured plan to progressively reduce its wage bill to within the statutory 35% ceiling. The plan should include a staffing rationalisation review, a freeze on non-critical recruitment, and engagement with the Salaries and Remuneration Commission (SRC)

on the approved salary structure. Progress reports should be submitted to the Senate quarterly.

5. **Compliance with Ethnic Inclusivity Requirements:** The Governor ensures the Revenue Board develops and implements an affirmative action hiring plan to achieve compliance with Section 7(2) of the National Cohesion and Integration Act, 2008, reducing the dominance of one ethnic community below the one-third threshold. The plan should be submitted to the National Cohesion and Integration Commission (NCIC) and a copy to the Senate within sixty (60) days of the adoption of this report.
6. **Regularising Contractual Payments to Service Providers:** The Governor ensures that all payments to revenue collection service providers are strictly based on terms of signed contracts. Any variation in scope or cost must be through a formal contract addendum approved under the Public Procurement and Asset Disposal Act, 2015. The County should recover any overpayments made outside contractual terms and report the outcome to the Senate within sixty (60) days of the adoption of this report.
7. **Strengthening Internal Controls and Governance:** The Governor ensures the Revenue Board: (i) develops and adopts an approved Finance and Procedures Manual within sixty (60) days of the adoption of this report; (ii) migrates all staff to HRIS-Keo payroll by completing pending personal number applications; (iii) completes registration with the Office of the Data Protection Commissioner as a data controller/processor; and (iv) formalises attendance and delegation protocols for Board meetings in accordance with the Meru County Revenue Board Act, 2014.
8. **Resolution of Prior Year Audit Matters:** The Governor ensures that all unresolved prior year audit matters, including unsupported expenditure of Kshs. 15,000,000, unsupported receivables of Kshs. 20,825,147, and long outstanding payables, are fully resolved and supporting documentation submitted to the Auditor-General within sixty (60) days of the adoption of this report. A status report on resolution of all prior year matters should be tabled before the Senate.

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:.....

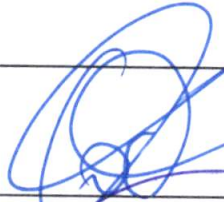
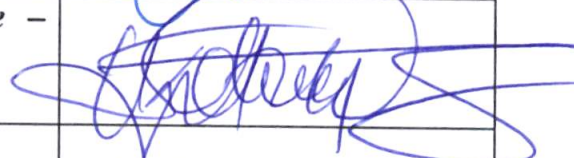

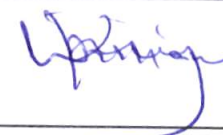


DATE:.....

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 EIGHT COUNTY ENTITIES FOR MERU COUNTY FOR THE FINANCIAL YEAR 2024/25

SECTOR	NO.	ENTITY
WATER COMPANIES	2	MERU WATER AND SEWERAGE SERVICES COMPANY (MEWASS)
		MERU COUNTY RURAL WATER AND SANITATION COMPANY (MCWSC)
MUNICIPALITIES	2	MERU MUNICIPALITY
		MAUA MUNICIPALITY
HOSPITALS	3	MERU TEACHING AND REFERRAL HOSPITAL (MTRH)
		MIATHENE SUB-COUNTY HOSPITAL
		NYAMBENE SUB-COUNTY HOSPITAL
FUNDS	1	MERU COUNTY REVENUE BOARD (MCRB)

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

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

CHAPTER ONE: WATER COMPANIES

1.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR MERU WATER AND SEWERAGE SERVICES COMPANY FOR THE FINANCIAL YEAR 2024/25

The Governor of Meru County, **Hon. Rev. Isaac Mutuma**, appeared before the Committee on 27th January 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Meru Water and Sewerage Services Company (MEWASS) for the Financial Year 2024/25. The Governor was accompanied by relevant county officials.

- | | |
|-----------------------|-------------------------------|
| 1.CPA Monica Kathono | -CECM, Finance |
| 2.Romano Mwito | -Managing Director, MERIWASCO |
| 3.Mr. Mutuma Kang'ote | -CO, Water and Sanitation |

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified Opinion** on the Financial Statements of the Meru Water and Sewerage Services Company for the period under review on the following basis-

1. Long Outstanding Trade Receivables

As previously reported, the statement of financial position reflects trade and other receivables balance of Kshs. 66,341,725 net of provision for bad and doubtful debts of Kshs. 23,195,682, which as disclosed in Note 20 to the financial statements, includes gross trade receivables balance of Kshs. 82,115,897. However, the gross trade receivables balance includes debts amounting to Kshs. 49,202,193 which had been outstanding from 2023/2024 and earlier years without clearance. In addition, no evidence was provided of the Management efforts made to recover or write off the overdue debts. In the circumstances, the accuracy and recoverability of the long outstanding receivables balance of Kshs. 66,341,725 could not be confirmed.

Management Response

The management in its effort to collect outstanding amounts undertakes disconnection of water services for non-payment using various methods including sealing connections by block washer at the gate valve. The company has a debt collection unit whose responsibility is to analyze debtors' accounts, negotiate payment plans with debtors, and follow up on recovery. Through these efforts the company collected an amount of Kshs. 6,366,099 out of the long outstanding debts of Kshs. 49,202,193 after the end of the financial year 2024/25.

Committee Observations

The Committee observed that the Company had gross trade receivables of Kshs. 82,115,897, of which Kshs. 49,202,193 had been outstanding since 2023/2024 and earlier years without clearance; and out of the long outstanding balance of Kshs. 49,202,193, only Kshs. 6,366,099 was recovered after the financial year end, leaving a balance of Kshs. 42,836,094 unrecovered.

Committee Recommendations

The Committee recommends that---

- i. the Governor, through the Accounting Officer, should ensure that MEWASS undertakes debtors' 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 submits, within 60 days of the adoption of this report, a debtors' ageing schedule to the Auditor-General for review and verification and updates the Committee in the subsequent audit cycle;**
- iii. the Governor ensures the Accounting Officer puts in place, within 60 days of the adoption of this report, 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 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 the irrecoverable debts in line with Section 130(2)(d) of the Public Finance Management (County Governments) Regulations, 2015.**

2. Budgetary Performance and Controls

The statement of comparison of budget and actual amounts reflects final income budget and actual on comparable basis of Kshs. 260,275,226 and Kshs. 292,068,814 respectively, resulting in an over-collection of Kshs. 31,793,588 or 12% of the budget. Similarly, the Company spent Kshs. 260,267,775 against actual receipts of Kshs. 292,068,814, resulting in an under-absorption of Kshs. 31,801,039 or 11% of the actual receipts. The under-utilization of actual receipts affected the planned activities and may have impacted negatively on service delivery to the public.

Management Response

During the year the company received funding from the Water Sector Trust Fund in February 2025 towards water infrastructure development. As at the close of the financial year 2024/2025 the funds had not been utilized since the project had prerequisite conditions prior to commencement, including obtaining wayleave, license from NEMA, and WRA approval. These requirements have since been met and the project is ongoing.

Committee Observations

The Committee observed that the Company over-collected revenue by Kshs. 31,793,588 (12%) against a budget of Kshs. 260,275,226, while under-absorbing expenditure by Kshs. 31,801,039 (11%) against actual receipts of Kshs. 292,068,814; the under-expenditure was attributed to unmet pre-conditions, including NEMA and WRA approvals, for a Water Sector Trust Fund infrastructure project received in February 2025; and management confirmed that the pre-conditions have since been fulfilled and the project is now ongoing, with the funds fully absorbed.

Committee Recommendations

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Pursuant to Article 229(6) of the Constitution, based on the audit procedures performed by the Auditor General, the following matters formed the basis for conclusion that public resources were not applied lawfully and in an effective way --

1. Long Outstanding Trade Payables

As previously reported, the statement of financial position reflects trade and other payables balance of Kshs. 82,586,718 which, as disclosed in Note 29 to the financial statements, includes payables totaling Kshs. 53,688,115 relating to 2023/2024 financial year and earlier periods, hence have been outstanding for an inordinately long time without clearance. It was not possible to confirm why the company has not met its obligations of settling debt as the first charge. This was contrary to Section 53(8) of the Public Procurement and Asset Disposal Act, 2015. In the circumstances, Management was in breach of the law and there is risk of loss of public funds through litigations, interests and penalties.

Management Response

The management indicates that the liabilities amounting to Kshs. 53,688,115 includes an amount of Kshs. 51,135,957 owed to Tana Water Works Agency. The company undertakes to engage with Tana Water Works Development Agency and other creditors to come up with an agreeable payment plan.

Committee Observations

The Committee observed that the Company has accumulated long outstanding trade payables of Kshs. 53,688,115 dating back to 2023/2024 and earlier, with the bulk (Kshs. 51,135,957) owed to Tana Water Works Development Agency; no clear repayment plan or evidence of active negotiations with Tana Water Works Development Agency was provided during the audit; and the failure to settle obligations as they fall due exposes the company to litigation, interest penalties, and reputational damage.

Committee Recommendations

The Committee recommends that-

- i. 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.**
- ii. the Governor ensures the water company makes budgetary provision to clear the outstanding payables by the end of the FY 2026/2027 and provide a status update to the Senate within 60 days of the adoption report.**
- iii. and the Governor ensures that the County Executive Committee Member in charge of water continuously monitors the financial performance of the water company in line with section 184 of the Public Finance Management Act, 2012 and report on the same to the County Executive Committee, making recommendations on how the water company can improve its performance.**

2. Non-Compliance with Fiscal Responsibility Principles on Wage Bill

The statement of profit or loss and other comprehensive income reflects total expenses and staff costs amounts of Kshs. 258,368,530 and Kshs. 111,713,811 respectively. However, the staff costs are 43% of operation and maintenance cost of Kshs. 258,368,530. This is contrary to Paragraph 3.2 of the performance report of Kenya's Water Service Sector 2020/2021 from WASREB, issue Number 14/2022, which states that the personnel expenditure for any Company ranked as a large Company should not exceed 30% as a

percentage of Operation and Maintenance Cost. In the circumstances, Management was in breach of the WASREB Guidelines.

Management Response

The management takes note of the wage bill ratio in relation to operation and maintenance cost and is working towards its reduction by having additional water to generate more revenue through the implementation of the tariff, Kathita water pipeline which is currently in progress and actualization of the proposed Mutuaru water supply and sinking of four sited boreholes. The strategies are expected to bring additional revenues hence reduce the ratio of wage bill in relation to operation and maintenance costs.

Committee Observations

The Committee observed that the company's personnel costs represented 43% of total operational costs, exceeding the applicable WASREB Corporate Governance Guidelines benchmark for its company size category; management has outlined revenue expansion measures including the Kathita water pipeline and borehole sinking projects to increase revenue and improve the personnel cost ratio; and no concrete staff rationalization plan with specific annual reduction targets was provided.

Committee Recommendations

The Committee recommends that-

- i. the Governor ensures that the Accounting Officer develops a staff rationalisation plan with specific annual reduction targets to achieve the WASREB benchmark of 35% and report to the Senate and a copy to the Auditor-General within 90 days after adoption of this Report.**
- ii. and the Company ensures progressive compliance to regulation 25(1) of the Public Finance management (County Government) Regulations, 2015 which limits the wage bill to thirty-five percent (35%) of the total revenue and establish a lean staff complement, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply.**

3. Failure to Budget for Climate Change and Financing

Review of the Company's annual budget and financial plans revealed that no provisions for climate change mitigation, adaptation programs, or climate financing initiatives were made. In addition, there was no evidence of planned allocation of funds for projects or activities that address climate risks, such as water source protection, energy-efficient operations, or climate resilience measures, despite the Company's operations being highly dependent on environmental sustainability. This is contrary to the National Climate Change Act, 2016, which obligates public entities to mainstream climate change measures into their

operational and development plans and to allocate adequate resources to address climate resilience and adaptation. In the circumstances, Management was in breach of the law.

Management Response

The management took note of prioritizing and mitigating the effects of climate change and thus budgeted for an amount of Kshs. 300,000 in the financial year 2025/2026.

Committee Observations

The Committee observed that the Company failed to make any budgetary provisions for climate change mitigation or adaptation programs in FY 2024/2025, in breach of the National Climate Change Act, 2016; and management has since budgeted Ksh 300,000 for climate change initiatives in FY 2025/2026 and prepared a Climate Change Policy, demonstrating recognition of and commitment to the requirements of the National Climate Change Act, 2016.

Committee Recommendations

Noting the mitigating measures, the Committee recommends the matter be marked as resolved. The Auditor-General should confirm implementation of the climate change budgetary provisions and adequacy of the Climate Change Policy in the subsequent audit cycle.

4. Non-Compliance with the Law on Staff Ethnic Representation and People with Special Needs

As previously reported, review of staff records revealed that thirteen (13) staff out of twenty-one (21), representing 62% of Management staff (Job Groups 1–5), were from one dominant ethnic community within the County. This is contrary to Section 7(2) of the National Cohesion and Integration Act, 2008. In addition, out of a total of one hundred and thirteen (113) staff, the Company had no employee with disability, contrary to provisions of Section 13 of the Persons with Disabilities Act, 2003, which states that the Council shall endeavor to secure the reservation of five (5) percent of all positions for persons with disabilities. In the circumstances, Management was in breach of the law.

Management Response

The management endeavors to gradually improve ethnic diversity by encouraging applicants from other ethnicities to apply for job openings when they arise in the Company. Similarly, the Company undertakes to progressively have at least 5% of staff living with disability in its workforce in future job openings.

Committee Observations

The Committee observed that the query remained unresolved as 62% of Management staff were from the same dominant ethnic community, contrary to Section 7(2) of the National Cohesion and Integration Act, 2008; the Company had no employee with disability in its workforce of 113 staff, a clear breach of Section 13 of the Persons with Disabilities Act, 2003; and management has committed to progressive compliance but has not provided a concrete diversity recruitment plan or timelines.

Committee Recommendations

The Committee recommends that—

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

5. Failure to Deduct and Remit Public Procurement Capacity Building Levy

The Public Procurement Capacity Building Levy of 0.03% was not deducted from contract payments and remitted to the Public Procurement Regulatory Authority (PPRA) effective on 1 September 2024. This was contrary to PPRA Circular No. 01/2024 referenced PPRA/6/5 VOL II (224) dated 30 August, 2024, which requires that all procuring entities should collect the levy from all suppliers on all procurement contracts signed between the supplier and a procuring entity. The amount should be remitted through the e-Citizen platform and file monthly returns to the Authority by the 20th day of the subsequent month. In the circumstances, Management was in breach of law.

Management Response

The management states that it had challenges in remitting the levy through e-Citizen. Thereafter, after the end of the financial year 2024/25, the company managed to remit the procurement training levy from the suppliers' payments as required.

Committee Observations

The Committee observed that the Company failed to deduct and remit the 0.03% Public Procurement Capacity Building Levy during the financial year 2024/25, contrary to PPRA Circular No. 01/2024; and management remitted the levy after the financial year end.

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.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Pursuant to Section 7(1) of the Public Audit Act, based on procedures performed by the Auditor General, the following matter formed the basis for conclusion that internal controls, risk management and overall governance were not effective --

1. Use of Old Water Tariffs

As previously reported, the statement of profit or loss and other comprehensive income reflects operating revenue amount of Kshs. 224,853,399 as disclosed in Note 6 to the financial statements. Review of billing records revealed that the Company applied a tariff structure approved by the Water Services Regulatory Board (WASREB) for the period 2013/2014 to 2016/2017. However, the approval period has since lapsed and the Company has continued using the same tariff rates for seven (7) subsequent years without approval or renewal from WASREB. In the circumstances, effectiveness and validity of revenue collection mechanism applied by the Company could not be confirmed.

Management Response

The Management undertook the tariff review process as per the Water Act, 2016, which involved socio-economic survey justifying cost of water service provision and affordability by consumers. The Water Services Regulatory Board evaluated the proposed tariff and made recommendations. The regulator then advised the company to organize public participation.

Committee Observations

The Committee observed that the Company applied tariffs approved by WASREB for 2013/2014 to 2016/2017 for seven consecutive years without renewal; and that WASREB gazetted a new water tariff for MEWASS on 2nd January 2026 (Gazette Notice No. 63 of

2026), ending the use of the lapsed tariff structure. The Company is now operating under a valid, WASREB-approved tariff.

Committee Recommendations

Noting the mitigation measures taken, the Committee recommends that the query be marked as resolved. The water company should adhere to Section 72 of the Water Act, 2016, and ensure timely renewal of tariffs in future to avoid recurrence. The Auditor-General should confirm full implementation of the new tariff in the subsequent audit cycle.

1.2. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR MERU COUNTY RURAL WATER AND SANITATION COMPANY FOR THE FINANCIAL YEAR 2024/25

The Governor of Meru County, Hon. Rev. Isaac Mutuma, appeared before the Committee on 27th January 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Meru County Rural Water and Sanitation Company (MCWSC) for the Financial Year 2024/25. The Governor was accompanied by relevant county officials.

- | | |
|-----------------------|---------------------------|
| 1.CPA Monica Kathono | -CECM,Finance |
| 2.Mr. Mutuma Kang'ote | -CO, Water and Sanitation |

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified Opinion** on the Financial Statements of the Meru County Rural Water and Sanitation Company for the period under review on the following basis-

1. Material Uncertainty Related to Going Concern

The Statement of Financial Position as at 30th June 2025 reflects current liabilities balance of Kshs. 69,290,104 while current assets amounted to Kshs. 45,976,754 resulting in negative working capital balance of Kshs. 23,313,350. Further, the statement of profit or loss and other comprehensive income reflects a loss of Kshs. 4,462,816 (2024: Kshs. 6,003,869). The uncertainty of going concern has not been disclosed in the financial statements. The Company is therefore technically insolvent and may not meet its obligations when they fall due. Its continued existence as a going concern is dependent upon financial support from its creditors and the County Government of Meru. In the circumstances, the negative liquidity position is an indication of the existence of a material uncertainty on the Company's ability to continue as a going concern.

Management Response

The company has not been able to meet its operation and maintenance cost coverage due to economic inflation and operation on a low tariff not able to cover all operating costs. However, the company has a new gazetted tariff from WASREB which will cover all the costs. Most of the payables belong to Government agencies and management is planning to enter into settlement agreements. During the current year, the implementation of the new tariff has improved revenues and liquidity. The company settled creditors amounting to Kshs. 8,488,787 during the current year.

Committee Observations

The Committee observed that the water company operated with a negative working capital of Kshs. 23,313,350 during the financial year under review,

Committee Recommendations

The Committee recommends that-

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

2. Long Outstanding Trade and Other Receivables

The statement of financial position and as disclosed in Note 29 to the financial statements reflects gross trade receivables balance of Kshs. 40,676,852, of which Kshs. 30,578,562 had been outstanding for a period exceeding six (6) months. There was no evidence of collection efforts or impairment assessment, and the amount of trade receivables had increased by Kshs. 1,327,301 compared to the previous year, despite a 10% provision in

the current financial year. In the circumstances, recoverability of trade receivables balance of Kshs. 30,578,562 could not be confirmed.

Management Response

The management through its debt collection unit collected a total of Kshs. 3,049,462 in the period July to December 2025. Some of the debts are owed by Government Institutions including Kenya Police, Administration Police, and the County Government of Meru. Management has deployed an officer dedicated to debt collection.

Committee Observations

The Committee observed that the Company has accumulated trade receivables of Kshs. 30,578,562 outstanding for more than six months, and only Kshs. 3,049,462 was collected over six months; key debtors include Government Institutions such as Kenya Police and the County Government of Meru, which pose collection challenges; and the provision for bad and doubtful debts at only 10% may be insufficient given the age and composition of the debt portfolio.

Committee Recommendations

The Committee recommends that-

- i. the Governor through the Accounting Officer should ensure that the water company undertakes debtor's circularization to confirm the authenticity of the receivables and provide a status update on the same to the Senate within sixty (60) days of the adoption of this report.**
- ii. the Governor ensures the Accounting Officer should, within 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; and**
- iii. the Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, submit an approved copy of the Debt Management Policy to the Auditor-General for verification. The Auditor-General to verify the policy and submit a status update on the same in the subsequent audit cycle.**
- 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.**
- v. and the Governor ensure 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. Undisclosed Water Inventory Held in the Distribution Infrastructure

The statement of financial position reflects an inventory balance of Kshs. 968,146 as disclosed in Note 28 to the financial statements. However, the Company did not value, present, and disclose the amount of water held in the treatment plants, reservoirs, and distribution systems at the end of the year in accordance with International Accounting Standard on Inventories (IAS) 2. In the circumstances, the accuracy and completeness of inventory balance of Kshs. 968,146 could not be confirmed.

Management Response

The company water distribution infrastructure comprises treatment plants, reservoirs and distribution systems in nine water schemes in different capacities. The company has embarked on taking stock of the amount of water held in this distribution infrastructure at the end of each quarter in accordance with IAS 2. The inventory has been incorporated in subsequent quarters.

Committee Observations

The Committee observed that the Company did not disclose water inventory held in its distribution infrastructure at year end, contrary to IAS 2; and that management has since implemented quarterly stock-takes of water held in its treatment plants, reservoirs, and distribution systems, with inventory captured and reported from the second quarter onwards, in compliance with IAS 2.

Committee Recommendations

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

4. Budget Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs. 90,695,039 and Kshs. 64,397,658 respectively, resulting in an under-funding of Kshs. 26,297,381 or 29% of the budget. The under-performance affected the planned activities and may have impacted negatively on service delivery to the public.

Management Response

During the financial year 2024/2025, the management had forecasted revenues using the new tariff applied to WASREB from July 2023. However, the tariff was gazetted on 11th

April 2025 and implemented from 1st July 2025. This explains the significant shortfall in actual revenue against the budget.

Committee Observations

The Committee observed that the Company under-collected revenues by 29% (Kshs. 26,297,381) against the budget, partly due to the delayed gazettelement of the new tariff which was only gazetted on 11th April 2025 and not implemented until 1st July 2025; the budgeting approach adopted unrealistic revenue projections based on an unapproved tariff, contributing to the significant variance; and the delay in tariff gazettelement was outside the direct control of the company but had significant financial impact.

Committee Recommendations

The Committee recommends that---

- i. the Governor ensures the Accounting Officer complies with Section 149(2)(h) and (i) of the Public Finance Management Act, Cap. 412A, and IPSAS 24 on the presentation of budget information in financial statements, failure to which the provisions of Section 199 of the Public Finance Management Act on penalties for offences shall apply;
- ii. the Accounting Officer prepares realistic budgets and revenue projections and seeks the necessary statutory approvals by forwarding budget estimates to the County Executive Committee Member responsible for water, who shall submit them to the County Treasury as required by law;
- iii. the Accounting Officer submits quarterly reports to the County Treasury on the financial and non-financial status of the Company in line with Section 166 of the Public Finance Management Act, Cap. 412A, failure to which the provisions of Section 199 of the Public Finance Management Act on penalties for offences shall apply;
- iv. the County Executive Committee Member in charge of water takes full responsibility for monitoring the financial performance of the company in line with Section 184 of the Public Finance Management Act, 2012 and regularly reports to the Governor through the County Executive Committee in line with Article 179(6) of the Constitution; and
- v. the Auditor-General keeps this matter in view and reports on the status of compliance in the subsequent audit cycle.

5. Non-Revenue Water

Records provided for audit review revealed that the Company produced 1,332,624 cubic meters (m³) of water. However, only 825,627 cubic meters (m³) of water were billed to

customers. The balance of 506,997 cubic meters (m³) or approximately 38% of the total volume of water produced represented Non-Revenue Water (NRW), which was 13% above the allowable water loss of 25% as per the Water Service Regulatory Board Guidelines. In the circumstances, the significantly high level of non-revenue water may negatively impact the Company's profitability and its long-term sustainability.

Management Response

The Company inherited dilapidated infrastructure from the Ministry of Water, which has high levels of Non-Revenue Water. However, through internally generated funds and funds from donors like WSTF and Meru County Government, the company has continuously rehabilitated the dilapidated system, including rehabilitation of a 14.1 KM pipeline in Mitunguu through WSTF funds, rerouting of Timau pipeline and continuous installation of customer meters. The County Government of Meru has allocated funds to purchase 2,000 water meters to further improve NRW reduction.

Committee Observations

The Committee observed that non-Revenue Water was at 38%, which was 13 percentage points above the WASREB sector benchmark of 25%; and the Company has undertaken NRW reduction measures including rehabilitation of 14.1 km of pipeline in Mitunguu and installation of customer meters, with the County Government allocating funds for an additional 2,000 meters.

Committee Recommendations

The committee recommends that-

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

6. Trade and other Payables

Committee Observations

The Committee observed that trade and other payables stood at Kshs. 54,786,254, a 21% increase from the prior year, with the bulk owed to Government Agencies.

Committee Recommendations

The Committee recommends that-

- i. 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.
- ii. the Governor to ensure the water company makes budgetary provision to clear the outstanding payables by the end of the FY 2026/2027 and provide a status update to the Senate within 60 days of the adoption report.
- iii. and the Governor ensures that the County Executive Committee Member in charge of water continuously monitors the financial performance of the water company in line with section 184 of the Public Finance Management Act, 2012 and report on the same to the County Executive Committee, making recommendations on how the water company can improve its performance.

7. Non-Compliance with Fiscal Responsibility Principle on Personnel Costs

The statement of profit or loss and other comprehensive income reflects Kshs. 30,152,732 in respect of staff costs for the year ended 30 June 2025. However, the expenditure represents 44% of the total operating expenditure of Kshs. 68,860,474, which is higher than the recommended ratio of 35% prescribed by the Water Services Regulatory Board (WASREB) Corporate Governance Guidelines, 2018 Section 3.9(10). In the circumstances, Management was in breach of the law.

Management Response

The company operates nine rural water schemes which are vast, hence the need for more employees for efficiency and good service delivery. However, the management is working towards increasing customer connections through the boreholes done by the County Government of Meru, and the operationalization of the newly constructed Decentralized Treatment Facility in Timau to improve on revenues.

Committee Observations

The Committee observed that personnel costs represented 44% of total operating expenditure, exceeding the applicable WASREB Corporate Governance Guidelines benchmark for its company size category.

Committee Recommendations

The Committee recommends that-

- i. the Governor ensures that the Accounting Officer develops a staff rationalisation plan with specific annual reduction targets to achieve the WASREB benchmark of 35% and report to the Senate and a copy to the Auditor-General within 90 days after adoption of this Report.**
- ii. and the Company ensures progressive compliance to regulation 25(1) of the Public Finance management (County Government) Regulations, 2015 which limits the wage bill to thirty-five percent (35%) of the total revenue and establish a lean staff complement, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply.**

8. Non-Compliance with Staff Ethnic Composition

Review of human resource records revealed that the Company in the year under review had a total of one hundred (100) employees, out of whom seventy-nine (79), representing 79% of the total workforce, were from the dominant ethnic community. This is contrary to Section 7(2) of the National Cohesion and Integration Act, 2008. In the circumstances, Management was in breach of the law.

Management Response

The management is committed to adhering to the National Cohesion and Integration Act, 2008, by embracing ethnic diversity in its future recruitments.

Committee Observations

The Committee observed that 79% of the Company's total workforce were from one dominant ethnic community, contrary to Section 7(2) of the National Cohesion and Integration Act, 2008.

Committee Recommendations

The Committee recommends that—

- i. the Governor ensures management comes up with deliberate measures to ensure staff diversity at entry level when filling vacant positions, in full compliance with Section 7(2) of the National Cohesion and Integration Act, 2008.**

- ii. all future recruitment vacancies are advertised in newspapers of national circulation and on the Company's website to attract applicants from diverse ethnic backgrounds.
- iii. and the Auditor-General monitors compliance with the National Cohesion and Integration Act, 2008 and provides a status update in the subsequent audit cycle.

9. Implementation of Unapproved Salary Scales

Company employee salaries do not match those in the approved salary structure for SRC. In addition, the salary structure adopted by the Board that outlined salaries designed and implemented by Meru County Rural Water and Sanitation Services Company Ltd is not approved by the Salaries and Remuneration Commission. In the circumstances, this was non-compliance with the Circular.

Management Response

The management is in communication with the SRC to ensure the salary scales are approved by the Commission.

Committee Observations

The Committee observed that the Company implemented salary scales not approved by the Salaries and Remuneration Commission (SRC); and management has initiated the approval process with the SRC.

Committee Recommendations

The Committee recommends that---

- i. the Governor ensures the Board urgently engages the Salaries and Remuneration Commission to have the company's salary scales reviewed and approved, and submits evidence of compliance to the Auditor-General within 60 days of the adoption of this report; and
- ii. the Auditor-General keeps this matter in view in the subsequent audit cycle and reports on the status of compliance to the Committee.

10. Failure to Deduct and Remit Capacity Building Levy

The Public Procurement Capacity Building Levy of 0.03% was not deducted from contract payments totaling Kshs. 24,674,780 and remitted to the Public Procurement Regulatory Authority (PPRA) effective on 1 September 2024, contrary to PPRA Circular No. 01/2024 referenced PPRA/6/5 VOL II (224) dated 30 August, 2024. In the circumstances, Management was in breach of the law.

Management Response

The Management is committed to adhering to the laid down recommendations and has subsequently remitted the Capacity Building Levy.

Committee Observations

The Committee observed that the Company did not deduct and remit the 0.03% PPRA capacity building levy on contracts worth Kshs. 24,674,780, contrary to PPRA Circular No. 01/2024; and management has since initiated corrective measures.

Committee Recommendations

The Committee recommends that---

- i. the Accounting Officer ensures strict compliance with the Public Procurement Capacity Building Levy Order, 2023 by deducting and remitting the 0.03% levy through the e-Citizen platform by the 20th day of each subsequent month, failure to which the provisions of Section 199 of the Public Finance Management Act on penalties for offences shall apply.**

11. Failure to Budget for Climate Change and Financing

Review of the Company's annual budget and financial plans revealed that no provisions for climate change mitigation, adaptation programs, or climate financing initiatives were made, despite the Company's operations being highly dependent on environmental sustainability. This is contrary to the National Climate Change Act, 2016. In the circumstances, Management was in breach of the law.

Management Response

The staff redesignated from other roles (including plumbing, water supply operations, and billing clerks) to operational realignment functions was done to enhance service delivery and optimize available human resources following the Senate recommendation to dissolve the Meru County Urban Water and Sanitation Service Corporation.

Committee Observations

The Committee observed that the Company made no budgetary provision for climate change mitigation or adaptation programs in FY 2024/25, contrary to the National Climate Change Act, 2016.

Committee Recommendations

The Committee recommends that---

- i. the Governor ensures the Board and Accounting Officers mainstream climate change measures into their operational and development plans as required by the National Climate Change Act, 2016, and make adequate annual budgetary**

provisions for water source protection, energy-efficient operations, and climate resilience measures; and

- ii. the Auditor-General keeps this matter in view in the subsequent audit cycle and reports on the status of compliance to the Committee.**

12. Non-Compliance with the Approved Staff Establishment

Analysis of the approved staff establishment provided for audit review revealed that Meru County Rural Water and Sanitation Company recruited nineteen (19) employees outside the approved staff establishment. This was contrary to Paragraph 3.9 of the Corporate Governance Guidelines for the Water Services Sector, 2018. In the circumstances, Management was in breach of the law.

Management Response

The individuals in question were not externally recruited but were instead redesignated from existing positions within the organization. Their redeployment to alternative roles was necessitated by the Senate recommendation to dissolve the Meru County Urban Water and Sanitation Service Corporation, and the internal operational realignment was done to enhance service delivery and optimize available human resources.

Committee Observations

The Committee observed that the Company employed 19 staff members outside its approved staff establishment.

Committee Recommendations

The Committee recommends that---

- i. the Governor ensures the Board formally updates and regularizes the staff establishment to reflect all current positions including those arising from the redesignation exercise, and seeks formal approval from WASREB and relevant authorities within 60 days of the adoption of this report; and**
- ii. the Board ensures future staff deployments and redesignations are conducted within the approved establishment and comply with Paragraph 3.9 of the WASREB Corporate Governance Guidelines, 2018.**

13. Failure to Observe One-Third of Basic Salary Payment Rule

Audit examination of payroll data submitted for the year under review indicated that fifteen (15) employees of the company had several instances of over-deductions made against their salaries exceeding the required two-thirds (2/3) of their basic salary, contrary to Section C.1(3) of the Human Resource Policies and Procedures Manual for the Public Service, May 2016.

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

Management Response

The affected staff were impacted by the increase in Government statutory deductions and introduction of new ones including Housing Levy, SHA, and new NSSF rates. However, the affected staff were advised to negotiate their pending loans with the lending institutions leading to compliance.

Committee Observations

The Committee observed that fifteen (15) employees had total statutory deductions exceeding one-third of their basic salary, contrary to Section C.1(3) of the Public Service HR Manual; and that the affected employees have since renegotiated their outstanding loans with lending institutions, bringing total deductions back within the two-thirds (2/3) basic salary limit and thereby remedying the breach.

Committee Recommendations

Noting the mitigation measures taken, the Committee recommends that the matter be marked as resolved.

14. Use of Old Water Tariffs

Review of the Company's records revealed that the Company charged customers based on tariffs approved on 18th July 2014 that were to be applied from 2014 to 2017. However, the tariffs have since lapsed and the Company has continued to use the same old tariffs for six (6) subsequent years without approval.

In the circumstances, the tariffs charged are irregular since the same have not been approved.

Management Response

The company has a new tariff in place from WASREB, gazetted on 11th April 2025, which has been implemented from 1st July 2025.

Committee Observations

The Committee observed that the Company applied WASREB-approved tariffs for 2014–2017 for eight years without renewal; and that WASREB gazetted a new water tariff for MCWSC on 11th April 2025, which has been implemented from 1st July 2025. The Company is now operating under a valid, WASREB-approved tariff structure.

Committee Recommendations

Noting the mitigation measures taken, the Committee recommends that the query be marked as resolved.

CHAPTER TWO: MUNICIPALITIES

2.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR MERU MUNICIPALITY FOR THE FINANCIAL YEAR 2024/25

The Governor of Meru County, Hon. Rev. Isaac Mutuma, appeared before the Committee on 27th January 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Meru Municipality for the Financial Year 2024/25. The Governor was accompanied by relevant county officials.

1. CPA Monica Kathono -CECM, Finance
2. Mr. Dennis Mutambe -Municipal Manager
3. Ms Joy Kiugu -CECM, Lands

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified Opinion** on the Financial Statements of the Meru Municipality for the period under review on the following basis-

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts indicates that the final approved receipts budget stood at Kshs. 9,000,000 against actual receipts of Kshs. 6,000,000 on a comparable basis. This resulted in an under-funding of Kshs. 3,000,000, equivalent to 33% of the approved budget. The under-funding limited the full implementation of planned activities and may have had a negative impact on the level and quality of service delivery to the public.

Management Response

The under-funding was occasioned by the late disbursement of funds by the County Treasury. The final tranche was released at the close of the financial year, which resulted in a delay in transferring the funds to the Municipality. Consequently, the funds could not be transferred within the same financial year and were subsequently received by the Municipality on 11th July 2025.

Committee Observations

The Committee observed that the Municipality experienced an under-funding of Kshs. 3,000,000 (33% of the budget), primarily due to delayed disbursement of the final tranche by the County Treasury after the financial year end; the funds were subsequently received on 11th July 2025, after the close of the financial year; and the delay in County Treasury disbursements adversely affected the Municipality's ability to implement its planned programs and deliver services to the public.

Committee Recommendations

The Committee recommends that---

- i. the Governor ensures the Accounting Officer complies with Section 149(2)(h) and (i) of the Public Finance Management Act, Cap. 412A, and IPSAS 24 on the presentation of budget information in financial statements, failure to which the provisions of Section 199 of the Public Finance Management Act on penalties for offences shall apply;**
- ii. the Accounting Officer prepares realistic budgets and revenue projections and seeks the necessary approvals by forwarding budget estimates to the Municipal Board and onward to the County Treasury as required by law;**
- iii. the Accounting Officer submits quarterly reports to the County Treasury on the financial and non-financial status of the Municipality in line with Section 166 of the Public Finance Management Act, Cap. 412A;**
- iv. the Governor should ensure by the commencement of the financial year 2026/2027 that the Municipality is adequately funded in accordance with Section 172 of the Public Finance Management Act, 2012; and**
- v. the Auditor-General keeps this matter in view and reports on the status of compliance in the subsequent audit cycle.**

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Pursuant to Article 229(6) of the Constitution, based on the audit procedures performed by the Auditor General, the following matters formed the basis for conclusion that public resources were not applied lawfully and in an effective way --

1. Lack of Meru Municipality Independence

The Meru Municipality was granted Municipal Charter on 21 June 2018, which was supposed to grant operational independence from the County Government of Meru. However, review of the operations of the Municipality revealed lack of autonomy, as follows: (i) The Municipality's budget was prepared and controlled by the County Executive and there was no budget approval by the Municipality Board; (ii) The Municipality's approved staff structure was not provided for audit review; (iii) Except from project accounts with joint signatories from the County Treasury, the Municipality's expenditure was controlled by the County Treasury and did not have independent operations account; (iv) The County Government has continued to perform a number of

functions which were transferred to the Municipality. In the circumstances, the Management was in breach of the law.

Management Response

During the period under review, Meru Municipality operated under an independent budget duly approved by the County Assembly. The Municipal Manager was designated as the Accounting Officer. The County Public Service Board prepared an approved staff establishment for the Municipality. The Municipality operates an independent operational bank account. Management acknowledges that not all functions have been transferred to the Municipality and that ongoing consultations between the County Executive and the Municipality are aimed at finalizing the modalities and ensuring a structured and orderly transfer of functions.

Committee Observations

The Committee observed that section 9 of the Urban Areas and Cities Act, 2011 establishes a principal-agent relationship between the Municipality Board and the County Government, under which the Board carries out delegated functions, is financially accountable to the County Government, and governs for and on behalf of the County Government; during the period under review, Meru Municipality's budget was prepared and controlled by the County Executive, and several gazetted functions continued to be performed by the County Executive rather than the Municipality; and section 9 of the Urban Areas and Cities Act, 2011 establishes the Municipality Board as an agent of the County Government, carrying out delegated functions, maintaining financial accountability to the County Government, and governing for and on behalf of the County Government. The Municipality did not fully exercise the functions delegated under its Municipal Charter for six years from 2018, with full operationalization only commencing in FY 2024/2025.

Committee Recommendations

The Committee recommends that-

- i. the Governor takes all the necessary steps to ensure the Municipality achieves full operational independence in accordance with sections 12 (management independence), 20 (functional independence), 45 and 46 (financial independence) of the Urban Areas and Cities Act, cap.275 and the Auditor General to verify the implementation of this recommendation in the next audit cycle;**

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

2. Failure to Submit Financial Statements for Prior Years

Review of records provided for audit revealed that the Meru Municipality was granted a Municipal Charter on 21st June 2018 and the transfer of functions to the Municipality was effected in May 2019. However, it was noted that the Board did not submit financial statements for the Municipality for the years ended 30th June 2019 to 30th June 2024 to the Auditor-General, as required under Section 46 of the Urban Areas and Cities Act, 2011. In the circumstances, Management was in breach of the law.

Management Response

The Municipality did not prepare financial statements for the period in question due to the lack of financial autonomy during that time. Between 2019 and 2024, the operations of the Municipality were administered under the Department of Lands, Housing, Physical Planning and Urban Development. Full financial autonomy was granted to the Municipality starting from the financial year 2024/2025.

Committee Observations

The Committee observed that Meru Municipality failed to submit audited financial statements for six consecutive years (2019/2020 to 2023/2024), representing a significant gap in public financial accountability and transparency; the failure arose from the lack of financial autonomy during the period, as the Municipality operated as a unit within the County Government Department of Lands; and the Municipality has since been granted full financial autonomy from FY 2024/2025, making future compliance possible.

Committee Recommendations

The Committee recommends that---

- i. **the Governor ensures the Municipal Manager prepares and submits to the Auditor-General consolidated financial statements covering the outstanding years (2019/2020 to 2023/2024) within ninety (90) days of the adoption of this report, in compliance with Section 46 of the Urban Areas and Cities Act, 2011, failure to which the provisions of Section 199 of the Public Finance Management Act on penalties for offences shall apply; and**

- ii. the Auditor-General provides a status update on the outstanding financial statements in the subsequent audit cycle.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Pursuant to Section 7(1) of the Public Audit Act, based on procedures performed by the Auditor General, the following matters formed the basis for conclusion that internal controls, risk management and overall governance were not effective --

1. Lack of a Risk Management and Fraud Policy

Municipality's Management has not put in place a risk management policy, strategies and risk register to mitigate against possible risks, contrary to Section 158(1) of the Public Finance Management (County Governments) Regulations, 2015. In addition, the Municipality lacks a disaster recovery plan or business continuity plan. Management has not instituted its own policies and procedures to guide key financial processes and controls for the management of personnel and related expenditure. Further, management did not perform formal risk assessments during the financial year audited. In the circumstances, the Municipality is exposed to possible losses of funds and interruptions in operations.

Management Response

The Municipality acknowledges the observation that it did not have an approved Risk Management System and was relying on the County Executive's risk management policy. The Municipality has prioritized the development of a comprehensive Risk Management and Fraud Policy, which will include systematic risk identification, mitigation strategies, fraud prevention measures, and formal risk assessment processes. The Municipality has also initiated the development of a Disaster Recovery and Business Continuity Plan to strengthen operational resilience.

Committee Observations

The Committee observed that the Municipality had no Risk Management Policy, Fraud Prevention Policy, Disaster Recovery Plan, or Business Continuity Plan as required by Section 158(1) of the Public Finance Management (County Governments) Regulations, 2015.

Committee Recommendations

Committee recommends that the Governor ensures the Accounting Officer develops and implements a Risk Management Policy, ICT Policy and Disaster Recovery Plan at the facility level and submits the finalized documents to the Senate and Auditor-

General within 60 days of adoption of this report, failure to which the provisions of Section 199 of the Public Finance Management Act Cap 412A on penalties for offences shall apply.

2. Lack of Information Technology (IT) Policy

Audit review of the information technology processes indicated that there was no IT Policy in place, covering areas such as data management, cybersecurity, hardware/software procurement, or user guidelines. Evidence of ad-hoc IT practices was observed, but without formal documentation. In the circumstances, the effectiveness of systems of internal controls could not be confirmed.

Management Response

During the period under review, the Municipality was implementing the County Executive's approved ICT Policy. Management has initiated the process of developing and obtaining approval for a dedicated ICT Policy tailored specifically to the operational needs of the Municipality.

Committee Observations

The Committee observed that the Municipality had no dedicated ICT Policy, relying on the County Executive's ICT policy.

Committee Recommendations

The Committee recommends that the Governor should ensure that the Municipality develops, obtains approval for, and implements a dedicated Information Technology Policy within sixty (60) days of the adoption of this report, and submits evidence of the same to the Auditor-General for verification.

3. Lack of a Strategic Plan

Review of the vision and strategic goals set by the Municipality records provided indicated that no strategic plan was existing. Therefore, it was not possible to confirm the strategic road map of the Municipality. In the circumstances, the effectiveness of internal controls could not be confirmed.

Management Response

During the period under review, Meru Municipality had an approved Integrated Development Plan (IDeP), which provided a comprehensive five-year strategic framework to guide urban governance, planning, management and development. The IDeP was further aligned with the County Integrated Development Plan to ensure coherence and synergy in development planning.

Committee Observations

The Committee observed that the Municipality did not have a dedicated Strategic Plan as a standalone governance document, contrary to Section 149(2) of the Public Finance Management Act, 2012.

Committee Recommendations

The Committee recommends that the Governor ensures the Municipality prepares and formally approves a comprehensive Strategic Plan aligned with the Integrated Development Plan within sixty (60) days of the adoption of this report, and submits evidence of the same to the Auditor-General for verification.

4. Lack of an Approved Staff Establishment

Review of the key policy documents provided for audit revealed that Meru Municipality lacked an approved staff establishment that ought to determine the optimal number of staff, report on the staff in-post and the vacancies within the Municipality. In the circumstances, the Municipality may be operating without the optimal number of staff and service delivery to the public may be affected.

Management Response

During the period under review, the Municipality operated under a comprehensive staff establishment carefully prepared and formally approved by the County Public Service Board, which defined the structure, roles and responsibilities of all positions within the Municipality.

Committee Observations

The Committee observed that the Municipality had no approved staff establishment, contrary to Public Service Commission guidelines on staffing.

Committee Recommendations

The Committee recommends that the Governor ensures that:

- i. the accounting officer fast-tracks approval process for the Municipality's staff establishment is concluded expeditiously and within sixty (60) days, ensuring that the approved establishment is aligned with the Municipality's mandate, operational needs, and available budgetary resources; and**
- ii. All future recruitment, staff deployment, and posting decisions within the Municipality are strictly based on the approved staff establishment and human resource management plans, in compliance with the County Public Service Human Resource Manual, 2013. A compliance report confirming the finalization and approval of the staff establishment is submitted to the County Assembly within ninety (90) days.**

2.2. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR MAUA MUNICIPALITY FOR THE FINANCIAL YEAR 2024/25

The Governor of Meru County, Hon. Rev. Isaac Mutuma, appeared before the Committee on Tuesday, 27th January 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Maua Municipality for the Financial Year 2024/25. The Governor was accompanied by relevant county officials.

- | | |
|-----------------------|--------------------------------|
| 1.CPA Monica Kathonon | - CECM,Finance |
| 2.Mr. Timothy Mwendu | -Municipal Manager |
| 3.CPA Peninah Mamira | -Accountant, Maua Municipality |

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a Qualified Opinion on the Financial Statements of the Maua Municipality for the period under review on the following basis-

1. Lack of Performance Management Systems

Maua Municipality Board had not established and implemented performance management systems in accordance with Section 20(1)(p) of the Urban Areas and Cities Act, 2011, which requires the board of a municipality to establish, implement and monitor performance management systems. In the circumstances, the management was in breach of the law.

Management Response

During the period under review, the Municipality implemented performance management which included performance contracting and performance appraisal. There was a signed performance contract between the CECM Lands, Housing, Physical Planning and Urban Development and the Municipal Board, performance contract between the Chairperson Municipal Board and the Municipal Manager, and staff appraisal forms for all staff in the Municipality.

Committee Observations

The Committee observed that the Municipality had no formally established and operational Performance Management System as required by Section 20(1)(p) of the Urban Areas and Cities Act, 2011.

Committee Recommendations

The Committee recommends that---

- i. the Governor ensures the Municipal Board formally establishes, documents, and implements a comprehensive performance management system in compliance with Section 20(1)(p) of the Urban Areas and Cities Act, 2011, within sixty (60) days of the adoption of this report; and**
- ii. the Accounting Officer submits evidence of the established performance management system to the Auditor-General for verification.**

2. Non-Adherence to Data Protection Act, 2019

Maua Municipality had not registered with the Data Protection Commissioner as at the time of audit, contrary to Section 18(1) of the Data Protection Act, 2019, which requires data controllers and data processors to register with the Data Protection Commissioner. In the circumstances, the management was in breach of the law.

Management Response

Management acknowledges that Maua Municipality had not completed registration with the Office of the Data Protection Commissioner at the time of audit. The delay was occasioned by limited awareness and administrative challenges related to the registration process. The Municipality has initiated steps toward registration as a data controller and data processor. Furthermore, the Municipality is in the process of developing a Data Protection and Privacy Policy to guide the collection, processing, storage, and sharing of personal data.

Committee Observations

The Committee observed that the Municipality had not registered with the Office of the Data Protection Commissioner as required by Section 18(1) of the Data Protection Act, 2019.

Committee Recommendations

The Committee recommends that---

- i. the Governor should ensure that the Municipality complies with the provisions of the Data Protection Act, 2019, and registers as a data controller with the Office of the Data Protection Commissioner, and provides evidence of registration to the Auditor-General for verification and monitoring; and**
- ii. the Auditor-General should provide a status update on the matter to the Committee in the subsequent audit cycle.**

3. Non-Collection of Own-Generated Revenue

The statement of financial performance for the year ended 30 June 2025 indicates that the Municipality was financed solely through revenue allocated by the County Government,

contrary to Section 172(a) of the Public Finance Management Act, 2012, which states that an urban area or city may also be funded through revenue arising from rates, fees, levies, charges, and other revenue raising measures which is retained by the urban area. Further, the conferment of municipal status may have been made without satisfying the criterion of demonstrable revenue collection or revenue collection potential, contrary to Section 9(3)(c) of the Urban Areas and Cities Act, 2011. In the circumstances, the management was in breach of the law.

Management Response

Management acknowledges the observation. Plans are underway to devolve specific revenue streams from the Meru County Revenue Board to the Municipality in accordance with Section 172(a) of the Public Finance Management Act, 2012. The Municipality, in collaboration with the County Treasury and the Revenue Board, is developing a framework to operationalize local revenue collection, including identifying viable revenue sources, strengthening administrative structures, and establishing appropriate systems for accountability and reporting.

Committee Observations

The Committee observed that the Municipality was entirely dependent on County Government transfers for its financing, with no own-source revenue collected during the financial year, contrary to Section 172(a) of the Public Finance Management Act, 2012; and management is developing a framework in collaboration with the County Treasury and the Revenue Board to operationalize local revenue collection.

Committee Recommendations

The Committee recommends that-

- i. the Governor ensures that the Municipality develops and implements a local revenue collection framework by the commencement of the Financial Year 2026/2027, in compliance with Section 172(a) of the Public Finance Management Act, 2012, and provides a status report to the Senate within 60 days of the adoption of this report; and**
- ii. the Governor ensures the Municipality is adequately funded in accordance with Section 172 of the Public Finance Management Act, 2012, while simultaneously developing its own revenue collection capacity.**

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

Pursuant to Section 7(1) of the Public Audit Act, based on procedures performed by the Auditor General, the following matters formed the basis for conclusion that internal controls, risk management and overall governance were not effective --

1. Lack of Information Communication Technology Policy and Disaster Recovery Plan

Maua Municipality did not have in place an approved risk management policy and did not perform formal risk assessments on all key financial risk areas such as revenue, expenditure and fraud review. In addition, the Municipality did not have a disaster recovery plan and information communication technology policy in place to guide continuity of services in case of disruptions. In the circumstances, the effectiveness of internal controls could not be confirmed.

Management Response

The Municipality concurs with the audit observation that it had not prepared its ICT policy. However, the Municipality had adopted the ICT policy of the County as it works on its own ICT policy.

Committee Observations

The Committee observed that the Municipality had no approved Risk Management Policy, dedicated IT Policy, or Disaster Recovery Plan.

Committee Recommendations

The Committee recommends that---

- i. the Governor through the County Executive Committee Member (CECM) – Finance ensures that the Municipality puts in place all internal control systems such as a Risk Management Policy, an IT Policy, and a Disaster Recovery Plan as provided under Section 158(1) of the Public Finance Management (County Governments) Regulations, 2015, within sixty (60) days of the adoption of this report; and**
- ii. Management submits evidence of the adoption of these policies to the Auditor-General for verification.**

2. Non-Automation of Financial System

Maua Municipality had not implemented an automated financial management system and was relying on manual processes and spreadsheet-based records to capture, process, and report financial transactions as at the time of audit. In the circumstances, efficiency and effectiveness of service delivery to residents could not be established.

Management Response

The Municipality currently relies on manual payment processes and spreadsheet-based records primarily because Maua Municipality depends on the Meru County Executive IFMIS platform for processing electronic payments. The Municipality recognizes the importance of automation in enhancing efficiency, accuracy, and internal control in financial reporting and is engaging with the County Treasury and the Department of ICT to explore integration options for gradual automation.

Committee Observations

The Committee observed that the Municipality operated on manual and spreadsheet-based financial systems rather than an integrated system, contrary to Regulation 93(1) of the Public Finance Management (County Governments) Regulations, 2015.

Committee Recommendations

The Committee recommends that-

- i. the Governor ensures that the Municipality develops and implements a phased automation roadmap for its financial management system within six months of the adoption of this report, with specific milestones and timelines; and**
- ii. the Auditor-General monitors the progress of automation and reports the status to the Committee in the subsequent audit cycle.**

CHAPTER THREE: HOSPITALS

4.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR MERU TEACHING AND REFERRAL HOSPITAL FOR THE FINANCIAL YEAR 2024/25

The Governor of Meru County, Hon. Rev. Isaac Mutuma, appeared before the Committee on 16th February 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Meru Teaching and Referral Hospital (MTRH) for the Financial Year 2024/25. The Governor was accompanied by the following relevant officials;

1. Dr. Dennis Mugambi -CECM, Health
2. Mr. Muriithi Bernard -CEO, MTRH
3. CPA Henry Gatobu - Director of Finance, MTRH

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified Opinion** on the Financial Statements of the Meru Teaching and Referral Hospital for the period under review on the following basis-

1. Duplicate Records in Hospital Waiver Report

The statement of financial performance reflects medical services contracts losses amount of Kshs. 23,897,138 being waivers and exemptions as disclosed in Note 17 to the financial statements. However, analysis of the hospital waivers report revealed duplicate records amounting to Kshs. 440,561. The duplicates were identified by matching patient numbers, waiver dates, and waiver amounts, despite each record bearing a unique waiver number. In the circumstances, the accuracy and completeness of medical services contracts gains/losses amount of Kshs. 23,897,138 could not be confirmed.

Management Response

Management acknowledges the audit observation. The duplicate entries noted in the waiver report were not deliberate but arose from a temporary system malfunction during transaction processing, which caused billing errors and duplication of certain records despite unique waiver reference numbers. Upon notification through the audit process, management promptly escalated the matter to the system provider, and corrective measures have since been implemented to rectify the system error and prevent recurrence.

Committee Observations

The Committee observed that the Hospital's waiver report contained duplicate records amounting to Kshs. 440,561, identified by matching patient numbers, waiver dates, and amounts, raising concerns about the accuracy of the reported waiver total of Kshs.

23,897,138; and management attributed the duplicates to a temporary system malfunction and has initiated corrective measures with the system provider.

Committee Recommendations

The Committee recommends that the Governor ensures that---

- i. 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, failure to which the provisions of Section 199 of the Public Finance Management Act, Cap. 412A on penalties for offences shall apply;**
- ii. the Accounting Officer ensures the Health Management Information System is upgraded to prevent duplication of records and generates auditable user-specific reports to support financial accountability, and submits evidence of the system upgrade to the Auditor-General within 60 days of the adoption of this report; and**
- iii. the Auditor-General keeps the matter in view and reports on the status of compliance to the Committee in the subsequent audit cycle.**

2. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs. 414,708,168 and Kshs. 429,393,757 respectively, resulting in over-performance of Kshs. 14,685,589 or 4% of the budget. However, the hospital spent Kshs. 375,066,102 against actual receipts of Kshs. 429,393,757, leading to under-utilization of Kshs. 54,327,655 or 13% of the actual receipts. The under-utilization affected the planned activities and may have impacted negatively on service delivery to the public.

Management Response

The revenue over-performance resulted from improved operational efficiency, enhanced revenue collection measures, and automation of the corporate clinic. The under-utilization was mainly due to cost-containment initiatives, prioritization of essential expenditures, and delayed reimbursement of claims from the Social Health Insurance Fund (SHIF), which affected timely implementation of planned activities. The surplus realized has been incorporated into the current year's budget.

Committee Observations

The Committee observed that the Hospital over-performed on revenue by 4% (Kshs. 14,685,589), demonstrating improved revenue collection capacity; despite the revenue

over-performance, the Hospital under-utilized actual receipts by 13% (Kshs. 54,327,655), partly due to delayed SHA/SHIF reimbursements; and delayed reimbursements from the Social Health Authority continue to adversely affect hospital operations and budget implementation.

Committee Recommendations

The Committee recommends that---

- i. the Accounting Officer ensures timely submission of all documents requested during the audit process, including evidence of resubmission and follow-up of rejected or partially approved SHA claims, in line with Section 47(1) of the Public Audit Act, Cap. 412B as read together with Section 149(2)(k) of the Public Finance Management Act, Cap. 412A, failure to which the provisions of Section 62(2) of the Public Audit Act on penalties shall apply;**
- ii. the Governor ensures the Accounting Officer complies with Section 149(2)(h) and (i) of the Public Finance Management Act, Cap. 412A, and IPSAS 24 on the presentation of budget information in financial statements, failure to which the provisions of Section 199 of the Public Finance Management Act on penalties for offences shall apply;**
- iii. the Accounting Officer prepares realistic budgets and revenue projections and seeks the necessary approvals by forwarding budget estimates to the County Executive Committee Member for Health, who shall then submit them to the County Treasury as required by law;**
- iv. the Accounting Officer ensures timely resubmission and follow-up of SHA claims to minimize revenue shortfalls;**
- v. the County Executive Committee Member for Health takes full responsibility for monitoring the financial performance of the hospital in line with Section 184 of the Public Finance Management Act, 2012; and**
- vi. the Auditor-General keeps this matter in view and reports on the status of compliance in the subsequent audit cycle.**

Other Matter

Unresolved Prior Year Matters

In the prior years' audit reports, three issues remained unresolved: (1) Expired Serviceability Contract for Managed Equipment Services; (2) Deficiencies in Implementation of Universal Health Coverage (UHC); and (3) Uninsured and Unvalued

Medical Equipment. These have been reiterated as substantial paragraphs since they are recurring.

Committee Observations

The Committee observed that three prior year audit matters, namely expired MES contracts, UHC deficiencies, and uninsured medical equipment, remained unresolved in the 2024/25 audit.

Committee Recommendations

The Committee recommends that the Governor ensures that---

- i. the Accounting Officer resolves any issues resulting from an audit that remain outstanding in accordance with Section 149(1)(l) of the Public Finance Management Act, Cap. 412A, as read together with Section 53 of the Public Audit Act, Cap. 412B, failing which the Accounting Officer shall be in contempt of Parliament or County Assembly and upon determination by Parliament or the relevant County Assembly, Parliament or the relevant County Assembly may recommend administrative sanctions such as removal as the Accounting Officer, reduction in rank, among others; and**
- ii. the Governor ensures the Accounting Officer submits a detailed status report on the mitigation measures taken to resolve prior year audit matters within sixty (60) days of the adoption of this report, including a resolution matrix with timelines for each outstanding matter.**

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Pursuant to Article 229(6) of the Constitution, based on the audit procedures performed by the Auditor General, the following matters formed the basis for conclusion that public resources were not applied lawfully and in an effective way --

1. Lack of Revenue Information/Inadequate Audit Evidence

The Teaching and Referral Hospital procured and implemented an upgrade of its Health Management Information Systems (HMIS) at a cost of Kshs. 630,000 in November 2023. The system cannot generate user-specific reports, which hinders efficient monitoring and auditing of user activities. Further, the system's inability to generate user-specific reports impedes the hospital's capacity to track revenue sources, audit staff activities, and provide accountability for collections. In addition, the system could not produce reports such as total transaction amounts per day, date and time of transactions, revenue collected by

collection channel and period. In the circumstances, the hospital could not guarantee the efficiency, effectiveness, and value for money for the system in place.

Management Response

Contrary to the audit observation, the hospital's HMIS is able to generate user-specific reports that support monitoring, auditing of user activities, and revenue tracking. The system provides detailed accountability information, including user-based transactions and activity logs. Further, the HMIS can track revenue sources and generate comprehensive financial and operational reports, including total transaction amounts per day, date and time of transactions.

Committee Observations

The Committee observed that a system procured at Kshs. 630,000 should be capable of generating comprehensive revenue tracking and user-specific audit reports; management's claim that the system can generate such reports contradicts the audit finding; and the Committee notes the contradiction between the audit finding and management's response and directs the Auditor-General to verify the system's actual capabilities.

Committee Recommendations

The Committee recommends that---

- i. the Auditor-General verifies the actual capability of the Hospital's HMIS to generate user-specific reports and revenue tracking data, and reports the findings to the Committee in the subsequent audit cycle; and**
- ii. if the system is found incapable, the Governor ensures the Hospital upgrades its HMIS to a fully integrated system with robust reporting, audit trail, and revenue accountability functionalities.**

2. Non-Adherence to Statutory Minimum Wage Requirements

Review of payroll records revealed that fifty-seven (57) staff employees, particularly casual and support staff, were paid wages below the prescribed statutory minimum wage as set out in the Kenya Gazette Notice on Minimum Wage (Special Issue Gazette Supplement No. 114 of Year 2022). The payments made were inconsistent with the legal minimum wage applicable to their job classifications and geographical location.

Management Response

Management concurs with the audit observation and is going to correct the noted anomaly in the subsequent years.

Committee Observations

The Committee observed that 57 staff members were remunerated below the statutory minimum wage, contrary to the Kenya Gazette Notice on Minimum Wage.

Committee Recommendations

The Committee recommends that---

- i. the Governor ensures the Hospital immediately conducts a comprehensive payroll review for all casual and support staff to identify and correct any payments below the statutory minimum wage, and submits evidence of corrective action to the Auditor-General within 60 days of the adoption of this report; and**
- ii. the Accounting Officer ensures strict compliance with the Kenya Gazette Notice on Minimum Wage and all applicable employment legislation going forward, failure to which the provisions of the Employment Act on penalties for offences shall apply.**

3. Expired Serviceability Contract for Managed Equipment

As previously reported, the audit review on the Managed Equipment Services (MES) showed that at the time of audit in the month of September 2025, the contracts between maintenance service providers and the Ministry had expired. Therefore, some equipment including Leoni Mobil CPAP ventilator, blood gas analyzer, MX500 monitor, ventilator, nebulizer, electric bed, suction pump, syringe pump and infusion pump were not serviced at the time of audit. This poses risks of increased infection from outdated sterilization equipment and regulatory and legal consequences from operating with expired equipment.

Management Response

Management concurs with the audit observation that at the time of audit review the service agreements for Managed Equipment Service Equipment (MES) had expired. Following the expiry, management engaged the Ministry of Health through the Council of Governors to facilitate renewal/extension of the service contracts. Unfortunately, the Ministry of Health has not been able to complete the process of renewing the contracts or engaging different maintenance service providers.

Committee Observations

The Committee observed that MES contracts for critical equipment including ventilators, infusion pumps, and blood gas analyzers had expired at the time of audit and the equipment remained unserviced; and management engaged the Ministry of Health and the Council of Governors for renewal, but the Ministry had not taken action to renew or replace the contracts.

Committee Recommendations

The Committee recommends that---

- i. the Governor should urgently escalate to the Ministry of Health and the Council of Governors to facilitate the renewal or replacement of expired MES contracts for MTRH to ensure all critical medical equipment is serviced and operational, and submits a status report to the Senate within 60 days of the adoption of this report; and**
- ii. pending renewal, the Governor ensures the Hospital engages alternative service providers to maintain critical medical equipment in a serviceable condition to safeguard patient safety.**

4. Failure to Deduct and Remit Public Procurement Capacity Building Levy

The Public Procurement Capacity Building Levy of 0.03% was not deducted and remitted to the Public Procurement Regulatory Authority (PPRA) effective on 1 September 2024, contrary to PPRA Circular No. 01/2024 referenced PPRA/6/5 VOL II (224) dated 30 August, 2024. In the circumstances, Management was in breach of the law.

Management Response

Management concurs with the audit observation. The failure to deduct and remit the Public Procurement Capacity Building Levy arose from delays in operationalizing the requirements of PPRA Circular No. 01/2024. Management acknowledges the non-compliance and confirms that corrective measures have been put in place, and the deduction and remittance of the levy shall be fully implemented in the subsequent year in accordance with the law.

Committee Observations

The Committee observed that the Hospital did not deduct and remit the 0.03% PPRA capacity building levy during FY 2024/25, contrary to PPRA Circular No. 01/2024.

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.

5. Failure to Budget for Climate Change and Climate Financing

Review of the Hospital's annual budget and financial plans revealed that the Hospital did not make any provisions for climate change mitigation or adaptation programs, nor for climate financing initiatives. This was contrary to the National Climate Change Act, 2016, which obligates public entities to mainstream climate change measures into their

operational and development plans and to allocate adequate resources to address climate resilience and adaptation. In the circumstances, Management was in breach of the law.

Management Response

Management concurs with the audit observation. Climate change considerations were not explicitly budgeted for during the period under review; however, corrective action has since been taken. The hospital has implemented various mitigation and environmental sustainability measures including tree planting, installation of an incinerator, adoption of solar energy systems, water conservation initiatives, energy-efficient lighting, waste segregation and recycling, digitization to reduce paper use, and improvement of drainage infrastructure.

Committee Observations

The Committee observed that the Hospital made no explicit budgetary provision for climate change mitigation or adaptation in FY 2024/25, contrary to the National Climate Change Act, 2016.

Committee Recommendations

The Committee recommends that---

- i. the Governor ensures the Hospital mainstreams climate change measures into its operational and development plans as required by the National Climate Change Act, 2016, and makes explicit budgetary provisions for climate resilience, adaptation, and mitigation in all subsequent financial years; and**
- ii. the Auditor-General monitors compliance and reports to the Committee in the subsequent audit cycle.**

6. Deficiencies in Implementation of Universal Health Coverage (UHC) – Inadequate Resourcing

Review of hospital records, interviews, and verification of services, equipment, and medical specialists at the Hospital revealed that the Hospital did not meet the requirements set out in the Kenya Quality Model for Health Policy Guidelines, with significant staff shortfalls as shown in the table below:

Staff/Facility Requirements	Level Standard	Number in Hospital	Variance
Medical Officers	50	23	27

Anaesthesiologists	7	1	6
General Surgeons	4	3	1
Gynaecologists	4	4	0
Paediatricians	4	2	2
Radiologists	4	2	2
Kenya Registered Community Health Nurses	250	233	17
Functional ICU Beds	12	9	3
Functional HDU Beds	12	6	6
Functional Theatres	7	7	0
Beds	500	364	136
Newborn Unit Incubators	10	5	5

Management Response

Management concurs with the audit observation that MTRH had not met some Kenya Quality Model requirements. Several measures have been put in place to ensure compliance including construction of a modern ward block at 90% completion which will provide an additional 250 in-patient beds, 10 ICU beds and 11 HDU beds. Management has identified personnel gaps and written to the County Public Service Board for additional staff recruitment.

Committee Observations

The Committee observed that the Hospital had 23 medical officers against a requirement of 50, and 233 nurses against a requirement of 250, with a total staffing shortfall of 569 against the authorized establishment; and a new ward block providing 250 beds, 10 ICU and 11 HDU beds was at 90% completion at the time of audit.

Committee Recommendations

The Committee recommends that—

- i. within sixty (60) days of the adoption of this report, the Governor submits to the Senate a comprehensive plan outlining the specific measures being taken to

address the hospital's staffing shortages. The measures should include both short-term and long-term solutions, focusing on optimizing existing resources, improving employee welfare, and ensuring sustainable staffing levels moving forward.

- ii. and 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.
- iii. and 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.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Pursuant to Section 7(1) of the Public Audit Act, based on procedures performed by the Auditor General, the following matters formed the basis for conclusion that internal controls, risk management and overall governance were not effective --

1. Lack of Approved Staff Establishment

The Meru Teaching and Referral Hospital did not have an approved staff establishment contrary to Paragraph B.5(2) of the County Public Service Human Resource Manual, 2013. In the circumstances, it was not possible to establish if the Hospital operated at optimum staffing levels.

Management Response

Management acknowledges the audit observation. The Hospital operated as an integral unit of the County Government of Meru and relied on the County Government's approved staff establishment. The absence of a stand-alone establishment is largely attributable to the ongoing institutional transition toward Level 6 status and SAGA governance. Management has developed a comprehensive draft staff establishment aligned to the Hospital's expanded mandate, scheduled for consideration and approval by the Hospital Board in February 2026.

Committee Observations

The Committee observed that MTRH had no approved standalone staff establishment, contrary to Paragraph B.5(2) of the County Public Service Human Resource Manual, 2013.

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.**

2. Use of Manual Payroll

The Hospital operates a manual system in processing its payroll, which requires manual calculation of deductions and net pay and is prone to error or manipulation. The management did not provide a justification of maintaining a manual payroll and did not demonstrate mechanisms put in place to protect payroll data integrity. In the circumstances, the authenticity of the payroll records could not be confirmed with accuracy.

Management Response

Management acknowledges the audit observation regarding the use of a manual payroll system. The Hospital formally requested integration into the Government Integrated Payroll System through the Ministry responsible for Public Service. Management was advised that migration requires existence and approval of key HR instruments including an approved Organizational Structure, Staff Establishment, Grading Structure, and HR Policies. Upon approval of these instruments, the complete set will be submitted to facilitate migration from the manual payroll to the Government payroll system.

Committee Observations

The Committee observed that MTRH operated a manual payroll system for some staff pending integration into the Government Integrated Payroll System.

Committee Recommendations

The Committee recommends that---

- i. the Governor ensures the Hospital expedites the development and approval of all required human resource instruments and promptly applies for integration into the Government Integrated Payroll System, submitting evidence of progress to the Auditor-General within 60 days of the adoption of this report; and**
- ii. pending migration to the automated payroll, the Accounting Officer implements robust internal controls to protect the integrity of the manual payroll data, including regular reconciliations and independent reviews.**

3. Lack of Insurance Coverage and Valuation for Medical Equipment

Physical inspection revealed that the hospital has modern equipment currently in use which are neither insured against loss or damage nor recorded with updated valuation in the asset register, posing greater financial risks as they are exposed to financial liabilities. In the circumstances, management could not provide the value of the medical equipment being used in the hospital.

Management Response

Management concurs with the audit observation. This was due to the fact that all the equipment were procured by the County Executive and there existed no clear policy guideline on which party was supposed to insure the equipment. Going forward, the hospital management will engage the County Executive to ensure the medical assets are valued and insured.

Committee Observations

The Committee observed that critical medical equipment at MTRH was neither insured nor valued, contrary to Section 149(2)(o) of the Public Finance Management Act, 2012.

Committee Recommendations

The Committee recommends that---

- i. the Governor ensures the Hospital undertakes a comprehensive valuation of all medical equipment and updates the asset register accordingly, and submits the valuation report and updated asset register to the Auditor-General within 60 days of the adoption of this report;**

- ii. **the Governor ensures all medical equipment at the Hospital is insured against loss, damage, and breakdown, and provides evidence of insurance coverage to the Auditor-General within 60 days of the adoption of this report; and**
- iii. **the County Government establishes a clear policy guideline on insurance responsibilities for medical equipment procured by the County Executive and deployed to hospitals.**

4. Disparity in Automation Between Private Clinic and Main Hospital

Both the corporate clinic and the main hospital utilize the same Electronic Medical Records (EMR) system. However, the main hospital has only implemented partial automation, with the EMR system primarily used for billing purposes. Key modules such as outpatient/inpatient records, pharmacy integration, and diagnostics are either not utilized or only partially operational. The private wing is fully integrated with all modules working fully. In the circumstances, failure to automate and integrate the systems hinders the economic efficiency, effectiveness, and accountability of services at the main hospital.

Management Response

Management concurs with the audit observation. The full automation required large capital investment which the hospital could not raise in one financial year, hence adopting a progressive approach commencing with piloting and full operationalization of automation of the corporate clinic. To ensure full automation of the hospital's operations, management has budgeted additional funds in the FY 2025/2026 budget estimates.

Committee Observations

The Committee observed that the Hospital's corporate clinic was fully automated while the main hospital operated on partial manual systems, with Management committing to full automation in FY 2025/2026.

Committee Recommendations

The Committee recommends that---

- i. **the Governor ensures the Hospital implements a phased full automation roadmap for the main hospital, with specific milestones and timelines, and submits evidence of progress to the Auditor-General within 60 days of the adoption of this report; and**
- ii. **the Auditor-General monitors the progress of automation and reports the status to the Committee in the subsequent audit cycle.**

4.2. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR MIATHENE SUB-COUNTY HOSPITAL FOR THE FINANCIAL YEAR 2024/25

The Governor of Meru County, Hon. Rev. Isaac Mutuma, appeared before the Committee on 16th February 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Miathene Sub-County Hospital for the Financial Year 2024/25. The Governor was accompanied by the following relevant county officials.

1. Dr. Dennis Mugambi -CECM, Health
2. CPA Monica Kathono -CECM, Finance

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified Opinion** on the Financial Statements of the Miathene Sub-County Hospital for the period under review on the following basis-

1. Presentation of the Financial Statements

Review of the financial statements submitted for audit revealed the following anomalies: (i) The statement of changes in net assets reflects deficit for the year 2023/2024 of Kshs. 1,111,096 while the audited financial statements for 2023/2024 reflects Kshs. 661,096 resulting in an unexplained and unreconciled variance of Kshs. 450,000; (ii) The statement of changes in net assets reflects surplus for the year 2024/2025 of Kshs. 2,771,005 while the statement of financial performance reflects Kshs. 3,288,554 resulting to an unexplained variance of Kshs. 517,549. In the circumstances, the accuracy of the statement of financial performance and the statement of changes in net assets could not be confirmed.

Management Response

Management acknowledges the audit observation. The error has been adjusted in the subsequent year while preparing quarterly reports using a prior year adjustment.

Committee Observations

The Committee observed that the statement of changes in net assets reflected unexplained variances of Kshs. 450,000 (2023/24 deficit) and Kshs. 517,549 (2024/25 surplus) against the audited figures; and that management has since carried out prior year adjustments correcting both variances, with supporting documentation.

Committee Recommendations

The Committee recommends the matter be marked as resolved.

2. Understated Revenue from Social Health Authority (SHA)

The statement of financial performance reflects an amount of Kshs. 17,202,925 in respect to revenue from rendering of services – Medical Service Income. Audit revealed that this income was understated by an amount of Kshs. 1,922,360 due to loss of revenue arising from rejection of claims by Social Health Authority (SHA). Management has not made any effort to recover the amount from the Authority. In the circumstances, the accuracy of the revenue from rendering of services could not be confirmed.

Management Response

The management wrote an email to SHA on 15th October requesting to be allowed to correct and resubmit the rejected claims. SHA has not yet responded despite multiple follow-ups via phone and physical visits to the Meru office. Regional SHA/DHA ICT support personnel indicated they would organize for physical verification of the rejected claims files at the facility, which has not happened.

Committee Observations

The Committee observed that medical Service Income was understated by Kshs. 1,922,360 due to SHA claim rejections, and no recovery had been made despite Management follow-up.

Committee Recommendations

The Committee recommends that-

- i. the Accounting Officer ensures timely submission of complete and accurate documents during audit processes, including evidence of resubmission and follow-up of rejected or partially approved SHA claims, in compliance with section 9(1)(e) of the Public Audit Act, Cap. 412B, failure to which the provisions of section 62(2) of the Public Audit Act, Cap. 412B shall apply.**
- ii. the Governor ensures the Accounting Officer should, within 60 days of the adoption of this report, put in place recovery measures for the outstanding amount with clear timelines.—The Auditor-General should review the implementation of the measures put in place provide a status update on the matter in the subsequent audit cycle.**
- iii. and the Governor ensures the Accounting Officer to undertake a detailed analysis of its long outstanding trade receivables and with the Board’s approval, write off the irrecoverable debts in line with the Section 130 (2) (d) of the Public Finance Management (County Governments) Regulations, 2015 and the Auditor-General to provide a status update on the same during the subsequent audit cycle.**

3. Unsupported Plant, Property and Equipment

The Statement of financial position reflects plant, property and equipment net book value of Kshs. 1,262,800. However, the audit review revealed that the balance was not supported by a complete and updated property, plant and equipment register to confirm the reported balance. In the circumstances, the accuracy and completeness of property, plant and equipment net book value of Kshs. 1,262,800 could not be confirmed.

Management Response

The management has updated its assets register constituting of assets acquired in the financial years 2023/24 and 2024/25.

Committee Observations

The Committee observed that property, plant and equipment with a net book value of Kshs. 1,262,800 was not supported by a complete and updated asset register during the financial year.

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 to ensure the transfer of ownership documents of land and buildings is fast tracked.**
- ii. the Governor ensures that the management of the hospital undertakes the valuation of all assets of the hospital and submits the valuation report to the Auditor- General for verification during the subsequent audit cycle.**
- iii. upon completion of the transfer and valuation, the Accounting Officer should prepare an updated asset register within 60 days of the adoption of this report and submit to the Auditor-General for verification.**
- iv. and 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.**

4. Unresolved prior year matters

Committee Observations

The Committee observed that several prior year audit matters remained unresolved in the 2024/25 audit, though Management submitted an implementation matrix with supporting documentation.

Committee Recommendations

The Committee recommends that---

- i. the Accounting Officer resolves any issues resulting from an audit that remain outstanding in accordance with Section 149(1)(l) of the Public Finance Management Act, Cap. 412A, as read together with Section 53 of the Public Audit Act, Cap. 412B, failing which the Accounting Officer shall be in contempt of Parliament or County Assembly and upon determination by Parliament or the relevant County Assembly, Parliament or the relevant County Assembly may recommend administrative sanctions such as removal as the Accounting Officer, reduction in rank, among others; and
- ii. the Governor ensures the Accounting Officer submits a detailed status report on the mitigation measures taken to resolve prior year audit matters within sixty (60) days of the adoption of this report, including a resolution matrix with timelines for each outstanding matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Pursuant to Article 229(6) of the Constitution, based on the audit procedures performed by the Auditor General, the following matters formed the basis for conclusion that public resources were not applied lawfully and in an effective way --

1. Deficiencies in Implementation of Universal Health Coverage (UHC) – Inadequate Resourcing

Review of hospital records, interviews, and verification of services, equipment, and medical specialists in the Hospital at the time of audit revealed that the Hospital did not meet the requirements set out in the Kenya Quality Model for Health Policy Guidelines, primarily due to staffing shortages. The Hospital has only two medical officers against a required sixteen (16), lacks anaesthesiologists, general surgeons, gynaecologists, and paediatricians entirely, and has only twenty-three (23) community health nurses against a requirement of seventy-five (75). The Hospital also lacks critical facilities including an ICU, HDU, Renal Dialysis Unit, Newborn Unit incubators, and multiple functional operating theatres.

Management Response

The management recognizes the deficiencies and that they stem from a broader national challenge in resourcing health facilities. The Hospital Management Team forwarded its recommendations to the Chief Officer for Health. The County Government has constructed a ward block with a capacity of seventy beds which is complete and awaiting procurement of equipment budgeted in the current budget. The county is currently in the process of recruiting health workers to bridge the staffing gaps.

Committee Observations

The Committee observed that the Hospital had only 2 medical officers against a Level 4 requirement of 16, with no anaesthesiologist, general surgeon, gynaecologist, or paediatrician, and 23 nurses against a requirement of 75; and a new 70-bed ward block has been completed and is awaiting equipment procurement budgeted in the current financial year.

Committee Recommendations

The Committee recommends that—

- i. within sixty (60) days of the adoption of this report, the Governor submits to the Senate a comprehensive plan outlining the specific measures being taken to address the hospital's staffing shortages. The measures should include both short-term and long-term solutions, focusing on optimizing existing resources, improving employee welfare, and ensuring sustainable staffing levels moving forward.**
- ii. and 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.**
- iii. and 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.**

2. Failure to Deduct and Remit Public Procurement Capacity Building Levy

The Public Procurement Capacity Building Levy of 0.03% was not deducted and remitted to the PPRA effective on 1 September 2024, contrary to PPRA Circular No. 01/2024 referenced PPRA/6/5 VOL II (224) dated 30 August 2024. In the circumstances, Management was in breach of law.

Management Response

The hospital acknowledges the failure to deduct and remit the public procurement capacity building levy. This was occasioned by lack of awareness on the requirement. The hospital has since complied with the requirement in the current financial year.

Committee Observations

The Committee observed that the Hospital did not deduct and remit the 0.03% PPRA capacity building levy during FY 2024/25, contrary to PPRA Circular No. 01/2024; and the Hospital has since complied in the current financial year.

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.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Pursuant to Section 7(1) of the Public Audit Act, based on procedures performed by the Auditor General, the following matters formed the basis for conclusion that internal controls, risk management and overall governance were not effective --

1. Failure to Dispose of Expired Drugs

Review of Management reports and Audit inspection conducted in the hospital stores in the month of October 2025 revealed that the Hospital had six (6) boxes of expired drugs which had not been destroyed. In the circumstances, the effectiveness of internal controls in procurement, receiving and issuance of drugs could not be confirmed.

Management Response

The management was waiting for directives and guidelines from the County Government of Meru Department of Health. The guidelines were issued on 4th September 2025 and the disposal committee has been formed and held its first meeting on 16th October 2025. The sub-county disposal committee sat on 30th October 2025 and compiled the list of all expired drugs for forwarding to the county disposal committee for consideration.

Committee Observations

The Committee observed that six boxes of expired drugs were found in the hospital stores at the time of audit in October 2025 without disposal, and a sub-county disposal committee has since compiled a list for forwarding to the county disposal committee.

Committee Recommendations

The Committee recommends that---

- i. the Governor ensures the Hospital completes the disposal of all expired drugs identified in the October 2025 exercise within sixty (60) days of the adoption of this report, in accordance with applicable health regulations, and submits evidence of disposal to the Auditor-General; and**
- ii. the Accounting Officer establishes a quarterly drug expiry monitoring system to identify and initiate timely disposal procedures for drugs approaching expiry, preventing future accumulation of expired stock.**

2. Failure to Carry Out Evaluation of Board Performance

Review of Board of Management reports revealed that the board did not provide reports of the evaluation of its Board performance for the year 2024/2025, contrary to Mwongozo, 2015 – Chapter 1, Paragraph 1.12, which requires that the board should determine its performance criteria and undertake an annual evaluation of its performance. In the circumstances, the effectiveness of Board performance could not be confirmed.

Management Response

The management acknowledges the audit observation. The board did not carry out evaluation of board performance due to lack of a clear evaluation criteria, as the Mwongozo framework is designed for state corporations. The Board of Management has since tasked the board secretary to formulate board performance appraisal guidelines in collaboration with the department of health.

Committee Observations

The Committee observed that the Board of Management did not conduct an annual performance evaluation for FY 2024/25, contrary to Mwongozo, 2015, Chapter 1, Paragraph 1.12.

Committee Recommendations

The Committee recommends that---

- i. the Board of Management completes the development of Board performance evaluation guidelines and conducts the first formal evaluation within sixty (60) days of the adoption of this report; and**
- ii. the Accounting Officer submits evidence of the completed Board performance evaluation to the Auditor-General for verification and monitoring.**

3. Failure to Provide Internal Audit Reports for Audit Review

Review of management reports revealed that the management relied on the Meru County internal audit department for purposes of audit review of the Hospital. However, Management did not provide the internal audit report and risk management policy for audit review. In the circumstances, the existence and effectiveness of internal controls could not be confirmed.

Management Response

The hospital has not established an internal audit unit but relies on the County Executive Directorate of Internal Audit. During the period under review, the Directorate undertook an internal audit to evaluate the effectiveness of internal controls, risk management and governance. The internal audit reports from the Directorate of Internal Audit are available for review.

Committee Observations

The Committee observed that the Hospital did not provide the County Executive Directorate of Internal Audit's report or a risk management policy for audit review; and that the County Executive Directorate of Internal Audit has since provided evidence of the internal audit reports following the issuance of the audit certificate, confirming that the internal audit function was exercised during the period.

Committee Recommendations

Noting the mitigation measures taken, the Committee recommends that the query be marked as resolved.

4. Loss of Revenue Data and Lack of Back-Up

Audit revealed that data on revenue earned in the months of July, August, September and 1–18 October 2024 was lost during the transition period from NHIF to SHA. Management was unable to estimate the revenue loss and no effort had been made to recover the data. In the circumstances, Management is exposed to the risk of loss of revenue and misstatements in the financial statements.

Management Response

The referred data relates to NHIF collections between July–October 2024 which auditors were not able to access due to the change of system following transition from NHIF to SHA. Management has since liaised with SHA offices and was granted administrative rights in the system to access and retrieve the lost NHIF data.

Committee Observations

The Committee observed that revenue data for July, August, September and 1–18 October 2024 was lost during the NHIF to SHA system transition; and management subsequently retrieved the data after being granted administrative rights in the SHA system.

Committee Recommendations

The Committee recommends that---

- i. the Governor ensures the Hospital implements a comprehensive data backup policy and system that ensures all revenue data is backed up in real-time or at regular intervals, preventing future data loss during system transitions; and**
- ii. the Accounting Officer ensures the retrieved NHIF data is reconciled with the financial statements, and any understatement of revenue is corrected through appropriate prior year adjustments in the FY 2025/2026 financial statements.**

4.3. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR NYAMBENE SUB-COUNTY HOSPITAL FOR THE FINANCIAL YEAR 2024/25

The Governor of Meru County, Hon. Rev. Isaac Mutuma, appeared before the Committee on 26th February 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Nyambene Sub-County Hospital for the Financial Year 2024/25. The Governor was accompanied by the following relevant county officials.

- | | |
|-----------------------|----------------|
| 1. Dr. Dennis Mugambi | -CECM, Health |
| 2. CPA Monica Kathono | -CECM, Finance |

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified Opinion** on the Financial Statements of the Nyambene Sub-County Hospital for the period under review on the following basis-

1. Misstatement of Property, Plant and Equipment (PPE) and Depreciation Expense

The statement of financial position reflects property, plant and equipment net book value of Kshs. 16,866,522.88 as disclosed in Note 14 to the financial statements. The balance is net of depreciation and amortization expense of Kshs. 2,433,272.50. However, recalculation of the depreciation charge and net book value revealed amounts of Kshs. 2,664,223.03 and Kshs. 18,114,085 respectively, resulting in unreconciled and unexplained variances of Kshs. 230,950.53 and Kshs. 1,247,562. In the circumstances, the accuracy and completeness of property, plant and equipment net book value of Kshs. 16,866,522.88 could not be confirmed.

Management Response

During the period under review, the Hospital correctly reported amounts of Kshs. 2,433,272 and Kshs. 16,866,522.88 as depreciation and amortization expense and net book value of property, plant and equipment respectively. While arriving at the depreciation amount for property, plant and equipment procured during the year, management prorated the number of months since the items were procured. The stated amounts of Kshs. 2,664,233.03 assumes that the additions were made as at 1st July 2024 and depreciated for twelve months which is not factual.

Committee Observations

The Committee observed that recalculation of depreciation and net book value for PPE revealed unexplained variances of Kshs. 230,950.53 (depreciation) and Kshs. 1,247,562 (net book value) from the figures reported in the financial statements.

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

2. Audit query

Committee Observations

The Committee observed that the Hospital reported a Nil inventory balance despite having stocks in its stores, as no annual stock-taking was conducted at the close of FY 2024/25.

Committee Recommendations

The Committee recommends that---

- i. the Governor, through the Accounting Officer, ensures that the Hospital conducts mandatory physical inventory counts at year end and at regular intervals, and that all stocks are valued and properly disclosed in the financial statements in compliance with applicable accounting standards; and**
- ii. the Accounting Officer implements a robust inventory management system with regular reconciliations between physical stock and accounting records.**

3. Variance Between Statements of Changes in Net Assets and Statement of Financial Position

The statement of financial position reflects net assets balance of Kshs. 91,085,680 while the statement of changes in net assets reflects net assets balance of Kshs. 58,365,655, leading to an unexplained and unreconciled variance of Kshs. 32,365,655. In the circumstances, the accuracy of the statements could not be confirmed.

Management Response

During the period under review, the Hospital correctly reported an amount of Kshs. 91,085,680 in the statement of financial position which agreed with the statement of changes in net assets. However, due to a typing error, the statement of net assets had an amount of Kshs. 58,365,655 instead of the correct Kshs. 91,085,680. This amount will be adjusted while preparing financial statements for the current financial year using a prior year adjustment.

Committee Observations

The Committee observed that a variance of Kshs. 32,365,655 existed between net assets figures in two statements, attributed by Management to a typographical error.

Committee Recommendations

The Committee recommends that---

- i. that the Governor ensures that Accounting Officer ensures that prior year adjustments are carried out in the hospital's financial statements of the subsequent year to correct the typing error and reflect the true financial position; and**
- ii. that the Governor ensures that Accounting Officer strengthens the financial statement review and approval process to prevent typographical errors from appearing in final financial statements submitted for audit.**

Other Matter

Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the report on financial statements and report on lawfulness and effectiveness in use of public resources. However, management has not provided an explanation of how the issues were resolved. The issues have been reiterated as substantial paragraphs since they are recurring.

Management Response

The management has put measures to address all unresolved prior year matters. A detailed implementation matrix has been provided on how each issue has been addressed.

Committee Observations

The Committee observed that several prior year audit matters remained unresolved in the 2024/25 audit. Management submitted an implementation matrix with supporting documentation.

Committee Recommendations

The Committee recommends that---

- i. the Accounting Officer resolves any issues resulting from an audit that remain outstanding in accordance with Section 149(1)(l) of the Public Finance Management Act, Cap. 412A, as read together with Section 53 of the Public Audit Act, Cap. 412B, failing which the Accounting Officer shall be in contempt of Parliament or County Assembly and upon determination by Parliament or the relevant County Assembly, Parliament or the relevant County Assembly may recommend administrative sanctions such as removal as the Accounting Officer, reduction in rank, among others; and**
- ii. the Governor ensures the Accounting Officer submits a detailed status report on the mitigation measures taken to resolve prior year audit matters within sixty (60) days of the adoption of this report, including a resolution matrix with timelines for each outstanding matter.**

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Pursuant to Article 229(6) of the Constitution, based on the audit procedures performed by the Auditor General, the following matters formed the basis for conclusion that public resources were not applied lawfully and in an effective way --

1. Failure to Deduct and Remit Public Procurement Capacity Building Levy

The Public Procurement Capacity Building Levy of 0.03% was not deducted from contract payments totalling Kshs. 11,555,082.33 and remitted to the PPRA effective on 1 September 2024, contrary to Circular No. 01/2024. In the circumstances, Management was in breach of law.

Management Response

The management confirms that the failure to deduct and remit the levy was due to lack of awareness of the circular at the time. The facility has now instituted corrective measures and is implementing the requirement in the current financial year.

Committee Observations

The Committee observed that the Hospital did not deduct and remit the 0.03% PPRA capacity building levy on contracts worth Kshs. 11,555,082.33, contrary to PPRA Circular No. 01/2024; and management has since initiated compliance in the current financial year.

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.

2. Long Outstanding Payables

The statement of financial position reflects trade and other payables balance amounting to Kshs. 23,466,470.51. Audit review revealed trade and other payables balance totaling Kshs. 5,121,507.51 that have been outstanding for over one year, contrary to Regulation 41(2) of the Public Finance Management (County Governments) Regulations, 2015. In the circumstances, the Hospital was exposed to the risk of accumulating interest, penalties, and potential legal claims.

Management Response

The management acknowledges the audit observation and confirms an amount of Kshs. 5,121,507.51 had been outstanding for a period of more than a year. The hospital has paid Kshs. 2,762,530 out of Kshs. 3,095,763 owed, and management commits to clear the remaining balance within the current financial year.

Committee Observations

The Committee observed that trade payables of Kshs. 5,121,507.51 had been outstanding for more than one year; Kshs. 2,762,530 has since been paid, leaving a balance of Kshs. 2,359,977.51 outstanding.

Committee Recommendations

The Committee recommends that-

- i. 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.

- ii. the Governor to ensures the water company makes budgetary provision to clear the outstanding payables by the end of the FY 2026/2027 and provide a status update to the Senate within 60 days of the adoption report.**
- iii. and the Governor ensures that the County Executive Committee Member in charge of water continuously monitors the financial performance of the water company in line with section 184 of the Public Finance Management Act, 2012 and report on the same to the County Executive Committee, making recommendations on how the water company can improve its performance..**

3. Deficiencies in Implementation of Universal Health Coverage (UHC) – Inadequate Resourcing

Review of hospital records, interviews and verification of services, equipment, and medical staff revealed significant discrepancies when compared to the requirements set out in the Kenya Quality Model for Health Policy Guidelines. The Hospital had only 8 medical officers against a standard of 16, lacked anaesthesiologists and general surgeons entirely, had no functional ICU or HDU beds against a requirement of 6 each. In the circumstances, these deficiencies contravene the First Schedule of Health Act, 2017.

Management Response

Nyambene Sub-County Hospital recognizes the deficiencies highlighted and reiterates that they stem from a broader national challenge in resourcing health facilities. The hospital has taken proactive steps by hiring staff with its own funds and engaging locum staff to mitigate the gaps. The County Government is also in the process of transforming the hospital from Level 4 to Level 5 status. The county is currently recruiting officers in the department of health to fill identified staffing gaps.

Committee Observations

The Committee observed that the Hospital's staff complement fell significantly short of the Kenya Quality Model for Health standards for a Level 4 hospital, with critical specialists entirely absent.

Committee Recommendations

The Committee recommends that—

- i. within sixty (60) days of the adoption of this report, the Governor submits to the Senate a comprehensive plan outlining the specific measures being taken to address the hospital's staffing shortages. The measures should include both short-term and long-term solutions, focusing on optimizing existing resources,**

improving employee welfare, and ensuring sustainable staffing levels moving forward.

- ii. and 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.
- iii. and 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. Non-Compliance on Deduction and Remittance of Statutory Deductions

Audit examination of the Hospital's manual payroll records revealed that statutory housing levy deductions were not affected on payments totalling Kshs. 559,072 made to contracted casual employees, despite the employees being eligible for such statutory deductions in accordance with Section 4(2) of the Affordable Housing Act which states that the rate of the levy is 1.5% of the gross salary of an employee. Under Section 5(1), the employer is required to deduct and remit the levy amount. In the circumstances, the Hospital was in breach of the law.

Management Response

Management acknowledges the audit observation. As a mitigation measure, statutory housing levy deductions have now been incorporated into the payroll system for all eligible employees. The hospital has budgeted for arrears of 1.5% employer contribution which was not remitted and has commenced over-payment deductions for the affected members of staff.

Committee Observations

The Committee observed that housing levy was not deducted on gross emoluments of Kshs. 559,072 for casual employees, contrary to the Affordable Housing Act.

Committee Recommendations

The Committee recommends that---

- i. the Governor ensures that Accounting Officer ensures all outstanding housing levy arrears for FY 2024/2025 are remitted to the relevant authority within 60 days of the adoption of this report, and submits evidence of remittance to the Auditor-General; and

- ii. **the Governor ensures that Accounting Officer ensures strict compliance with all statutory deduction and remittance requirements for all categories of employees including casual staff, failure to which the relevant penalty provisions shall apply.**

5. Non-Compliance with the Public Sector Accounting Standards Board Financial Reporting Requirements

Audit review established that the Hospital did not fully adhere to the financial statement preparation templates issued by the Public Sector Accounting Standards Board (PSASB). Specifically, the Hospital did not provide information under Annex I: Progress on Follow Up of Prior Year Auditor's Recommendations as required in the prescribed reporting format. Related party balances and amounts and financial risks were also not disclosed. In the circumstances, the financial statements of the Hospital were not prepared in compliance with the PSASB financial reporting template and IPSAS 1.

Management Response

The Hospital regrets the omissions noted and has instituted corrective measures to ensure full compliance with PSASB financial reporting requirements and IPSAS standards. Capacity building of officers working in the hospital's finance section has been done to ensure the noted oversight is corrected in future. All financial statements will be prepared in strict adherence to the prescribed templates to enhance transparency and accountability.

Committee Observations

The Committee observed that the Hospital's financial statements did not comply with PSASB reporting templates, omitting disclosures required under IPSAS 1 including prior year recommendations follow-up, related party balances, and financial risks.

Committee Recommendations

The Committee recommends that---

- i. **that the Governor ensures that Accounting Officer ensures that financial statements for FY 2025/2026 are prepared in full compliance with the PSASB financial reporting templates and IPSAS 1, including all required disclosures; and**
- ii. **the National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties.**

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Pursuant to Section 7(1) of the Public Audit Act, based on procedures performed by the Auditor General, the following matter formed the basis for conclusion that internal controls, risk management and overall governance were not effective --

1. Expired Board Term

The Board of the Hospital was appointed in January 2018. As at the time of the audit in 2025, the Board had continued to serve beyond the cumulative six-year term limit prescribed under the Mwongozo Guidelines on Corporate Governance for State Corporations. No documented evidence of extension, reappointment, or performance evaluation was availed to justify the continued tenure of the Board members. In the circumstances, the Board's continued service was not in compliance with the provisions of Mwongozo, 2015, thereby contravening corporate governance requirements.

Management Response

The Board's tenure was formally extended by the County Executive Committee Member (CECM) for Health, pending the appointment of new boards across the county. This extension was granted to ensure continuity in governance and oversight of hospital operations during the transition period.

Committee Observations

The Committee observed that the Board was appointed in January 2018 and has served beyond the six-year cumulative term limit under Mwongozo, 2015, without a formal reappointment process or documented performance evaluation.

Committee Recommendations

The Committee recommends that---

- i. the Governor ensures that a new Board of Management for Nyambene Sub-County Hospital is formally constituted and appointed within sixty (60) days of the adoption of this report, in compliance with Mwongozo Guidelines on Corporate Governance and applicable County legislation; and**
- ii. the Accounting Officer ensures that all future Board terms, renewals, extensions, and performance evaluations are properly documented and comply with prescribed governance frameworks.**

CHAPTER FOUR: FUNDS

3.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR MERU COUNTY REVENUE BOARD FOR THE FINANCIAL YEAR 2024/25

The Governor for Meru County, Hon. Rev. Isaac Mutuma, appeared before the Committee on Tuesday, 26th February 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Meru County Revenue Board for the financial year 2024/2025. The Governor was accompanied by relevant county officials.

1. CPA Monica Kathono - CECM, Finance
2. Ms. Joy Kiugu - CECM, Lands

REPORT ON THE FINANCIAL STATEMENTS

Pursuant to Section 7(1) of the Public Audit Act, Cap. 412B, the Auditor-General rendered a Qualified Opinion on the financial statements of the Meru County Revenue Board for the financial year 2024/25, based on the following matters:

1. Undisclosed Revenue

Review of records revealed that a local service provider demanded transaction commissions totalling Kshs. 18,673,213.03 for the period between July 2024 and April 2025 (10 months) representing 4.8% of revenue collected, which would translate to an amount of Kshs. 389,025,271 worth of revenue collected via the service provider during the same period. However, the County Receiver of Revenue reported an amount of Kshs. 365,278,922 collected via the same system for twelve (12) months. The revenue system as at 9 September 2025 reflected an amount of Kshs. 319,966,363 as the total revenue for the twelve (12) months. These discrepancies cast doubt on the authenticity of the commission paid or payable and the integrity of the data and the system in use. Evidence of efforts by Management to engage the service provider to shed more light was not provided. In the circumstances, the accuracy and completeness of the commission amount demanded totalling Kshs. 18,673,213.03 and the revenue disclosed in the statement of Receiver of Revenue amount of Kshs. 365,278,922 could not be confirmed.

Management Response

The revenue board engaged a contractor to offer services on an integrated revenue collection management system for a contract period of three (3) years with effect from November 2023. As at the closure of FY 2023/2024 the service provider had not invoiced for commissions earned during the year. During the period under review the service provider issued a demand notice of Kshs. 18,673,213.03 which related to collections from November 2023 for a period of twenty-four (24) months, not ten months as stated in the

audit. A breakdown of amounts collected during the said period is available for audit review.

Committee Observations

The Committee observed that revenue figures reported by three sources were inconsistent: the service provider's commission implied Kshs. 389,025,271, the Receiver of Revenue reported Kshs. 365,278,922, and the revenue system reflected Kshs. 319,966,363, representing a maximum variance of Kshs. 69,058,908; and no evidence of Management engagement with the service provider to reconcile the discrepancy was provided.

Committee Recommendations

The Committee recommends that-

- i. the Governor commissions an independent forensic audit of all revenue collected through the Integrated County Revenue Management System (ICRMS) and all related commission payments, with the findings submitted to the Senate within sixty (60) days of the adoption of this report.**
- ii. the Accounting Officer ensures that a full reconciliation of revenue figures reported by the Receiver of Revenue, the revenue management system, and service provider records is completed and submitted to the Auditor-General within thirty (30) days; and**
- iii. the Accounting Officer establishes robust contract monitoring mechanisms including monthly reconciliation of revenue and commission computations with the service provider to prevent recurrence.**

2. Inaccurate and Long Outstanding Trade and Other Payables

As previously reported, the statement of financial position reflects trade and other payables balance of Kshs. 42,450,893 as disclosed in Note 10 to the financial statements. Included in this balance are payments amounting to Kshs. 3,095,763 that have remained outstanding for a period of more than one year, contrary to Section 53(8) of the Public Procurement and Asset Disposal Act, 2015. In addition, audit examination of payment records revealed a demand letter issued to the County Government of Meru by a service provider revealing payables amounting to Kshs. 20,935,209 which were not disclosed in the prior year's verified list of pending bills nor captured in the approved budget estimates or supplementary appropriations. In the circumstances, the accuracy and completeness of trade and other payables balance of Kshs. 42,450,893 could not be confirmed and there is a risk of loss of public funds through litigation, interests and penalties.

Management Response

During the period under review, the Board had pending bills amounting to Kshs. 3,095,763 outstanding for more than a year. At the time of reporting, the Board had paid Kshs. 2,762,530 out of the said amount, with the remaining balance of Kshs. 333,232 committed for clearance within the current financial year. Regarding the Kshs. 20,935,209 commission payment for the Craft Silicon revenue collection system, this was not disclosed as pending bills because the vendor had not yet invoiced the Board. The vendor has since been paid the outstanding amount by the County Executive.

Committee Observations

The Committee observed that trade and other payables of Kshs. 42,450,893 included Kshs. 3,095,763 outstanding for more than one year and Kshs. 20,935,209 undisclosed in the prior year's pending bills; and the Kshs. 20,935,209 was paid by the County Executive rather than the Board, and was not captured in approved budget estimates.

Committee Recommendations

The Committee recommends that---

- i. the Accounting Officer ensures that all known financial obligations, including those awaiting formal invoicing, are accrued and disclosed in the financial statements in compliance with accrual accounting principles under IPSAS;**
- ii. the Accounting Officer clears the remaining outstanding payable balance of Kshs. 333,232 and submits evidence of settlement to the Auditor-General within thirty (30) days of the adoption of this report; and**
- iii. the Governor ensures that payments of Board obligations by the County Executive are formally documented, approved, and transparently recorded in both entities' books of accounts.**

3. Material Uncertainty Relating to Going Concern

As previously reported, the statement of financial performance reflects a deficit of Kshs. 3,397,953.80 which brought the Board's accumulated loss to Kshs. 11,517,954 as at 30 June 2025 (2024: Kshs. 8,120,000). Further, the statement of financial position reflects current liabilities balance of Kshs. 42,450,893.47 which exceeded the current assets of Kshs. 28,197,676.47, resulting in a negative working capital of Kshs. 14,253,217 as at 30 June 2025. A comparison of own source revenue reported by the Receiver of Revenue revealed that the Board collected Kshs. 365,278,922 against expenditure of Kshs. 344,848,712 (94%) in the year under review. Management did not disclose the material uncertainty related to going concern or measures taken to mitigate this, contrary to IPSAS disclosure requirements. In the circumstances, the sustainability of the Board could not be confirmed.

Management Response

The Board operates pursuant to the Meru County Revenue Board Act, 2014 as amended by the Meru County Statute Law (Miscellaneous Amendments) Act, 2019. The operations of the Board are funded by the County Government of Meru through budgetary allocation. The Board provides for pending bills in its subsequent financial year's budget and is financed by the County Treasury with no indication of a contrary position. Therefore, the Board is in a position to meet its financial obligations as and when they fall due.

Committee Observations

The Committee observed that the Board reported an accumulated deficit of Kshs. 11,517,954 and negative working capital of Kshs. 14,253,217 as at 30 June 2025, with expenditure consuming 94% of own-source revenue of Kshs. 365,278,922; and management did not disclose the going concern uncertainty in the financial statements.

Committee Recommendations

The Committee recommends that---

- i. the Accounting Officer ensures that the going concern disclosure is included in the notes to future financial statements in compliance with IPSAS, detailing the nature of the uncertainty and mitigating measures;**
- ii. the Governor develops and submits to the Senate a Board financial sustainability plan within sixty (60) days of adoption of this report, addressing the structural deficit, wage bill, and negative working capital; and**
- iii. the County Treasury reviews the Board's funding model and budget ceiling annually to ensure the Board can meet its operational obligations without continued deficit accumulation.**

OTHER MATTER

UNRESOLVED PRIOR YEAR AUDIT MATTERS

In the audit report of the previous year, several issues were raised under the report on financial statements and lawfulness and effectiveness in use of public resources and report on effectiveness of internal controls, risk management and governance. However, review of the status during audit of the revenue board in 2024/2025 revealed that the following matters remained unresolved:

1. Unsupported Expenditure

The statement of financial performance reflected use of goods and services amounting to Kshs. 83,876,562.87 which includes other payment – commission for revenue collection

system amounting to Kshs. 15,000,000 as disclosed in Note 3 to the financial statements. However, supporting documents such as the invoices, payment vouchers, period for revenue collection and the amount collected on behalf of the County were not provided for audit review. In the circumstances, the propriety of the expenditure of Kshs. 15,000,000 could not be confirmed.

Management Response

The Board made a payment of Kshs. 15,000,000 in FY 2023/2024 as commission payment to Webtribe Limited for use of Meru Pay revenue collection system. The supporting documentation for the said payment including invoices and payment vouchers are readily available for audit review.

Committee Observations

The Committee observed that expenditure of Kshs. 15,000,000 paid as commission to Webtribe Limited for the Meru Pay revenue collection system had not been supported by invoices and payment vouchers during the prior year audit; and management has since availed the relevant supporting documentation for audit review, confirming the propriety of the commission payment.

Committee Recommendations

Noting the mitigation measures taken, the Committee recommends that the query be marked as resolved.

2. Unsupported Receivables from Non-Exchange Transactions

The statement of financial position reflected receivables from non-exchange transactions balance of Kshs. 20,825,147 which relates to transfer from the County Government as disclosed in Note 8 to the financial statements. However, documentation and explanation to support the nature of the receivables and how it arose was not provided for audit review. In addition, approved journal vouchers to support movement of the balance from Nil in the initially submitted financial statements to Kshs. 20,825,147 in the amended financial statements were also not provided. In the circumstances, the accuracy and completeness of the receivables balance of Kshs. 20,825,147 could not be confirmed.

Management Response

The Board reported an amount of Kshs. 20,825,147 as receivable from the County Government of Meru. This amount arose due to failure by the National Treasury to disburse the June 2024 exchequer release. The initially submitted financial statements included the said amount. As at the time of reporting, the County Executive disbursed the said amounts in September 2024, which were utilized to pay June 2024 salaries.

Committee Observations

The Committee observed that receivables from non-exchange transactions of Kshs. 20,825,147 were not supported by documentation or approved journal vouchers explaining the movement from Nil in the initially submitted statements to Kshs. 20,825,147 in the amended financial statements; and management confirmed the amount related to the delayed June 2024 National Treasury exchequer release, and that the County Executive disbursed the funds in September 2024, which were utilized to pay June 2024 salaries.

Committee Recommendations

Noting the mitigation measures taken, the Committee recommends that the query be marked as resolved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Pursuant to Section 7(1) of the Public Audit Act, Cap. 412B, the Auditor-General made the following findings on the lawfulness and effectiveness in the use of public resources by Meru County Revenue Board:

1. Lack of Cost Benefit Analysis

The financial records in respect of Meru Revenue Board reflected transfers from the County Executive amounting to Kshs. 341,457,238 spent against own source revenue totalling Kshs. 402,100,451 collected under the Receiver of Revenue. This resulted in 85% utilization of own source revenue on the Board's operations, indicating a lack of cost benefit analysis and inability to demonstrate value for money. In the circumstances, value for money by the Board could not be confirmed.

Management Response

Meru County Revenue Board has embarked on revenue raising measures aimed at ensuring that revenue board increases revenue against set targets. Measures undertaken include: engaging a consultant (ECOCAP) to diagnose revenue potential and gaps; engaging revenue-generating departments on target-setting and service delivery improvement; conducting external and internal stakeholder engagements; launching enforcement operations across the county; carrying out revenue forecasting and mapping; and engaging staff in setting targets across sub-counties and revenue streams.

Committee Observations

The Committee observed that the Board spent Kshs. 341,457,238 (85%) of own-source revenue of Kshs. 402,100,451 on its own operations, with no formal cost-benefit framework to justify the expenditure.

Committee Recommendations

The Committee recommends that---

- i. the Governor ensures the Accounting Officer complies with Section 149(2)(h) and (i) of the Public Finance Management Act, Cap. 412A, and IPSAS 24 on the presentation of budget information in financial statements, failure to which the provisions of Section 199 of the Public Finance Management Act on penalties for offences shall apply;**
- ii. the Accounting Officer prepares realistic budgets and revenue projections and seeks the necessary approvals from the County Treasury, based on actual revenue collection performance;**
- iii. the Accounting Officer submits quarterly reports to the County Treasury on the financial and non-financial status of the Board in line with Section 166 of the Public Finance Management Act, Cap. 412A;**
- iv. the County Treasury undertakes annual assessment of the commercial viability and operational efficiency of the Revenue Board and reports to the County Executive Committee; and**
- v. the Auditor-General keeps this matter in view and reports on the status of compliance in the subsequent audit cycle.**

2. Conflict of Interests in Revenue Collection

Meru County Government has three departments with the authority to collect revenue: Meru and Maua Municipalities, Meru Revenue Board, and Meru County Investment & Development Corporation (MCIDC). These departments have a similar function in respect to mapping and collection of revenue. However, Management has not provided evidence on how the mapping and division of roles of each department was assigned. Further, Section 158(2) of the Public Finance Management Act, 2012 requires that any other public officer, other than a receiver of revenue or collector of revenue for a County Government, who collects revenue for that Government shall, not later than three days after receiving it, deliver the revenue to a receiver or collector of revenue. However, there was no evidence that revenue collected by MCIDC was remitted to the Receiver of Revenue. In the circumstances, the value for money for these three departments could not be confirmed.

Management Response

During the period under review, the Meru County Revenue Board was the sole receiver of revenue. Transfer of functions to municipalities including revenue collection had not been undertaken at the time of audit. The County is working on a revenue collection and sharing formula with the municipalities. On collection of revenue by MCIDC, specific buildings

were transferred to the corporation including Consolidated Bank Building and Mulika Leopard Rock Hotel, and the corporation collects rent on the said premises.

Committee Observations

The Committee observed that three County entities, namely the Revenue Board, Meru and Maua Municipalities, and MCIDC, had overlapping revenue collection mandates without formal delineation of revenue streams; and no evidence was provided that revenue collected by MCIDC was remitted to the County Receiver of Revenue within three days as required by Section 158(2) of the Public Finance Management Act, 2012.

Committee Recommendations

The Committee recommends that---

- i. the Governor develops and submits to the Senate a comprehensive County revenue collection mandate framework within ninety (90) days of adoption of this report, clearly delineating the roles and revenue streams of the Revenue Board, Municipalities, and MCIDC;**
- ii. the Governor ensures MCIDC remits all revenue collected from County assets to the County Receiver of Revenue in compliance with Section 158(2) of the Public Finance Management Act, 2012, and submits evidence of compliance to the Senate within sixty (60) days; and**
- iii. the Governor facilitates the formal transfer of revenue collection functions to Meru and Maua Municipalities in accordance with their respective charters and the PFM Act framework.**

3. Lack of Approved Strategic Plan

The County Revenue Board lacked an operational strategic plan, making the foundation for budget preparation unclear. This is contrary to Section 149(2) of the Public Finance Management Act, 2012, which requires the Accounting Officer to prepare a strategic plan for the entity in conformity with the medium-term fiscal framework and financial objectives of the County Government. In the circumstances, Management was in breach of the law.

Management Response

Contrary to the audit observation, the Board has an approved strategic plan.

Committee Observations

The Committee observed that the Board did not avail an approved strategic plan to the Auditor-General during the audit, contrary to Section 149(2) of the Public Finance Management Act, 2012.

Committee Recommendations

The Committee recommends that---

- i. the Accounting Officer submits a copy of the Board's approved strategic plan to the Auditor-General and to the Senate within thirty (30) days of adoption of this report, with evidence of its approval date and period of coverage; and**
- ii. where no such plan exists, the Accounting Officer ensures development and adoption of a strategic plan within sixty (60) days, in compliance with Section 149(2) of the Public Finance Management Act, 2012.**

4. Failure to Comply with Fiscal Responsibility Principles on Wages and Benefits

The statement of financial performance reflects an amount of Kshs. 261,350,758.22 in respect to employee costs. The total revenue received in the year under review amounted to Kshs. 341,450,758. Consequently, the wage bill was at 76% of total revenue, far above the 35% allowed limit contrary to Regulation 25(1)(b) of the Public Finance Management (County Government) Regulations, 2015, which states that the wage bill shall not exceed thirty-five (35) percent of the County Government's total revenue. In the circumstances, Management was in breach of the law.

Management Response

Management concurs with the audit observation that the Board's expenditure on compensation of employees exceeded the statutory 35% of total revenue. To correct this, the Board has frozen recruitment of staff and replacement of retirees, with the last employment undertaken in 2021. It is hoped that the issue will be progressively corrected through attrition.

Committee Observations

The Committee observed that employee costs of Kshs. 261,350,758 represented 76% of total revenue of Kshs. 341,450,758, exceeding the statutory ceiling of 35% under Regulation 25(1)(b) of the Public Finance Management (County Government) Regulations, 2015; and management froze recruitment in 2021 but has relied on attrition as the sole corrective measure.

Committee Recommendations

The Committee recommends that---

- i. the Governor develops and submits to the Senate within sixty (60) days of adoption of this report a time-bound wage bill reduction plan that sets annual targets for reducing the wage bill to within the statutory 35% ceiling, with specific measures including staff rationalization, redeployment, and budget restructuring;**

- ii. the County Treasury withholds approval of the Board's budget estimates until a credible wage bill reduction plan is in place; and**
- iii. the Accounting Officer ensures that no new recruitment is undertaken without prior approval from the Governor and the County Treasury confirming that the resultant wage bill will remain within statutory limits.**

5. Non-Adherence to Approved Staff Establishment

The County Revenue Board did not have an approved staff establishment contrary to Section 5 of the delegation of Public Service Commission Human Resource Functions to the Cabinet Secretary (revised August 2015), which requires that staffing levels be rationalized in line with current mandates and approved budgets, and that proposals on staff establishment be approved by the Public Service Commission before implementation. In the circumstances, Management was in breach of the law.

Management Response

Contrary to the audit observation, the Board has an approved staff establishment.

Committee Observations

The Committee observed that the Board did not avail an approved staff establishment to the Auditor-General despite having 495 employees on the IPPD payroll, contrary to Public Service Commission guidelines.

Committee Recommendations

The Committee recommends that---

- i. the Accounting Officer submits a copy of the Board's approved staff establishment to the Auditor-General and to the Senate within thirty (30) days of adoption of this report, with evidence of Public Service Commission approval; and**
- ii. where no such approved establishment exists, the Accounting Officer engages the Public Service Commission within sixty (60) days to develop, approve, and implement a rationalized staff establishment aligned with the Board's mandate and budget.**

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Pursuant to Section 7(1) of the Public Audit Act, Cap. 412B, the Auditor-General made the following findings on the effectiveness of internal controls, risk management and governance of Meru County Revenue Board:

1. Unbalanced Staff Ethnic Composition

Review of payroll documents provided for audit revealed that out of the four hundred and ninety-five (495) employees in the integrated payroll system (IPPD), four hundred and eighty-three (483) representing 98% of the total employees were from the dominant ethnic community. This was contrary to the provision of Section 7(2) of the National Cohesion and Integration Act, 2008, which provides that no public establishment shall have more than one-third of its staff from the same ethnic community. In the circumstances, Management was in breach of the law.

Management Response

Management concurs with the audit findings. During the inception of the Board, the County Executive seconded employees who had already been employed by the County Public Service Board and others inherited from the defunct local authorities. The Board will apply the provision of Section 7(2) of the National Cohesion and Integration Act during subsequent employments.

Committee Observations

The Committee observed that 483 out of 495 employees (98%) of the Board were from one dominant ethnic community, contrary to Section 7(2) of the National Cohesion and Integration Act, 2008 which limits representation to one-third.

Committee Recommendations

The Committee recommends that---

- i. the Governor develops and submits to the Senate and to the NCIC within sixty (60) days a structured affirmative action hiring plan with specific annual ethnic diversity targets designed to progressively bring the Board into compliance with the one-third rule under the National Cohesion and Integration Act, 2008;**
- ii. all future recruitment by the Board must comply with ethnic diversity requirements as a mandatory condition, and non-compliance shall constitute grounds for disciplinary action against the Accounting Officer; and**
- iii. the Governor submits a copy of this finding to the National Cohesion and Integration Commission for its records and appropriate regulatory oversight.**

2. Irregular Representation of Chief Officer for Finance in the Board

Review of Board minutes for the year under review showed that the Chief Officer for Finance was absent from all Board meetings. Another officer attended in his stead. However, there was no formal delegation letter presented for audit purposes that permitted such representation, and the Meru County Revenue Board Act, 2014 does not allow for a substitute in the Chief Officer's role during Board meetings. This was contrary to Section

6 of the Meru County Revenue Board Act, 2014, which elects the Chief Officer Finance to the Committee with no guideline on delegation of the role. In the circumstances, Management was in breach of the law.

Management Response

During the periods under review, there were several board meetings held. During those meetings, the Chief Officer Finance attended in person or delegated to an alternate representative. The alternative representative was duly appointed and authorized by the Chief Officer.

Committee Observations

The Committee observed that the Chief Officer for Finance was absent from all Board meetings during the year under review, with another officer attending in his place without a formal delegation letter, contrary to Section 6 of the Meru County Revenue Board Act, 2014.

Committee Recommendations

The Committee recommends that---

- i. the Governor ensures that Accounting Officer submits to the Auditor-General copies of all delegation letters authorizing alternate representation of the Chief Officer for Finance at Board meetings within thirty (30) days; and
- ii. the County Government initiates appropriate amendment to the Meru County Revenue Board Act, 2014 to clarify the delegation framework for the Chief Officer for Finance's role in Board proceedings, ensuring legal certainty and good governance.

3. Non-Compliance with Mandatory Registration Requirements Under the Data Protection Act

Meru County Revenue Board has not registered with the Office of the Data Protection Commissioner as required under Section 18 of the Data Protection Act, 2019. Given its mandate as a revenue collection agency, the Board routinely collects, processes, and stores large volumes of personal and sensitive data, including taxpayer identification details, contact information, and financial records. Failure to register as a data controller or processor is non-compliance with the law and exposes the Board to regulatory sanctions. In the circumstances, Management was in breach of the law.

Management Response

During the period under review, the Board commenced the process of registering with the Office of the Data Protection Commissioner. The Board identified and designated a Data

Protection Officer, trained the relevant officers, and applied for the certificate. The Board is awaiting issuance of the certificate.

Committee Observations

The Committee observed that the Board had not registered with the Office of the Data Protection Commissioner as required under Section 18 of the Data Protection Act, 2019, despite routinely collecting and processing taxpayer personal data; and management had designated a Data Protection Officer and submitted a registration application and was awaiting the certificate.

Committee Recommendations

The Committee recommends that---

- i. the Accounting Officer expedites the registration process with the Office of the Data Protection Commissioner and submits evidence of registration to the Senate within thirty (30) days of receiving the certificate; and**
- ii. the Accounting Officer ensures the Board develops and implements a Data Protection Policy and data governance framework to ensure full compliance with the Data Protection Act, 2019 for all data collected, processed, and stored.**

4. Doubtful Payment to Revenue Collection System Service Provider

Management of the County Government of Meru entered into a contract with a local limited company for the supply, delivery, installation, testing and commissioning of an Integrated County Revenue Management System (ICRMS) under Meru County tender no. CGM/ONT/046/2022-2023 at a contract sum of Kshs. 55,002,000 for a period of three (3) years commencing 17 July 2023, with clause 38 providing for payment of transaction fees equivalent to 4.8% of total revenue per month collected through the system. However, a demand letter from the service provider dated and received on 11 June 2025 revealed an outstanding contract fee and transaction fees amounting to Kshs. 44,830,161.89. Audit review revealed that the County Government paid Kshs. 20,000,000 including costs of Kshs. 10,498,000 for USSD set-up, monthly maintenance fees and quarterly charges not provided for under the signed contract. This indicates non-adherence to agreed contractual terms and non-adherence to Section 68 of the Public Finance Management Act, 2012. In the circumstances, Management was in breach of the law.

Management Response

During the period under review, the service provider invoiced the County Kshs. 44,830,161.89, including Kshs. 174,000 monthly maintenance fees. Upon receipt of the demand notice, it was discovered that the monthly maintenance fees were not included in the contract nor in any addendum. Upon this discovery, management wrote to the service

provider objecting to the payment of the monthly maintenance fees as they were not provided for in the contract.

Committee Observations

The Committee observed that the County paid Kshs. 20,000,000 to a service provider under the ICRMS contract, including Kshs. 10,498,000 for USSD set-up, monthly maintenance, and quarterly charges not provided for in the signed contract; and the service provider submitted a demand notice of Kshs. 44,830,161.89, of which Kshs. 10,498,000 was disputed by Management as not contractually sanctioned.

Committee Recommendations

The Committee recommends that---

- i. the Governor commissions a review of all payments made under the ICRMS contract and ensures recovery of the Kshs. 10,498,000 paid outside contractual terms, with a report on recovery efforts submitted to the Senate within sixty (60) days;**
- ii. the Accounting Officer resolves the outstanding contract dispute with the service provider through the dispute resolution mechanisms provided in the contract, without any payment outside contractual terms; and**
- iii. the County strengthens contract management protocols to include mandatory monthly verification of invoices against contractual payment terms before processing.**

5. Wasteful Expenditure on Upgrading a Parallel Revenue Management System

The County Revenue Board Management spent an amount of Kshs. 2,800,862 to upgrade, clean and retrieve data from a parallel revenue management system, the County Integrated Revenue Management (CIROM), which is inherently limited to supporting only two revenue streams: Land Rates and Property Rent. This decision was made instead of procuring additional modules for the existing primary system, the Integrated County Revenue Management System (ICRMS), which is scalable and capable of handling all current and future revenue streams. The upgrade expenditure represents inefficient use of resources without commensurate benefits. In the circumstances, Management did not demonstrate effective use of public resources.

Management Response

During the period under review, the Board decided to transition to one revenue collection system. For the transition to happen smoothly, it required clean and accurate data to be migrated to the main revenue collection system. The CIROM system was experiencing

challenges in generating reports owing to non-maintenance over a long period. To ensure smooth transition it was necessary to maintain and clean the data in CIROM before migration. A Board meeting approved the system maintenance. All data held in CIROM has since been migrated to the County integrated revenue collection system and the County no longer runs parallel revenue collection systems.

Committee Observations

The Committee observed that the Board spent Kshs. 2,800,862 to upgrade and clean data from the CIROM system, which supports only two revenue streams, instead of procuring additional modules for the primary ICRMS system; and all CIROM data has since been migrated to ICRMS and the County no longer runs parallel revenue systems.

Committee Recommendations

The Committee recommends that---

- i. the Accounting Officer provides the Auditor-General with the Board resolution authorizing the CIROM maintenance expenditure of Kshs. 2,800,862 and a cost-benefit justification within thirty (30) days of adoption of this report; and**
- ii. the Board develops and implements an IT asset lifecycle management policy to ensure that all revenue management systems are maintained regularly, preventing the accumulation of technical debt that necessitates costly emergency interventions.**

6. Over Allocation of Operational Funds to the County Revenue Board

Review of the Board's budget allocation for the financial year 2024/2025 revealed that the County Assembly approved Kshs. 530,000,000 to be collected by the Board. Two percent (2%) of this translates to Kshs. 10,600,000. However, the County Assembly allocated Kshs. 80,000,000 in respect to use of goods and services, which translates to fifteen (15) percent of the budgeted revenue, resulting in the Board being over-funded for its operational expenses. This contravenes Section 18(1) of the Meru County Revenue Board Act, 2014, which states that the funds of the Board shall consist of such monies not exceeding two per centum of the revenue estimated in the financial estimates for each financial year. In the circumstances, Management was in breach of the law.

Management Response

The Revenue Board Act 2014, Section 18(1) was amended in the year 2018 to repeal the requirement of capping of revenue allocation pegged on the amount collected.

Committee Observations

The Committee observed that the County Assembly allocated Kshs. 80,000,000 (15% of the Kshs. 530,000,000 revenue target) to the Board for operational expenses, against the 2% statutory limit under Section 18(1) of the Meru County Revenue Board Act, 2014; and management stated that the 2% cap was repealed by the Meru County Revenue Board (Amendment) Act, 2018.

Committee Recommendations

The Committee recommends that---

- i. the Accounting Officer submits a copy of the 2018 amendment to the Meru County Revenue Board Act to the Auditor-General and to the Senate within thirty (30) days of adoption of this report, to resolve the legal question raised by the auditor;**
- ii. the Governor, in consultation with the County Treasury and County Assembly, reviews the operational funding model for the Board to ensure it is aligned with the Board's performance, mandate, and financial sustainability; and**
- iii. the County Assembly sets a transparent and performance-linked funding framework for the Board in the next budget cycle, rather than allocating a fixed operational budget detached from revenue performance.**

7. Non-Payment of Seconded Employees by the County Revenue Board

Examination of payroll and human resource records for the County Revenue Board revealed that employees seconded from the County Government to the Board are not being remunerated by the Board itself. Instead, their salaries, allowances, and benefits continue to be paid directly by the County Government. This arrangement contravenes Paragraph B.33(1) of the Public Service Human Resource and Procedure Manual, 2016, which states that officers on secondment will be paid their salaries and other allowances by the organizations in which they are deployed. In the circumstances, Management was in breach of the law.

Management Response

During the period under review, the Board had some officers seconded from the County Executive to provide technical support. The secondment did not result in transfer of service from the County Executive to the Board. Therefore, the officers continue to be paid by their parent employer (County Public Service Board). The said officers did not earn salaries from the Board, thus there were no instances of double payment or loss of public funds.

The Board has since advertised for substantive office holders for positions held on secondment.

Committee Observations

The Committee observed that employees seconded from the County Government to the Board continued to be remunerated by the County Executive rather than the Board, contrary to Paragraph B.33(1) of the Public Service Human Resource and Procedure Manual, 2016; and the Board advertised for substantive officers to fill the positions held by seconded staff.

Committee Recommendations

The Committee recommends that---

- i. the Governor ensures that remuneration of all seconded officers is formally transferred to the Board in compliance with Paragraph B.33(1) of the Public Service Human Resource and Procedure Manual, 2016, or the secondees are recalled to the County Executive within sixty (60) days;**
- ii. the Accounting Officer expedites the recruitment of substantive staff to fill positions currently held by seconded officers, and submits a status report to the Senate within sixty (60) days of adoption of this report; and**
- iii. the County Treasury ensures that the cost of seconded officers is transparently reflected in the Board's budgetary estimates to enable accurate assessment of total wage expenditure.**

8. Use of Manual Payroll

During the year under review, the Board operated two (2) payroll systems: a manual payroll system and an Integrated Personnel and Payroll Database System (IPPD), and later migrated to HRIS-Keo. The use of a manual system requires manual calculation of deductions and net pay and constant monthly or annual updates of data manually, which is prone to error or manipulation. Management did not demonstrate mechanisms put in place to migrate the one staff member on manual payroll and what is being done to protect payroll data integrity in respect of the manual payroll. In the circumstances, the integrity of the payroll system could not be confirmed.

Management Response

The Board maintains its payroll through HRIS-K payroll management system for all its staff apart from only one member of staff who was recently recruited and does not have a personal number. The management has applied for the personnel number from the State Department of Public Service and is awaiting processing to ensure full compliance.

Committee Observations

The Committee observed that the Board maintained a manual payroll for one staff member pending receipt of a personal number, alongside the HRIS-Keo system used for all other staff.

Committee Recommendations

The Committee recommends that---

- i. the Governor ensures that Accounting Officer submits evidence of the pending personal number application and confirms full migration of all staff to HRIS-Keo within thirty (30) days of receiving the personal number; and**
- ii. the Accounting Officer implements interim manual payroll controls, including dual authorization, monthly reconciliation, and internal audit review, for all staff on manual payroll until full HRIS-Keo migration is complete.**

9. Lack of an Approved Finance Manual

Review of the operations of Meru County Revenue Board revealed that the entity has not developed and adopted a Finance and Procedures Manual to guide financial management and internal control processes. This is contrary to Regulation 22(1)(b) of the Public Finance Management (County Governments) Regulations, 2015, which requires Accounting Officers to maintain effective systems of internal control and ensure that they are effective. In the circumstances, the controls and optimum collection of revenue could not be confirmed.

Management Response

During the period under review, all Board financial operations were guided by the Public Financial Management Act, 2012, the Public Financial Management Regulations (County Government) 2015, the Public Procurement and Disposal Act, 2015, and the Public Audit Act. The management has instituted internal controls including segregation of duties, authorization and approval, supervision, and internal audit. Since financial operations are highly regulated, absence of a Finance Manual did not affect the internal controls of the Board.

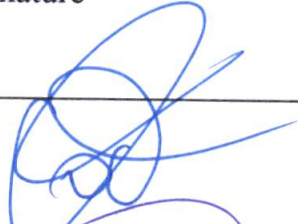
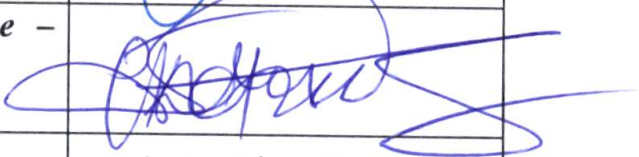

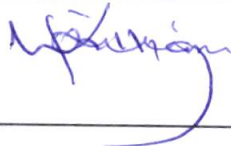

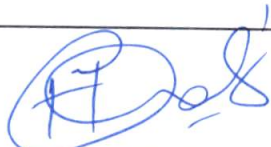
Committee Observations

The Committee observed that the Board had no approved Finance and Procedures Manual to guide financial management and internal controls, contrary to Regulation 22(1)(b) of the Public Finance Management (County Governments) Regulations, 2015.



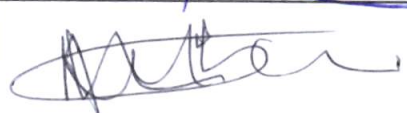


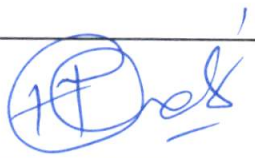
Committee Recommendations

The Committee recommends that the Governor ensure that Accounting Officer develops, formally adopts, and operationalizes a Board-specific Finance and Procedures Manual within sixty (60) days of adoption of this report, and submits a copy to the Auditor-General and the Senate.

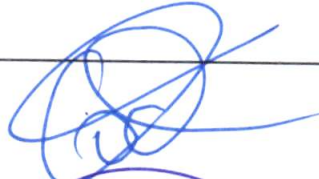
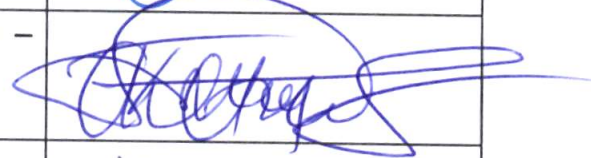

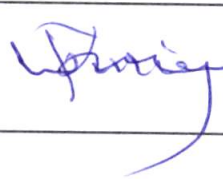


We, the undersigned Members of the Select Committee on County Public Investments and Special Funds, do hereby append our signatures to adopt this report.

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	



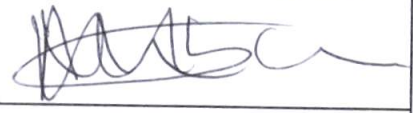
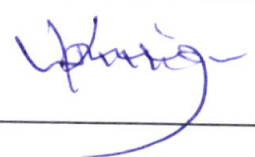
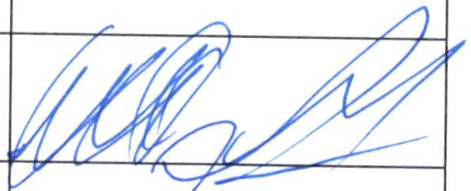
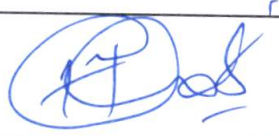
We, the undersigned Members of the Select Committee on County Public Investments and Special Funds, do hereby append our signatures to adopt this report.

No.	Name	Signature
1.	Sen. Godfrey Atieno Osotsi, CBS, MP (<i>Chairperson</i>)	
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8.	Sen. Raphael Chimera Mwinzangu, MP	
9.	Sen. Hamida Ali Kibwana, MP	




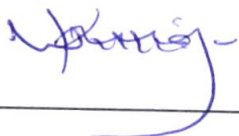
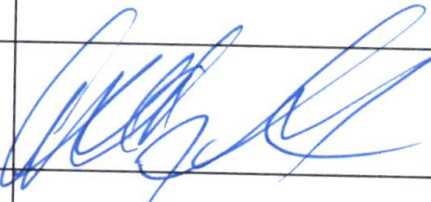
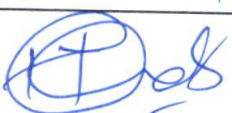
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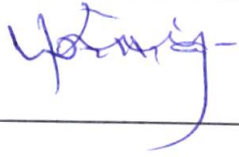
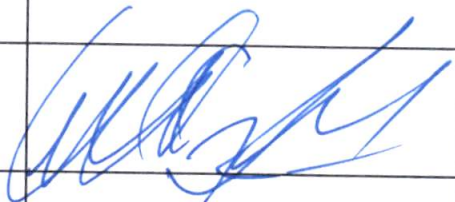

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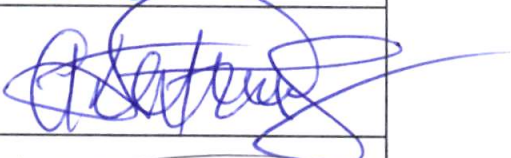
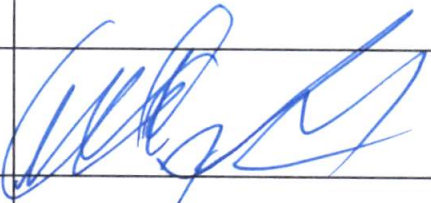
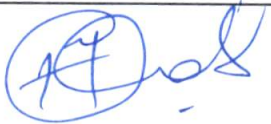
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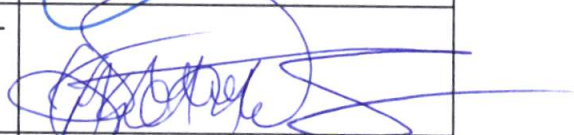


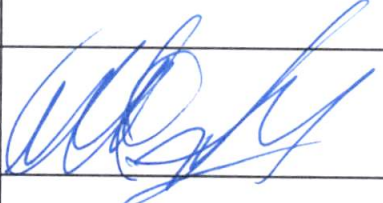

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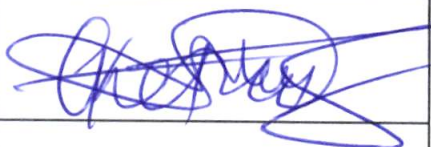

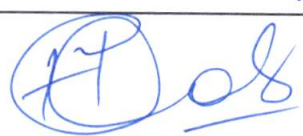
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ANNEXTURES

Minutes of the Committee



13TH PARLIAMENT 5TH SESSION

MINUTES OF THE FIFTY THIRD SITTING OF THE COUNTY PUBLIC INVESTMENTS AND SPECIAL FUNDS COMMITTEE HELD ON MONDAY, 30TH MARCH 2026 HELD ON ZOOM PLATFORM AT 10.00 A.M.

PRESENT

- | | |
|--|--------------------|
| 1. Sen. Godfrey Atieno Osotsi, CBS, MP | - Chairperson |
| 2. Sen. Eddy Gicheru Oketch, MP | - Vice-Chairperson |
| 3. Sen. Agnes Kavindu Muthama, MP | - Member |
| 4. Sen. Peris Pesi Tobiko, CBS, MP | - Member |
| 5. Sen. Hamida Ali Kibwana, MP | - Member |

ABSENT WITH APOLOGY

- | | |
|--------------------------------------|----------|
| 6. Sen. William Kisang' Kipkemoi, MP | - Member |
| 7. Sen. Beth Kalunda Syengo, MP | - Member |
| 8. Sen. Raphael Chimera Mwinzagu, MP | - Member |
| 9. Sen. George Mungai Mbugua, MP | - Member |

SECRETARIAT

- | | |
|-----------------------|------------------------|
| 1. Mr. Yussuf Shimoy | - Clerk Assistant I |
| 2. Mr. Erick Kimani | - Clerk Assistant II |
| 3. Mr. Godfrey Nyaga | - Clerk Assistant III |
| 4. Mr. Jeremy Chabari | - Senior Legal Counsel |
| 5. Mr. Peter Katana | - Research Officer |
| 6. Ms. Hamun Mohamud | - Research Officer |
| 7. CPA Keneddy Owuoth | - Fiscal Analyst |
| 8. Mr. Victor Kimani | - Audio officer |

MIN. NO. SEN/CPICSF/382/2026 PRAYER

The meeting was called to order by the Chairperson at twenty-five minutes past ten O'clock in the morning followed by a word of prayer.

MIN. NO. SEN/CPICSF/383/2026 ADOPTION OF THE AGENDA

The agenda of the meeting was adopted having been proposed Sen. Eddy Gicheru Oketch, MP and seconded by Sen. Hamida Ali Kibwana, MP as follows –

1. Prayer;
2. Adoption of the Agenda;
3. Consideration and Adoption of Reports
4. Any Other Business; and
5. Date of the Next Meeting and Adjournment.

**MIN. NO. SEN/CPICSF/384/2026 CONSIDERATION AND ADOPTION OF
REPORTS**

The Committee considered the reports on the consideration of the audit reports of the following counties and their respective entities for the Financial Year 2024/2025 (1st July-, 2024 to 30th June, 2025)-

1. Kajido County

- I. Oololaiser Water and Sewerage Company Limited
- II. Nol-Turesh Loitokiok Water and Sanitation Company Limited
- III. Olkejuado Water and Sewerage Company Limited
- IV. Kajiado County Referral Hospital
- V. Imbirikani Level 4 Hospital
- VI. Ngong Level 4 Hospital
- VII. Kitengela Sub-County Hospital
- VIII. Ongata Rongai Sub-County Hospital
- IX. Kajiado County Emergency Fund
- X. Kajiado County Alcoholic Drinks Control Fund
- XI. Kajiado County Climate Change Fund
- XII. Kajiado County Disability Mainstreaming Fund
- XIII. Kajiado County Education Bursary Grants and Scholarship Fund
- XIV. Kajiado County Youth and Women Enterprise Fund
- XV. Kajiado County Emergency Fund

2. Kiambu County

- I. Gatundu Water and Sewerage Company
- II. Githunguri Water and Sanitation Company
- III. Karuri Water and Sanitation Company
- IV. Kiambu Water & Sanitation Company
- V. Limuru Water and Sewerage Company
- VI. Ruiru-Juja Water & Sewerage Company
- VII. Thika Water and Sewerage Company
- VIII. Karuri Municipality
- IX. Kiambu Municipality
- X. Kikuyu Municipality

- XI. Limuru Municipality
- XII. Ruiru Municipality
- XIII. Thika Municipality
- XIV. Gatundu Level 5 Hospital
- XV. Igegania Sub-County Hospital
- XVI. Karuri Level 4 Hospital
- XVII. Kigumo Level 4 Hospital
- XVIII. Kihara Sub County Hospital
- XIX. Lari Hospital
- XX. Lusigetti Sub- County Hospital
- XXI. Nyathuna Level 4 Hospital
- XXII. Ruiru Sub-County Hospital
- XXIII. Tigoni Sub County Hospital
- XXIV. Wangige Sub County Hospital
- XXV. Kiambu County Referral Hospital
- XXVI. Thika Level 5 Hospital
- XXVII. Kiambu County Executive Emergency Fund
- XXVIII. Kiambu County Alcoholic Drinks Control Fund
- XXIX. Kiambu County Climate Change Fund,
- XXX. Kiambu County Executive Bursary Fund
- XXXI. Kiambu County Fif Fund
- XXXII. Kiambu County Jiinue Fund

3. Homabay

- I. Homa Bay County Water and Sanitation Company Ltd (Homawasco)
- II. Municipality Of Homa Bay
- III. Municipality Of Kendu Bay
- IV. Municipality Of Mbita
- V. Municipality Of Ndhiwa
- VI. Municipality Of Oyugis
- VII. Homa Bay County Teaching and Referral Hospital
- VIII. Kabondo Sub-County Hospital
- IX. Kandiege Sub-District Hospital
- X. Kendu Sub-District Hospital
- XI. Kisegi Sub-District Hospital
- XII. Magunga Level Iv Hospital
- XIII. Makongeni L4
- XIV. Malela Level 4 Hospital
- XV. Marindi Sub County Referral Hospital
- XVI. Ndhiwa Sub County Hospital
- XVII. Nyandiwa Level Iv Hospital
- XVIII. Nyangiela Sub District
- XIX. Ogongo Level 4 Hospital
- XX. Pala Level 4 Hospital

- XXI. Rachuonyo District Hospital
- XXII. Rangwe Sub-District Hospital
- XXIII. Sena Level 4 Hospital
- XXIV. Suba North Sub-County Hospital
- XXV. Suba Sub-County Hospital
- XXVI. Tom Mboya Memorial Level 4 Hospital
- XXVII. Homa Bay County Mortgage & Car Loan Executive Fund
- XXVIII. Homa Bay County Alcoholic Drink Control Board
- XXIX. Homa Bay County Bursary Fund

4. Migori

- I. Migori Water and Sewerage Company
- II. Awendo Municipality
- III. Kehancha Municipality
- IV. Migori Municipality
- V. Rongo Municipality
- VI. Awendo Sub-County Hospital
- VII. Isibania Sub-District Hospital
- VIII. Karungu Sub-County Hospital
- IX. Kegonga Sub County Hospital
- X. Macalder Sub-County Hospital
- XI. Migori County Referral Hospital
- XII. Muhuru Sub-County Hospital
- XIII. Ntimaru Sub County Hospital
- XIV. Nyamaraga Sub County Hospital
- XV. Othoro Sub County Hospital
- XVI. Oyani Sub County Hospital
- XVII. Rongo Sub County Hospital
- XVIII. Uriri Sub County Hospital
- XIX. Migori County Ward Development Fund.
- XX. Migori County Executive Car Loan and Mortgage Fund
- XXI. Migori County Climate Change Fund.
- XXII. Migori County Alcoholic Drinks Control Fund
- XXIII. Migori County Ward Development Fund.

5. Kisii

- I. Gusii Water and Sanitation Company Limited (Gwasco/Kwasco)
- II. Kisii Municipality
- III. Etago Sub-County Hospital
- IV. Gesusu Sub-County Referral Hospital
- V. Gucha Sub County Referral Hospital
- VI. Ibacho Sub-County Hospital
- VII. Ibeno Sub-County Referral Hospital
- VIII. Iranda Sub County Referral Hospital

- IX. Kisii County Health Facilities Improvement Fund
- X. Fund, Kisii Demonstration Farms Fund
- XI. Kisii County Emergency Fund
- XII. Kisii Mortgage & Car Loan (Executive) Fund
- XIII. Kisii County Climate Change Fund
- XIV. Kisii County Bursary Fund
- XV. Kisii County Covid-19 Emergency Fund
- XVI. Kisii County Veterinary Services Development

6. Machakos

- I. Mavoko Water and Sanitation Company Limited (Mavwasco)
- II. Machakos Municipal Water and Sewerage Company Limited (Macwasco)
- III. Mwala Water and Sanitation Company Limited
- IV. Matungulu Water and Sewerage Company (Makawasco)
- V. Kathiani Water and Sanitation Company Limited
- VI. Yatta Water Services Company Limited (Yawasco)
- VII. Mavoko Municipality
- VIII. Machakos Municipality
- IX. Kangundo/Tala Municipality
- X. Kalama Level 4 Level 4 Hospital
- XI. Kangundo Sub-County Hospital Level 4 Hospital
- XII. Kathiani Sub-County Hospital Level 4 Hospital
- XIII. Kimiti Level 4 Hospital Level 4 Hospital
- XIV. Masinga Sub-County Hospital Level 4 Hospital
- XV. Matuu District Hospital Level 4 Hospital
- XVI. Mavoko Level 4 Hospital Level 4 Hospital
- XVII. Mutituni Level 4 Hospital Level 4 Hospital
- XVIII. Mwala Subcounty Hospital Level 4 Hospital
- XIX. Ndithini Level 4 Hospital Level 4 Hospital
- XX. Machakos County Referral Hospital Level 5 Hospital
- XXI. Machakos County Bursary-Fund
- XXII. Machakos County Emergency Fund
- XXIII. Machakos County Executive and Chief Officers Car Loan and Mortgage Scheme

7. Baringo

- I. Kirandich Water and Sanitation Company Limited
- II. Eldama Ravine Water and Sewerage Company Limited (Erawasco)
- III. Chemususu Water Company Limited
- IV. Municipality Of Kabarnet
- V. Marigat Sub-County Level 4 Hospital
- VI. Kabartonjo Level 4 Hospital

- VII. Baringo County Referral Hospital
- VIII. Eldama Ravine Level 4 Hospital
- IX. Chemolingot Level 4 Hospital
- X. Baringo County Executive Car Loan Scheme Fund
- XI. Baringo County Executive Mortgage Scheme Fund
- XII. Baringo County Emergency Fund
- XIII. Baringo Cooperative Development Fund
- XIV. Baringo County Bursary and Scholarship Fund,
- XV. Baringo County Climate Change Fund,
- XVI. Baringo County Micro and Small Enterprises Fund And
- XVII. Baringo County Community Conservation Fund

8. Isiolo

- I. Isiolo Municipality
- II. Isiolo County Referral Hospital
- III. Financing Locally-Led Climate Action Programme (Flloca)
- IV. Isiolo County Education Bursary Fund

9. Busia

- I. Busia Water and Sewerage Services Company Limited
- II. Busia Municipality
- III. Malaba Municipality
- IV. Alupe Sub County Hospital
- V. Busia County Referral Hospital
- VI. Teso North Sub County Hospital
- VII. Nambale Sub County Hospital
- VIII. Busia Agricultural Development Fund
- IX. Busia County Alcoholic Drinks Control Fund
- X. Busia County Climate Change Fund
- XI. Busia County Cooperative Enterprise Development Fund
- XII. Busia County Public (Officers) Revolving Fund

10. Kakamega

- 1. Kakamega County Water and Sewerage Company Limited
- 2. Kakamega County Rural Water and Sewerage Company Limited
- 3. Mumias Municipality
- 4. Kakamega Municipality
- 5. Navakholo Sub- County Hospital
- 6. Malava Sub- County Hospital
- 7. Matungu Sub- County Hospital
- 8. Butere County Hospital
- 9. Kakamega County Referral Hospital
- 10. Manyala Sub- County Hospital
- 11. Kakamega County Climate Change Fund

12. Kakamega County Alcoholic Drinks Control Fund
13. Kakamega County Emergency Fund
14. Kakamega County Investment and Development Agency

11. Bungoma

- I. Bungoma Water and Sewerage Company Limited.
- II. Bungoma Municipality
- III. Kimilili Municipality
- IV. Bungoma County Referral Hospital
- V. Bumula Sub-County hospital
- VI. Kimilili Sub-County Hospital
- VII. Mt. Elgon Sub-County Hospital
- VIII. Bursary Fund
- IX. Climate Change Fund
- X. Disaster And Emergency Management Fund
- XI. Persons With Disabilities Empowerment Fund
- XII. Trade Development Loan Fund
- XIII. Youth And Women Empowerment Fund

12. Kitui

- I. Kitui Water and Sanitation Company
- II. Kiamberemwingi Water and Sanitation Company
- III. Kitui County Referral Hospital
- IV. Mutomo Sub-County Hospital
- V. Mwingi Level 4 Hospital
- VI. Ikanga Sub-County Hospital
- VII. Tseikuru Sub-County Hospital
- VIII. Kitui County Textile Center
- IX. Kitui County Empowerment Fund

13. Siaya

- I. Sibo Water and Sanitation Company Ltd
- II. Bondo Municipality
- III. Siaya Municipality
- IV. Ugunja Municipal Board
- V. Ambira Level 4 Hospital
- VI. Bondo Level 4 Hospital
- VII. Got Agulu Sub County Level Hospital
- VIII. Siaya County Referral Hospital
- IX. Siaya County Bursary Fund
- X. Siaya County Climate Change Fund

14. Laikipia

- I. Nyahururu Water and Sanitation Company Limited
- II. Nanyuki Water and Sanitation Company
- III. Municipality Of Nanyuki
- IV. Municipality Of Rumuruti
- V. Nanyuki Teaching and Referral Hospital
- VI. Doldol Level 4 Hospital
- VII. Rumuruti Sub-County Hospital
- VIII. Nyahururu County Referral Hospital
- IX. Emergency Fund
- X. Bursary Fund
- XI. Assets Leasing Fund
- XII. Business Stimulus Fund
- XIII. Climate Change Fund - Flloca
- XIV. Laikipia County Cooperative Fund.
- XV. County Revenue Board
- XVI. County Development Authority

15. Turkana

- I. Lodwar Water and Sanitation Company Limited
- II. Kakuma Municipality
- III. Lodwar Municipality
- IV. Lodwar County Referral Hospital
- V. Lokiatung Sub-County Level 4 Hospital
- VI. Lopiding Sub-County Level 4 Hospital
- VII. Turkana County Executive Car Loan and Mortgage Fund
- VIII. Turkana County Climate Change Fund
- IX. Turkana County Co-Operative Development Enterprise Fund
- X. Turkana County Education Fund
- XI. Turkana County Emergency Fund

16. Narok

- I. Narok Water and Sewerage Services Company Limited (Narwassco)
- II. Kilgoris Municipality
- III. Narok Municipality
- IV. Narok County Referral Hospital
- V. Maasai Mara Community Support Fund
- VI. Alcoholics Drinks Regulation and Control Fund
- VII. Bursary Management Fund

17. Uasin Giishu

- I. Eldoret Water and Sanitation Company Limited (Eldowas)
- II. Municipality Of Eldoret (Now City of Eldoret)

- III. Huruma Level 4 Hospital
- IV. Turbo Level 4 Hospital
- V. Uasin Gishu District Hospital
- VI. Mortgage And Car Loans Scheme Fund
- VII. Alcoholic Drinks Control Fund
- VIII. Cooperative Enterprise Development Fund
- IX. Education Revolving Fund
- X. Bursary And Skills Development Support Fund

18. Nairobi

- I. Nairobi City Water and Sewerage Company Limited
- II. Bahati Level 4 Hospital
- III. Mutuini Dagoretti Level 4 Hospital
- IV. Mama Margaret Uhuru Level 5 Hospital
- V. Mbagathi County Referral Hospital
- VI. Mama Lucy Kibaki-Level 5 Hospital
- VII. Nairobi City County Alcoholic Drinks Control and Licensing Board

19. Meru

- I. Meru Water and Sewerage Services Company (Mewass)
- II. Meru County Rural Water and Sanitation Company (Mewsc)
- III. Meru Municipality
- IV. Maua Municipality
- V. Meru Teaching and Referral Hospital (Mtrh)
- VI. Miathene Sub-County Hospital
- VII. Nyambene Sub-County Hospital
- VIII. Meru County Revenue Board (Mcrb)

20. Trans-Nzoia

- I. Trans Nzoia Water and Sewerage Company Limited.
- II. Kitale Municipality
- III. Kitale County Referral Level 4 Hospital-
- IV. Wamalwa Kijana Teaching and Referral Hospital
- V. Trans Nzoia County Climate Change Fund
- VI. Trans Nzoia County Nawiri Fund
- VII. Trans Nzoia County Youth and Women Development Fund
- VIII. Trans Nzoia County Elimu Bursary Fund
- IX. Trans Nzoia County Executive Car Loan and Mortgage Scheme Fund

21. Nakuru

- I. Nakuru Water and Sanitation Company Limited
- II. Nakuru Rural Water and Sanitation Company Limited
- III. Naivasha Water and Sanitation Company Limited

- IV. Gilgil Municipality
- V. Molo Municipality
- VI. Nakuru City
- VII. Naivasha Municipality
- VIII. Nakuru County Referral And
- IX. Teaching Hospital
- X. Naivasha Sub-County Level 4 Hospital
- XI. Gilgil Sub-County Level 4 Hospital
- XII. Nakuru County Bursary Fund
- XIII. Nakuru County Climate Change Fund
- XIV. Nakuru County Emergency Fund

22. Kilifi

- I. Kilifi Municipality
- II. Malindi Municipality
- III. Mariakani Municipality
- IV. Mtwapa Municipality
- V. Watamu Municipality
- VI. Kilifi County Climate Change Fund
- VII. Kilifi County Emergency Fund
- VIII. Kilifi County Health Services Improvement Fund
- IX. Kilifi County Microfinance (Wezesha) Fund/board
- X. Kilifi County Ward Scholarship Fund
- XI. Bamba Sub-County Hospital
- XII. Gede Sub County Hospital
- XIII. Jibana Sub District Hospital
- XIV. Kilifi County Hospital
- XV. Malindi District Hospital
- XVI. Marafa Sub County Hospital
- XVII. Mariakani District Hospital
- XVIII. Mtwapa Sub County Hospital
- XIX. Rabai Sub County Hospital
- XX. Kilifi Mariakani Water and Sewerage Co.
- XXI. Malindi Water and Sewerage Co.
- XXII. Kilifi County Assembly Members Mortgage and Car Loan Scheme Fund
- XXIII. Kilifi County Car Loan and Mortgage Scheme Fund

23. Kericho

- I. Kericho County Executive Staff Car Loan Fund
- II. Kericho County Executive Staff Mortgage Fund
- III. Kericho County Emergency Fund
- IV. Kericho County Executive
- V. Financing Locally Led Climate Change Action (FLLoCA) - Kericho
- VI. Kericho County Agricultural Development
- VII. Kericho County Alcoholic Drinks Fund

- VIII. Kericho County Bursary Fund
- IX. Kericho County Enterprise Fund
- X. Forttenan Sub District Hospital
- XI. Kapkatet District Hospital
- XII. Kericho District Hospital
- XIII. Kipkelion Sub District Hospital
- XIV. Londiani District Hospital
- XV. Roret Sub-District Hospital
- XVI. Sigowet Sub-District Hospital
- XVII. Kericho Water and Sanitation Co. Ltd

24. The Committee considered and adopted the Report on the summary of key audit findings in the Auditor-General Reports for Water Companies, Municipalities, Hospitals and funds for the financial year 2024/2025

Committee resolution

The Committee unanimously adopted the aforementioned reports and directed the secretariat to process for tabling of the same.

MIN. NO. SEN/CPICSF/385/2026 ANY OTHER BUSINESS

There was no any other business.

MIN. NO. SEN/CPICSF/386/2026 DATE OF NEXT MEETING & ADJOURNMENT

The Chairperson adjourned the meeting at nineteen minutes to eleven o'clock in the morning. The next meeting would be called on notice.

SIGNED: DATE:31.03.2026.....

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