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THE SENATE



THIRTEENTH PARLIAMENT – FIFTH SESSION

REPORT OF THE SELECT COMMITTEE ON COUNTY PUBLIC INVESTMENTS AND SPECIAL FUNDS ON THE CONSIDERATION OF THE AUDIT REPORTS OF NANDI COUNTY WATER COMPANY, MUNICIPALITY, HOSPITAL AND FUNDS FOR THE FINANCIAL YEAR 2024/25 (1st JULY, 2024 TO 30th JUNE, 2025):

SECTOR	NO.	ENTITY
WATER COMPANY	1	KAPSABET NANDI WATER AND SANITATION COMPANY (KANAWASCO)
MUNICIPALITY	1	KAPSABET MUNICIPALITY
HOSPITAL	1	KAPSABET COUNTY REFERRAL HOSPITAL
FUNDS	5	NANDI COUNTY ALCOHOLIC DRINKS FUND
		NANDI COUNTY CLIMATE CHANGE FUND
		NANDI COUNTY EXECUTIVE EDUCATION FUND
		NANDI COUNTY EMERGENCY FUND
		NANDI COUNTY FACILITIES IMPROVEMENT FUND

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

30/03/26

APPROVED
RT. HON. SEN
MASON J. KINGI

MARCH 2026



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ACRONYMS/ABBREVIATION

CBK	Central Bank of Kenya
DPP	Director of Public Prosecution
EACC	Ethics and Anti-Corruption Commission
FIF	Facilities Improvement Financing Act
GAAP	Generally Accepted Accounting Principles
IGRTC	Intergovernmental Relation Technical Committee
IHMS	Integrated Hospital Management System
IMS	Inventory Management System
KANAWASCO	Kapsabet Nandi Water and Sanitation Company
KEMSA	Kenya Medical Supplies Authority
KRA	Kenya Revenue Authority
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
PSASB	Public Sector Accounting Standards Board
SHA	Social Health Authority
SO	Standing Orders
TNT	The National Treasury
UHC	Universal Health Coverage
WASREB	Water Services Regulatory Board
WRA	Water Resources Authority
WSP	Water Service Provider

DEFINITION OF TERMS

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

PREFACE

Pursuant to Article 96(3) of the Constitution, the Senate exercises oversight over national revenue allocated to the county governments. The Select Committee on County Public Investments and Special Funds is established pursuant to Standing Order No. 194 of the Senate Standing Orders and is mandated to-

- a) examine the reports and accounts of county public investments; and
- b) examine the reports, if any, of the Auditor-General on the county public investments.

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

This report covers the consideration by the Committee of the Auditor-General's reports on the financial statements of Nandi County water company, Municipality, Hospital and Funds for the Financial Year 2024/2025. The entities considered include Kapsabet Nandi Water and Sanitation Company (KANAWASCO); Kapsabet Municipality, Kapsabet County Referral Hospital; Nandi County Alcoholic Drinks Fund, Nandi County Climate Change Fund, Nandi County Executive Education Fund, Nandi County Emergency Fund and Nandi County Facilities Improvement Fund .

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

COMMITTEE MEMBERSHIP

The membership of the Committee comprises of the following Senators-

- | | |
|---|---------------------------|
| 1. Sen. Godfrey Atieno Osotsi, CBS, MP. | - 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 Nandi water company, municipality, hospital and funds for the Financial year 2024/25 (1st July, 2024 to 30th June 2025) as the primary documents for the investigations. The Committee invited the Governor of Nandi as the Chief Executive Officer pursuant to Article 179(4) as witnesses to respond to the audit queries raised in the reports under consideration.

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

This report presents the findings and recommendations of the Select Committee on County Public Investments and Special Funds following its consideration of the Auditor-General's reports on eight (8) entities in Nandi County for the Financial Year 2024/25. The entities covered are: one (1) water company –Kapsabet Nandi Water and Sanitation Company (KANAWASCO), one (1) Municipality – Kapsabet Municipality; one (1) hospital – Kapsabet County Referral Hospital; five (5) funds- Nandi County Alcoholic Drinks Fund, Nandi County Climate Change Fund, Nandi County Executive Education Fund, Nandi County Emergency Fund and Nandi County Facilities Improvement Fund.

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

The key issues identified across the entities include: going concern uncertainties arising from accumulated losses and negative working capital; non-revenue water at levels exceeding regulatory benchmarks; operation without valid WASREB licenses; irregular engagement of casual employees; non-remittance of statutory deductions; unresolved prior year audit matters; budgetary control issues; over-reliance on County Government transfers; non-compliance with procurement regulations; Non-compliance with the Kenya Quality Model for Health Policy Guidelines and weaknesses in internal controls and governance.

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

REPORT STRUCTURE

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

CHAPTER ONE is a record of the audit queries raised in the Auditor-General's report on Nandi Water Company 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 Nandi Municipality 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 Nandi Hospital for the Financial Year 2024/25 and observations and recommendations of the Committee on each audit query.

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

GENERAL OBSERVATIONS FOR THE WATER COMPANY

The Committee made the following general observations regarding the operations and financial management of Nandi Water Company under review: -

1. **Non-Revenue Water (NRW)** – The Committee observed that the Water Companies recorded NRW levels that significantly exceeded the sector benchmark of 25% prescribed by the Water Services Regulatory Board (WASREB). This was mostly attributed to physical losses from dilapidated infrastructure, commercial losses from inaccurate meter reading and billing, and illegal connections.
2. **Deficiencies in Financial Reporting** – The Committee noted widespread inaccuracies and errors in the preparation and presentation of financial statements. Furthermore, both Accounting Officers and Managing Directors exhibited challenges in complying with Section 62 of the Public Audit Act, Cap. 412B, by failing to submit supporting documents to auditors on time. This impedes the accountability and audit process, while the persistent delays in finalizing complete financial statements point to a lack of requisite competencies and experience within the entities.
3. **Non-Adherence to Accounting Standards** – The committee observed that accountants across the Water Companies faced challenges in fully adopting the International Public Sector Accounting Standards (IPSAS) framework. The Committee noted that while the Public Sector Accounting Standards Board (PSASB) periodically updates these standards to reflect emerging issues and best practices, many water companies struggle with their application, as evidenced by recurring audit queries.
4. **Non-Compliance with Ethnic Inclusivity Requirements** – The Committee observed significant non-compliance with the National Cohesion and Integration Act, Cap. 7N, and Section 65(1)(e) of the County Government Act, Cap. 265. These provisions mandate that public offices represent ethnic diversity and that at least 30% of entry-level posts be filled by candidates from outside a county's dominant ethnic community. A stark example is Murang'a South Water and Sanitation Company Limited, where 95% of the staff are from the same ethnic community.
5. **Material Uncertainty Regarding Going Concern** – The committee noted that four of water companies reported negative working capital during the review period, rendering them unable to meet short-term financial obligations as they fall due. Their continued operation is heavily reliant on financial support from County Executive or development partners, raising material doubts about their long-term financial sustainability.
6. **Weak Budgetary Control and Performance** – The Committee observed that the water companies had widespread weaknesses in budget execution. Water

companies frequently failed to adhere to approved budget ceilings, resulting in either over-utilization or under-utilization of appropriated funds. In several instances, funds were re-allocated to unbudgeted items without prior Board approval. These issues are compounded by high revenue shortfalls and the preparation of unrealistic budgets.

7. **Incomplete Transfer of Assets and Liabilities** – The Committee observed that most water companies had not fully completed the transfer of assets and liabilities from the defunct local authorities and Regional Water Works Development Agencies, as required by the Water Act, Cap.372. This omission prevents these companies from presenting a true and fair view of their financial position in their books of account.
8. **Disputes over Asset Ownership** – The Committee observed MUWASO and MUSWASCO were embroiled in disputes regarding the ownership of Maragua Dam Project, creating legal and financial uncertainty.
9. **Lack of an Updated Fixed Asset Register** – The Committee observed that the water companies failed to maintain and update their fixed asset registers, contrary to National Treasury Circular No. 5/2020. This omission exposes company assets to significant risks, including loss, waste, and misuse. The Committee further noted that the National Treasury issued a circular no. 5/2020 of 25th February 2020 on the preparation of asset registers for entities in County Governments.
10. **Overall Weakness in Management and Governance** – The Committee observed that the water company had numerous management and governance challenges that adversely affected its operations and sustainability. These include:
 - a. decline in revenue and failure in service continuity planning where revenues declined from Kshs. 98m in 2022/2023 to Kshs. 74m in 2024/2025. Further, there was prolonged suspension of operations for 141 days in the year under review due disconnection of electricity occasioned by the water company’s inability to settle outstanding electricity bills.
 - b. The water company recorded a streak of losses since the financial year 2022/2023. It also had negative working capital of Kshs. 24,221,002, an indication that the water company was technically insolvent and that its existence as going concern was materially uncertain. Its existence was dependent on the County Government.
 - c. The water company recorded NRW of 63%, translating to a revenue loss of about Kshs. 61,445,775. This excessive loss of revenue adversely affects the company’s ability to sustain its operations and service delivery to the people.

- d. Outstanding Salary payment and Unremitted Payroll Deductions for staff totalled to Kshs. 200,570,401 whereby staff had not been paid since December, 2023.

GENERAL RECOMMENDATIONS FOR THE WATER COMPANY

The Committee makes the following recommendations to address the observed deficiencies and enhance the performance, compliance, and sustainability of 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. **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 in accordance with Section 9(1)(e) of the Public Audit Act, Cap. 412B, within the stipulated audit timelines. Adherence to the provisions of the Accountants Act, Cap. 531, is mandatory. Failure to comply with these requirements shall necessitate the invocation of Section 62 of the Public Audit Act by the Committee.
3. **Capacity Building on Financial Reporting Standards** – The Governor ensures the Board of Directors, in consultation with the Public Sector Accounting Standards Board (PSASB), facilitate continuous capacity building for finance officers and management on International Public Sector Accounting Standards (IPSAS) to improve the quality of financial reporting and enhance compliance. The Board must ensure that all accounting personnel possess the requisite competency and experience as mandated by the Accountants Act. Additionally, the Accounting Officer should enforce strict adherence to the financial reporting template prescribed by the National Treasury. These measures will strengthen the maintenance of books of account, improve the accuracy of financial statements, and ensure their timely submission to the Auditor-General.
4. **Compliance with Ethnic Inclusivity and Diversity Requirements** – The Governor ensures the Board and County Government to 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, realization of the one-third rule on recruitment in public institutions and ethnic inclusivity. In addition, the Board and the County Governments should establish a diversity policy to comply with the law. Compliance status shall be reviewed in subsequent audit periods.

5. **Strengthening Financial Sustainability and Asset Management** - The Board, Accounting Officers and the County Government to put in place strategic and innovative measures for recovery and to boost the financial health of the water companies for self-sustainability. The Board should indicate if the financial support is a conditional grant or donation in their books of account and it should not be a direct transfer from the County Executive. Further, the County Governor through the County Executive Committee member for water should monitor the financial operations of the water companies pursuant to section 184 of the Public Finance Management Act.
6. **Prudent Budgetary Planning and Control** - The Governor ensures the Board and accounting officers prepare realistic budgets and revenue projections to prevent issues of revenue shortfalls, that negatively impact service delivery. In the budget preparation process, the Board should consider previous budgetary allocations and ensure that any proposed increases are reasonable and justified. The Board must also seek the necessary statutory approvals by forwarding budget estimates to the County Executive Committee member for water, who shall subsequently submit them to the County Treasury as required by law. Additionally, water companies are encouraged to automate their billing systems to enhance revenue collection efficiency.
7. **Resolution of Asset and Liability Transfer Disputes** - The Governor should engage the Ministry of Water, Sanitation and Irrigation, the Water Services Regulatory Board (WASREB), the Regional Water Works Development Agencies and the Inter-Governmental Relations Technical Committee to settle the matter on the transfer of the assets and liabilities as required by the Water Act.
8. **Strict Adherence to Statutory and Regulatory Frameworks** - The Governor ensures the Board and accounting officers of the water companies are directed to ensure strict compliance with all relevant laws and regulations, including but not limited to the Public Finance Management Act, the Public Audit Act, the Public Finance Management (County Government) Regulations, 2015, the Water Act, the Accountants Act, the Companies Act, the Income Tax Act, the Employment Act, Cap.226, the Pension Act, the Retirement Benefits Act and the Water Services Regulatory Board (WASREB) guidelines. Non-compliance shall attract appropriate sanctions.

9. **Expediting Transfer of Assets and Liabilities** - The Governor should engage the Inter-Governmental Relations Technical Committee (IGRTC) and the relevant Regional Water Works Development Agency to fast-track on the transfer of the assets and liabilities so that they reflect a true position of the companies in their books of account.
10. **Maintenance of Updated Fixed Asset Registers** - The Board of Directors and the managing director should ensure the water companies maintains updated fixed asset registers in compliance with section 136 (1) of the Public Finance Management (County Government) Regulations, 2015 and in the format prescribed by the National Treasury and submit the same to the Auditor-General within 60 days from the adoption of this report.
11. **Establishment of a Taskforce to Review the Operations of the Water Company** - In view of the significant operational, financial, and governance challenges facing the water company, the Committee recommends that the Governor immediately establishes a taskforce to undertake a comprehensive review of the company's operations. The taskforce should develop far-reaching recommendations aimed at turning around the performance, governance, and sustainability of the water company.

The Governor shall submit a status update on the matter to the Senate within ninety (90) days of the adoption of this report.

The composition of the taskforce shall include:

- i. The County Executive Committee Member responsible for Water;
- ii. Representatives from the sector regulator, WASREB;
- iii. A staff representative;
- iv. Any other relevant stakeholders as may be necessary to support the review.

GENERAL OBSERVATIONS FOR THE MUNICIPALITY

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

1. **Lack of Operational Autonomy of Municipality** – The Committee observed that the municipality lacked operational independence from the County Executive in areas of management, function and finances. This contravened sections 12 on Management independence, 20 on functional independence, 45 and 46 on financial independence of the Urban Areas and Cities Act, 2011 CAP. 275, which collectively guarantee municipality the autonomy necessary for effective governance.
2. **Deficiencies in Financial Reporting and Standards Compliance** – The Committee observed that there were numerous inaccuracies and errors in the financial statements of municipalities, raising concerns about the capacity of the officers responsible for their preparation. Furthermore, municipalities face persistent challenges in adapting to the International Public Sector Accounting Standards (IPSAS) framework required for the preparation of their financial statements.
3. **Asset Management-** The Committee observed that the assets belonging to municipalities were still being held and managed by the county executive. Consequently, this made the municipalities not maintain and update the asset registers, which was contrary to section 104(1)(h) of the Public Finance Management Act, 2012. Thus, the true financial position of the municipalities could not be reflected in the financial statements.
4. **Late Submission of Audit Documents**– The Committee noted that the Auditor-General encountered significant challenges due to the late submission of supporting documents by municipalities during the audit process. This delay hinders the accountability and audit process and contravenes Section 62 of the Public Audit Act, Cap. 412B, which mandates the timely provision of documentation.
5. **Weak Budgetary Control and Performance** – The Committee observed that municipalities had weaknesses in executing their approved budgets and did not adhere to the approved budget ceilings set for programs. The municipalities either over-utilized or under-utilized the appropriated funds. Further, some Municipalities prepared unbalanced budgets contrary to regulation 31(c) of the Public Finance Management (County Governments) Regulations, 2015.

GENERAL RECOMMENDATIONS FOR THE MUNICIPALITY

The Committee makes the following recommendations to address the observed deficiencies and enhance the governance, financial management, and operational autonomy of Municipality: -

1. **Enforcement of Municipal Autonomy and Adequate Funding** - The Governor ensures that the operationalization of the municipality 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. **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. Any deviation shall be explicitly explained and justified in the notes to the financial statements.
3. **Transfer of Assets and Maintenance of Asset Registers** -The Governor ensures the County Executive Committee member responsible for finance and economic planning shall, within sixty (60) days of the adoption of this report, execute a formal instrument transferring custody and management of all assets belonging to the municipality. Upon transfer, the Municipal Manager shall immediately cause the preparation and regular updating of a comprehensive fixed asset register in compliance with Section 104(1)(h) of the Public Finance Management Act, 2012, and National Treasury guidelines. A copy of the transferred asset register shall be submitted to the Auditor-General within thirty (30) days of completion.
4. **Timely Submission of Audit Documents** – The Governor should ensure that the Municipal Manager and the head of finance are directed to ensure that all supporting documents requested by the Auditor-General are submitted within the timelines stipulated in Section 62 of the Public Audit Act, Cap. 412B. The Municipal Board shall institute an internal tracking mechanism to monitor compliance, and any officer found to have caused undue delay shall be subject to disciplinary action.
5. **Adherence to Approved Budgets** - The Governor ensures the Municipal Manager enforces strict adherence to approved budget ceilings for all programs and should ensure that any reallocation of funds between programs receives prior written approval from the Municipal Board and, where required, the County

Treasury. A quarterly budget performance report shall be prepared and submitted to the Municipal Board for review.

GENERAL OBSERVATIONS FOR THE HOSPITAL

The Committee observed that-

- 1. Non-Compliance with Kenya Quality Model for Health Policy Guidelines -**
The Committee observed that the hospitals did not fully comply with the Universal Healthcare standards, as they were inadequately staffed and were not equipped with all the medical equipment for the hospitals to be fully operational.
- 2. Inaccuracies of the Financial Statements -** The Committee observed that there were inaccuracies and errors in regards to the preparation and presentation of financial statements in the hospital. Further, the Accountants and the Managing Directors faced challenges in submitting supporting documents to the auditors on time, contrary to Section 62 of the Public Audit Act, Cap. 412B. This impedes the accountability and audit process. The persistent delays in preparing complete financial statements indicate a lack of requisite competencies and experience within hospital finance departments.
- 3. Non-Compliance with Ethnic Inclusivity Requirements -** The Committee observed that some hospital is non-compliant with Section 7(1) and (2) of the National Cohesion and Integration Act, Cap. 7N, which requires that all public offices seek to represent the diversity of the people of Kenya in staff employment and that no public institution shall have more than one-third of its establishment from the same ethnic community. Additionally, Section 65(1)(e) of the County Government Act, Cap. 265 requires that at least 30% of vacant posts at the entry level be filled by candidates who are not from the dominant ethnic community in the county.
- 4. Weak Budgetary Control and Performance-** The Committee observed that hospital exhibit weaknesses in budget execution and did not adhere to approved budget ceilings for programs. Hospitals were observed to either over-utilize or under-utilize appropriated funds. In some instances, funds were reallocated to items that were not budgeted for without prior approval by the management board. Additionally, hospitals experience high revenue shortfalls attributable to unrealistic budgeting and poor revenue forecasting.
- 5. Incomplete Transfer of Assets and Deficient Asset Registers:** The Committee observed that the hospital have not fully taken custody of assets from the County Executive and consequently do not maintain updated fixed asset registers as required by Section 149(2)(o) of the Public Finance Management Act, 2012, Cap. 412A. As a result, these hospitals are unable to reflect their correct financial position in their books of account, exposing assets to risk of loss, misuse, or misappropriation.

GENERAL RECOMMENDATIONS FOR THE HOSPITAL

The Committee recommends that-

1. **Compliance with Kenya Quality Model for Health Policy Guidelines** - The Governor submits to the Senate a comprehensive plan outlining the specific measures being taken to address the hospital's staffing shortages. Further ensures the hospital develops and implements a comprehensive plan with appropriate budgetary provision to acquire the necessary equipment and encourage the ongoing training and prioritize new recruitments to fill gaps in medical personnel, ensuring specialized services can be offered in-house.
2. **Capacity Building on Financial Reporting Standards** - The Governor ensures the hospital management team, in consultation with the Public Sector Accounting Standards Board (PSASB), facilitates continuous capacity building on financial reporting standards for finance officers and management in hospitals to improve the quality of reporting and enhance compliance. The hospital management team should ensure that accountants possess the requisite competency and experience in financial management as required by the Accountants Act. Furthermore, the Accounting Officer should ensure compliance with the financial reporting template prescribed by the National Treasury.
3. **Compliance with Ethnic Inclusivity Requirements** - The hospital management team and County Government should make deliberate and progressive efforts to comply with Section 7(1) and (2) of the National Cohesion and Integration Act, Cap. 7N, and Section 65(1)(e) of the County Governments Act, Cap. 265, regarding diversity, the realization of the one-third rule in public sector recruitment, and ethnic inclusivity. To this end, the Board and County Governments should develop and adopt a formal diversity policy aimed at achieving full compliance with the law. Compliance status shall be reviewed in the subsequent audit period.
4. **Preparation of Realistic Budgets and Revenue Projections** - The Governor ensures the hospital management team and Accounting Officers prepare realistic budgets and revenue projections to avert revenue shortfalls that negatively impact hospitals' service delivery. Additionally, the hospital management team should seek the necessary approvals by forwarding budget estimates to the County Executive Committee Member for Health, who shall then submit them to the County Treasury as required by law. Further, hospitals should automate their billing systems to enhance revenue collection and financial control.
5. **Transfer of Assets and Maintenance of Fixed Asset Registers** - The Governor should ensure that all assets are formally transferred to hospitals to enable them to reflect their true financial position in their books of account. The hospital

management team should ensure that hospitals maintain updated fixed asset registers pursuant to Section 136(1) of the Public Finance Management (County Government) Regulations, 2015, in the format prescribed by the National Treasury, and submit the same to the Senate and a copy to the Auditor-General within sixty (60) days of the adoption of this report.

GENERAL OBSERVATIONS FOR FUNDS

The committee made the following observations on Funds-

1. **Inaccurate and Unsupported Financial Statements** -The Committee observed recurring material misstatements across all the funds, including unaccounted payments, inaccurate statements of comparison of budget and actual amounts, unsupported variances, and omissions in the statement of financial performance. These inaccuracies point to weak bookkeeping, inadequate review processes, and limited capacity in IPSAS compliance among finance officers handling the funds.
2. **Weak Governance and Non-Compliance with Enabling Legislation** - The Committee observed that many funds operated without legally mandated governance structures and regulatory frameworks. Several funds operated for extended periods without duly constituted Management Committees, while others operated without approved regulations contrary to their respective enabling legislation. Additionally, some funds made expenditures and transfers beyond their constitutional and statutory mandate, contrary to the Fourth Schedule of the Constitution of Kenya, 2010.
3. **Underfunding and Poor Budget Performance** - The Committee observed that many funds recorded significant revenue shortfalls due to delayed disbursements from the National Treasury, negatively affecting planned activities and service delivery to the residents of Nandi County. Furthermore, where funds were available, absorption of expenditure remained low, with significant under-utilization of appropriated funds within the financial year, undermining the purpose for which the funds were established.

GENERAL RECOMMENDATIONS FOR FUNDS

The Committee made the following recommendations on Funds-

1. **Financial Reporting and Compliance** - The Governor ensures all accounting officers prepare accurate financial statements in full compliance with IPSAS, with timely bank reconciliations, properly authorized journal adjustments, and complete supporting documentation submitted to the Auditor-General as required under Section 47(2) of the Public Audit Act, Cap. 412B and Regulations 90 and 103(1) of the Public Finance Management (County Governments) Regulations, 2015. Continuous capacity building should be provided to finance officers, and accounting officers who fail to maintain complete financial records should face administrative action under Section 199 of the Public Finance Management Act, Cap. 412A.
2. **Debt Recovery and Efficient Deployment of Funds** - The Governor ensures all fund accounting officers develop and implement structured debt recovery plans with clear timelines, responsible officers, and follow-up mechanisms, and that aging analyses of long-outstanding receivables are conducted to facilitate write-off of irrecoverable debts with proper approvals in line with Section 130(2)(d) of the Public Finance Management (County Governments) Regulations, 2015. Available fund balances should be efficiently deployed in compliance with Regulation 83 of the same Regulations, including exploring partnerships with financial institutions to enhance loan disbursement and recovery and avoid accumulation of idle balances.
3. **Governance and Regulatory Compliance** - The Governor ensures all county funds are governed by duly constituted management committees at all times and operate within approved regulatory frameworks in compliance with their respective enabling legislation. All future expenditures and transfers must strictly comply with the constitutional and statutory mandate of each fund, and the Auditor-General should monitor and report on the governance status of all funds in the subsequent audit cycle.
4. **Budgetary Control and Timely Disbursement** - The Governor ensures all accounting officers implement proper budgetary control measures to ensure revenue targets are fully realized and appropriated funds are absorbed within approved timelines, in line with Regulation 42(1)(b) of the Public Finance Management (County Governments) Regulations, 2015. The National Treasury should ensure timely disbursement of funds to counties in accordance with the Senate-approved cash flow schedule to prevent revenue shortfalls that disrupt service delivery, failure to which the provisions of Section 199 of the Public Finance Management Act, Cap. 412A on penalties for offences shall apply.

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:

24/03/2026

HON. SEN. GODFREY ATIENO OSOTSI, CBS, MP

CHAIRPERSON

ADOPTION OF THE REPORT OF THE SELECT COMMITTEE ON COUNTY PUBLIC INVESTMENTS AND SPECIAL FUNDS ON THE CONSIDERATION OF THE AUDIT REPORTS OF NANDI COUNTY WATER COMPANY, MUNICIPALITY, HOSPITAL AND FUNDS FOR THE FINANCIAL YEAR 2024/25 (1st JULY, 2024 TO 30th JUNE, 2025):

SECTOR	NO.	ENTITY
WATER COMPANY	1	KAPSABET NANDI WATER AND SANITATION COMPANY (KANAWASCO)
MUNICIPALITY	1	KAPSABET MUNICIPALITY
HOSPITAL	1	KAPSABET COUNTY REFERRAL HOSPITAL
FUNDS	5	NANDI COUNTY ALCOHOLIC DRINKS FUND
		NANDI COUNTY CLIMATE CHANGE FUND
		NANDI COUNTY EXECUTIVE EDUCATION FUND
		NANDI COUNTY EMERGENCY FUND
		NANDI COUNTY FACILITIES IMPROVEMENT FUND

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

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

CHAPTER ONE: WATER COMPANY

1.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR KAPSABET NANDI WATER AND SANITATION COMPANY LIMITED FOR THE FINANCIAL YEAR 2024/2025.

The Governor of Nandi County, Hon. Stephen Sang, EGH, appeared before the Committee on Monday, 26th January, 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Kapsabet Nandi Water and Sanitation Company Limited for the Financial Year 2024/2025. The following officers accompanied the Governor—

1. Mr. Alfred Lagat - CECM Finance

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified Opinion** on the financial statements of the Kapsabet Nandi Water and Sanitation Company for the financial year on the following basis—

1. Lack of Ownership Document for Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance Kshs. 42,006,268 as disclosed in Note 14 to the financial statements. The balance was made up of buildings, motor vehicles, furniture and fittings, motor cycles, computers & printers, office equipment and plant and meters. However, documents of ownership of assets amounting to Kshs. 706,977,432 owned by Lake Victoria North Water Service Board which had not been transferred at close of the year were missing. The documents included land title deeds and motor vehicle log books.

In the circumstances, the completeness and ownership of property, plant and equipment balance of Kshs. 42,006,268 could not be confirmed.

Management Response

The documents of ownership of assets including copies of land title deeds and vehicle logbooks for the assets amounting to Kshs. 706,977,432 owned by Lake Victoria North Water Works Development Agency and currently used by the Company have been provided.

Committee Observations

The Committee observed that—

1. the Company recognized Property, Plant, and Equipment valued at Kshs. 42,006,268; however, management failed to provide ownership documents for

assets valued at Kshs. 706,977,432, which are currently registered under the Lake Victoria North Water Works Development Agency.

2. the delayed transfer of assets is a systemic issue affecting Water Service Providers across the counties, necessitating urgent inter-governmental intervention.

Committee Recommendations

The Committee recommends that—

- i. the Governor ensures that the Accounting Officer, in liaison with the Lake Victoria North Water Works Development Agency and IGRTC, fast-tracks the formal transfer of all land title deeds and motor vehicle logbooks into the Company's name within ninety (90) days of the adoption of this report;
- ii. the Governor to make budgetary provisions for adjudication and valuation of assets to ensure a seamless process in the transfer of assets;
- iii. the Governor ensures that the management of the water company undertakes the valuation of all assets of the water company is fast-tracked and submits the valuation report to the Auditor- General for verification. The Auditor general to provide a status update on the matter in the subsequent audit cycle;
- iv. upon completion of the transfer and valuation, the Accounting Officer should prepare an updated asset register within 120 days of the adoption of this report and submit to the Senate and a copy to the Auditor General for verification;
- v. the governor should ensure that the accounting officer undertakes adjustments to the financial statements so as to reflect the true value of the assets and auditor general should keep the matter in view in the subsequent audit cycle; and
- vi. the Accounting Officer ensures that the water company maintains an up-to-date asset register in accordance with section 149(2)(o) of the Public Finance Management Act Cap 412A and in the format prescribed by the Public Sector Accounting Standards Board (PSASB), failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply.

Emphasis of Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects revenue budget of Kshs. 162,186,247 and actual receipt of Kshs. 154,399,236 respectively resulting to

under collection of Kshs. 7,787,010 or 5% of the budget. Similarly, the Company spent an amount of Kshs. 136,169,504 against actual receipts of Kshs. 154,399,236 resulting to an under-utilization of Kshs. 18,229,732 or 11% of the actual receipts.

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

Management Response

The Company realized 95% revenue target which was within the Benchmark set by the Water Services Regulatory Board (WASREB). Furthermore, due to unforeseen long rains and weather variations in the year under review, the Company noted a reduction in water demand arising from availability of alternative sources of water such as rainwater which adversely affected the billing target resulting to under collection of Kshs. 7,787,010 stated above.

In addition, the variance of Kshs. 18,229,732 was occasioned by delayed disbursement from Water Sector Trust Fund (WSTF) as had been anticipated during the year under review. The funds were received in 24th March 2025 and the planned activities were procured within year but had not been paid as at the end of the financial year.

Committee Observations

The Committee observed that—

1. the Company experienced a revenue shortfall of Kshs. 7,787,010 (5% of the budget) and an expenditure under-utilization of Kshs. 18,229,732 (11% of actual receipts).
2. while management attributed the under-utilization to delayed disbursements from the Water Sector Trust Fund (WSTF) received in March 2025, the failure to absorb these funds stalled planned activities and negatively impacted service delivery to the public.

Committee Recommendations

The Committee recommends that—

- i. **the Governor ensures that the Accounting Officer formulates a realistic cash flow and procurement plan that aligns with expected donor and county fund disbursements to prevent the stalling of capital projects;**
- ii. **The Governor ensures that the Accounting Officer ensures strict compliance with section 149(2) (h) and (i) of the Public Finance Management Act, Cap. 412A and the standards prescribed by the Public Sector Accounting Standards Board under IPSAS 24 on the presentation of budget information in the financial statements for an entity that prepares**

their financial statements under the accrual basis of accounting, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply;

- iii. The Governor ensures that the Accounting Officer complies with regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply; and**
- iv. the Auditor-General provides a status update during the subsequent audit cycle to ascertain whether the unutilized funds carried forward were fully absorbed.**

Other Matter

1. Unresolved Prior Year Audit Matters

In the audit of the previous year, one (1) issue was raised under the Report on Financial Statements, one (1) issue under Emphasis of Matter and four (4) issues under Report on Lawfulness and Effectiveness in the Use of Public Resources. However, the issues remained unresolved contrary to Section 149(2)(1) of the Public Finance Management Act, 2012 which requires Accounting Officers designated for County Government entities to try to resolve any issues resulting from an audit that remain outstanding.

Management Response

The Management appeared before the Senate Public Investments and Special Funds Committee, and is waiting for the recommendations from the said Committee. However, evidence of the progress of resolution of the above issues has been provided for scrutiny.

Committee Observations

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

Committee Recommendations

The Committee recommends that-

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

sanctions such as the removal of the accounting officer, reduction in rank; and

- ii. the Governor ensures the accounting officer submits a detailed status report on the mitigation measures taken to resolve prior year matters within 60 days of the adoption of this report.**

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. Board Expenses

The statement of profit or loss and other comprehensive income reflects Board expenses amount of Kshs. 2,036,520 as disclosed in Note.12 to the financial statements. However, review of records for Board expenses submitted revealed that the Board did not carry out governance audit during the year. This was contrary to Governance Parameter 1.9 of Mwongozo Code, 2015 which states that Board Members should ensure the development of an annual Board Work Plan. Parameter 1.13 (1) states that the Board, in consultation with the Oversight Office, should ensure that it subjects the Organization to an annual governance audit by a member regulated by the Institute of Certified Public Secretaries of Kenya (ICPSK) and accredited for that purpose.

In the circumstances, Management was in breach of the law

Management Response

The Board prepared an annual work plan FY 2024-25 and will henceforth conduct an annual governance audit in accordance with the Mwongozo Code, 2015. A copy of the plan was provided for scrutiny.

Committee Observations

The Committee observed that—

1. the Company incurred Board expenses amounting to Kshs. 2,036,520; however, the Board failed to carry out a mandatory governance audit during the year under review.
2. this omission directly contravened Governance Parameters 1.9 and 1.13(1) of the Mwongozo Code, 2015, which mandate the development of an annual Board Work Plan and subjection to an annual governance audit by an ICPSK-accredited professional.

Committee Recommendations

The Committee recommends that water company adheres to Chapter 1 paragraph 1.13 (1) and (2) of the Mwongozo Code of Governance for State Corporations of 2015, and sanction governance audit, and failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply.

3. Non-Appointment of a Substantive Managing Director

Examination of the Company's operations revealed that the Board failed to appoint a substantive Managing Director contrary to Paragraph 2.0 of The Kapsabet Nandi Water and Sanitation Company Limited Human Resource Policy on recruitment and appointments. In addition, it was noted that the current Managing Director had been acting for the last two years. In the circumstances, Management was in breach of the law.

Management Response

The Company is in the final stages of recruitment of a Managing Director. A copy of the process was provided for scrutiny.

Committee Observations

The Committee observed that—

1. the current Managing Director has been serving in an acting capacity for over two (2) years.
2. this prolonged acting appointment is a direct breach of Paragraph 2.0 of the Company's Human Resource Policy on recruitment and appointments, creating a leadership vacuum and weakening institutional governance.

Committee Recommendations

The Committee recommends that—

- i. **the Governor to ensure that the Board of Directors fast-tracks and concludes the ongoing recruitment process to appoint a substantive Managing Director within sixty (60) days of the adoption of this report; and**
- ii. **the Governor to ensure that the Accounting Officer submits the Board resolution and appointment letter of the substantive Managing Director to the Auditor-General for verification.**
3. **Non-compliance with Public Procurement Capacity Building Levy order 2023**

Examination of the Company's procurement documents and payment vouchers revealed the Company had not paid 0.003% levy on all the signed contracts to Procurement Regulatory Authority (PPRA) contrary to Paragraph 3(1) of Levy Order 2023 which provides that there shall be a paid levy by the supplier and a Procuring Entity at a rate of zero-point zero three (0.003%) percent of the value of the signed contract exclusive of the applicable taxes. In addition, it states that the commencement date of the levy Order 2023, was to be 1 September, 2024.

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

Management Response

The Public Procurement Capacity Building Levy Order 2023 came into force on 1st September, 2024 after budget approval for FY 2024-25. However, the Company will henceforth comply with the Levy Order 2023.

Committee Observations

The Committee observed that—

1. the Company failed to remit the mandatory 0.03% Public Procurement Capacity Building Levy to the Public Procurement Regulatory Authority (PPRA) on all signed contracts following the commencement of the Levy Order on 1st September 2024.
2. management's justification regarding budget approval delays does not absolve the Company from its statutory obligations.

Committee Recommendations

The Committee recommends that—

- i. **the Governor to ensure that the Accounting Officer complies with the Public Procurement Capacity Building Levy Order, 2023, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply; and**
 - ii. **the Governor ensures that the Accounting Officer remits the accumulated levies to the PPRA within sixty (60) days of the adoption of this report and provides the payment receipts to the Auditor-General for verification.**
- 4. Non-compliance with the Law on Ethnic Balance**

Review of the Human Resource records revealed that the Company has a total of twenty-five (25) employees out of whom twenty-one (21) were from the dominant ethnic community translating to (84%) of the Company's workforce. This was contrary to Section 7 (1) and (2) of the National Cohesion and Integration Act, 2008 which states

that all public establishments shall seek to represent the diversity of the people of Kenya in employment of staff and 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

The Company inherited staff from Ministry of Water and Irrigation, National Water Conservation and Pipeline Corporation and also from County Government of Nandi. However, the Company will gradually ensure that the requirement is met progressively in all future recruitments.

Committee Observations

The Committee observed that—

1. the Company had a total of twenty-five (25) employees, out of whom twenty-one (21) (translating to 84%) were from the dominant ethnic community.
2. this staffing composition is in blatant violation of Section 7(1) and (2) of the National Cohesion and Integration Act, 2008, which prohibits any public establishment from having more than one-third (33.3%) of its staff from the same ethnic community.

Committee Recommendations

The Committee recommends that—

- i. **the Board and the accounting officer make deliberate efforts to progressively comply with section 65 of the County Governments Act, 2012, which provides that at least thirty percent 30% of the vacant posts at entry level be filled by candidates who are not from the dominant ethnic community; and**
- ii. **the Board and the accounting officer to make deliberate efforts progressively in the endeavour to comply with Section 7 (1) and (2) of the National Cohesion and Integrity Act, 2008, which requires that public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff.**

5. Long Outstanding Trade Payables

The statement of financial position reflects trade and other payables balance Kshs. 31,072,110 as disclosed in Note 28 to the financial statements. Included in the balance is Kshs. 25,147,628, Kshs. 2,152,000 and Kshs. 3,772,482 in respect of payables, audit fees for the Office of the Auditor General, staff/directors payables respectively. In addition, ageing analysis of the trade payables revealed that trade and other payables amounting to Kshs. 8,919,619 had been outstanding for over one (1) year. Management

did not provide a settlement plan to be followed to settle the debts. Further, there was no evidence that the Company had engaged the creditors for nonpayment the debts.

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

Management Response

The Company faced cash flow challenges and hence did not honor payments to some of its creditors in time. However, the Company will strive to clear all the outstanding trade payables.

Committee Observations

The Committee observed that—

1. the Company reported a trade and other payables balance of Kshs. 31,072,110, out of which Kshs. 8,919,619 had been outstanding for over one (1) year.
2. the outstanding balance includes Kshs. 2,152,000 in statutory audit fees owed to the Office of the Auditor-General and Kshs. 3,772,482 in staff/directors' payables.
3. management failed to provide a formal debt settlement plan or evidence of structured engagement with creditors, breaching Regulation 41(2) of the Public Finance Management (County Governments) Regulations, 2015.

Committee Recommendations

The Committee recommends that—

- i. **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;**
- ii. **the Governor ensures that the County Executive Committee Member in charge of water continuously monitors the financial performance of the water company in line with section 184 of the Public Finance Management Act, 2012 and report on the same to the County Executive Committee, making recommendations on how the water company can improve its performance; and**
- iii. **within sixty (60) days of the adoption of this report, the Accounting Officer engage the relevant entities to formulate a repayment plan for the payables and file a report on the same with the Auditor-General for verification. The Auditor-General to provide a status update on the matter in the subsequent audit cycle.**

6. Trade and Other Receivables

The statement of financial position reflects trade and other receivables balance Kshs. 22,887,409 as disclosed in Note 21 to the financial statements. However, review of the ageing analysis provided revealed that debts totaling Kshs. 15,654,687 representing 62% of the balance had remained outstanding for over ninety (90) days indicating that their recoverability was doubtful. This was contrary to Section 6.3 of the Company's Financial Policy Manual that allows up to sixty

(60) days moratorium before payment for monthly bill or any other amounts due on contractual obligation. In addition, Management did not demonstrate tangible efforts towards recovery of the long outstanding debts or write off of the overdue debts. In the circumstances, Management was in breach of the law.

Management Response

The Company has put in place the following measures as an effort to collect all the outstanding arrears;

- i. Disconnection of defaulters.
- ii. Use of demand notices and reminder SMS.
- iii. Introduction of negotiated payment plans.
- iv. Inspection of dormant accounts to ascertain the reasons on nonpayment after disconnection for action.
- v. Formation of a dedicated revenue collection team which conducts daily visits to customers with assigned targets on collection.

Committee Observations

The Committee observed that—

1. the Company reported a trade and other receivables balance of Kshs. 22,887,409, of which debts totaling Kshs. 15,654,687 (62%) had remained outstanding for over ninety (90) days.
2. this high volume of aged debt violates Section 6.3 of the Company's Financial Policy Manual, which allows a maximum moratorium of sixty (60) days.
3. management did not demonstrate tangible, documented efforts towards the recovery of these debts or provide a formal bad debt provision, rendering the recoverability of these balances highly doubtful.

Committee Recommendations

The Committee recommends that—

- i. the Governor through the Accounting Officer should ensure that Gatanga undertakes debtor's circularization to confirm the authenticity of the receivables and provide a status update on the same to the Senate within sixty (60) days of the adoption of this report;
- ii. the Governor ensures the Accounting Officer should, within 60 days of the adoption of this report, submit a debtors' ageing schedule to the Auditor-General for review and verification and update the Committee in the subsequent audit cycle;
- iii. the Governor ensures the Accounting Officer, within 60 days of the adoption of this report, submits an approved copy of the Debt Management Policy to the Auditor-General for verification. The Auditor-General to verify the policy and submit a status update on the same in the subsequent audit cycle;
- iv. the Governor ensures the Accounting Officer should, within 60 days of the adoption of this report, put in place recovery measures for the outstanding amount with clear timelines. The Auditor-General should review the implementation of the measures put in place, provide a status update to the Committee on the matter in the subsequent audit cycle; and
- v. the Governor ensures the Accounting Officer undertakes a detailed analysis of its 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.

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 the conclusion that internal controls, risk management and overall governance were not effective –

1. Excess Non-Revenue Water

The as to statement of profit or loss and other comprehensive income reflects total revenue amount of Kshs. 154,399,236 which includes operations revenue amount of 99,647,246 disclosed in Note 6 to the financial statements. Analysis of the water production and billing records of the Company revealed that the Company produced a total of 1,238,156 cubic meters (M3) but billed a total of 774,127 cubic meters (M3) leaving a total 464,029m³ unaccounted for representing 37% of the total production which is above the maximum 25% acceptable level of non-revenue water in accordance with schedule Water Service Regulatory Board (WASREB) guidelines.

In the circumstances, effectiveness of internal controls, and management of revenue water could not be confirmed.

Management Response

The NRW of 37% was occasioned by aged and dilapidated pipe network, burst and leakages, illegal connections / water theft, self-reconnections & by-passes and meter tampering. However, the Company has put in place the following measures;

- i. Formation of NRW Unit — The team undertakes daily inspection of lines, dormant accounts and large consumers with a view of eliminating illegal water use. Refer to Annex Vill (a) — NRW Team.
- ii. Metering the Company endeavors to maintain 100% metering and continuous replacement of faulty meters. Refer to Annex VIII (b), S13 & Invoice for consumer meters.
- iii. Continuous Rehabilitation of Pipelines, Zoning and Installation of Zonal meters — 54 km rehabilitated with PPR and 44 zonal meters installed to help address NRW at source.
- iv. Quick response to reported burst and leakages including identifying cases of theft of water. Refer Annex VIII (c) — Service Charter.
- v. The Company has an emergency contact line (0716006464) for customers to report any cases of bursts and leakages along the pipelines.

Committee Observations

The Committee observed that—

1. the Company produced 1,238,156 cubic meters of water but billed only 774,127 cubic meters, resulting in Non-Revenue Water (NRW) of 464,029 cubic meters (37%).
2. this level of water loss significantly exceeds the maximum allowable threshold of 25% set by the Water Services Regulatory Board (WASREB) guidelines, leading to massive financial hemorrhaging.
3. management failed to accurately segregate and report the losses into Physical (Real) Losses and Commercial (Apparent) Losses, making it impossible to ascertain the effectiveness of the billing and internal control systems.

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.
 - iv. the EACC should investigate the causes of high NRW, including potential commercial theft, illegal connections, staff collusion, or administrative lapses, and provide a status update to the Senate within 90 days of adoption of this report.

2. Noncompliance with Statutory Licensing Obligations-Water Resources Authority (WRA) License

During the year under review, it was noted that the Company had been operating and providing water services without a valid WARMA/WRA license. No documentary evidence (permit or license certificate) was provided to confirm compliance with WRA licensing requirements. This was contrary to Section 36(1) of the Water Act, 2016 requiring that "a person shall riot abstract water from any water resource or operate water works unless authorized by a permit or license issued by the Water Resources Authority (WRA)." In addition, the Section 143 (2) mandates that all water service providers must comply legal and regulatory requirements, including possession of valid licenses.

In the circumstances, effectiveness of internal controls and governance in respect of statutory licensing could not be confirmed.

Management Response

The Company has paid for the license and awaiting issuance from Water Resources Authority. A response from WRA on Status of Permit Issuance was provided for scrutiny.

Committee Observations

The Committee observed that—

1. the Company had been abstracting water and operating water works without a valid license from the Water Resources Authority (WRA), contravening Sections 36(1) and 143(2) of the Water Act, 2016.

2. although management has since paid for the license and provided evidence of the pending issuance, operating without the physical permit exposes the Company to regulatory sanctions and the potential suspension of services.

Committee Recommendations

The Committee recommends that—

- i. **the Governor to ensure that the Accounting Officer establishes a Statutory Compliance Calendar to ensure that all operational licenses are renewed at least three (3) months prior to their expiry; and**
- ii. **the Auditor-General reviews the status of the physical WRA permit in the subsequent audit cycle.**

CHAPTER TWO: MUNICIPALITY

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

The Governor of Nandi County, Hon. Stephen Sang, EGH, appeared before the Committee on Monday, 26th January, 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Kapsabet Municipality for the Financial Year 2024/2025. The Governor was accompanied by the following officers—

- | | |
|-----------------|-------------------------------|
| 1. Alfred Lagat | - CECM Finance |
| 2. Alfayo Lel | - Municipal Manager |
| 3. Henry Koech | - Director Accounting Service |

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified Opinion** on the financial statements of the Nandi Municipality for the financial year on the following basis—

1. Material Uncertainty Related to Going Concern

1.1. Lack of independence and operational autonomy

The Municipality was granted the Municipality Charter on the 23 March, 2018 however, the functions and responsibilities of the municipality as outlined under Section 6 (a to r) of the Urban and Cities Act, No. 13 of 2011 are performed by the County Executive of Nandi.

Lack of independence and operational autonomy casts doubt on the going concern of the Municipality.

Management Response

The Municipality has a functional municipality board that carry out their mandate as stipulated in the Urban and Cities Act, No. 13 of 2011. Furthermore, the Municipality has recruited a substantive Manager to oversee the daily operations and implement the Board strategic decisions and budgetary obligations.

Further, the Board recently advertised and recruited additional staff to address the human resource needs in its critical sections geared towards operationalization of the transferred functions. The County Government will continue to facilitate the independence of the Municipality.

Committee Observations

The Committee observed that—

1. despite being granted a Charter in 2018, the Municipality lacks operational and financial independence, as its core functions continue to be performed by the Nandi County Executive.
2. the Receiver of Revenue collects all municipal revenue and transfers it to the County Executive instead of the Municipality's accounts, severely compromising the entity's financial autonomy.
3. this lack of administrative and financial independence casts significant doubt on the "Going Concern" status of the entity, as it cannot exist or operate as a distinct, self-sustaining legal body in accordance with the Urban Areas and Cities Act, 2011.

Committee Recommendations

The Committee recommends that-

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

Emphasis of Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects a final revenue budget of Kshs. 42,748,022 against an actual performance of Kshs. 42,748,022. Similarly, the statement reflects a final expenditure budget of Kshs. 42,748,022 against an actual receipt of Kshs. 5,461 resulting to an underutilization of Kshs. 42,742,561 or 99%,

The under expenditure affected the activities and have impacted negatively on service delivery to public.

Management Response

Management notes the underutilization of the approved budget during the year under review. This was mainly attributable to delays in the disbursement of funds from the National Treasury. Consequently, the entity was unable to implement most of the planned activities within the financial year, resulting in the low level of expenditure recorded.

Management wishes to further clarify that the unutilized funds have been budgeted for in the current financial year and will be utilized accordingly. Management continues to engage the National Treasury to ensure timely release of funds to facilitate effective implementation of programs and improved service delivery to the public.

Committee Observations

The Committee observed that—

1. the Municipality experienced a staggering under-utilization of its expenditure budget at 99%, with Kshs. 42,742,561 remaining unspent and actual expenditure amounting to a mere Kshs. 5,461.
2. while management attributed this failure to delays in fund disbursements from the National Treasury and the County Executive, the failure to absorb these funds stalled almost all planned activities and severely hindered municipal service delivery.
3. this under-utilization highlights critical weaknesses in cash flow planning and a total dependency on unpredictable external funding timelines.

Committee Recommendations

The Committee recommends that—

- i. **the Governor to ensure that the Accounting Officer prepares and submits a realistic cash flow and procurement plan aligned with anticipated disbursements to prevent the stalling of capital projects and municipal operations.;**
- ii. **the Auditor-General reviews the absorption of the unutilized Kshs. 42,742,561 carried forward into the current financial year and provides a status update in the subsequent audit cycle;**

- iii. **The Governor ensures that the Accounting Officer ensures strict compliance with section 149(2) (h) and (i) of the Public Finance Management Act, Cap. 412A and the standards prescribed by the Public Sector Accounting Standards Board under IPSAS 24 on the presentation of budget information in the financial statements for an entity that prepares their financial statements under the accrual basis of accounting, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply; and**
- iv. **The Governor ensures that the Accounting Officer complies with regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply.**

Other Matters

1. Unresolved Prior Years Matters

In the audit report of the previous year, several paragraphs were raised under the report on financial statements, Report on Lawfulness and Effectiveness in the use of Public Resources and Report on the effectiveness of internal controls, Risk Management and Governance. However, no report or recommendation from management and oversight bodies were submitted for audit verification. Therefore, the issues remain unresolved contrary to section 149(2)(1) of the Public Finance Management Act, 2012 which require Accounting Officers designated for County Governance entities to try to resolve any issues resulting from an audit that remain outstanding.

Management Response

Management undertook to resolve these issues progressively after appearing in senate on 13th March, 2025. Evidence of resolved issues was provided for scrutiny.

Committee Observations

The Committee observed that—

1. several critical issues from the previous audit year remain unresolved, most notably the irregular variation concerning the Kapsabet Municipality Fresh Produce Market construction.
2. the failure by management to proactively resolve these outstanding audit queries is a blatant breach of Section 149(2)(1) of the Public Finance Management Act, 2012.

Committee Recommendations

The Committee recommends that—

- i. the Governor ensures that the Accounting Officer resolves the outstanding Fresh Produce Market variation issue and submits a comprehensive compliance report to the Auditor-General within sixty (60) days of the adoption of this report; and**
- ii. the Governor takes appropriate administrative action against responsible officers who fail to implement audit recommendations, failure to which the provisions of Section 199 of the Public Finance Management Act, Cap. 412A on penalties for offenses shall apply.**

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 Operational Independence of the Municipality

As previously reported the Municipality of Kapsabet was granted a Municipality Charter on 9 April, 2018 which granted operational independence from the County Government of Nandi. However, review of the operations revealed lack of autonomy in the budget and is controlled by the County Executive under the department of Administration and the approval of budget was not done by the Municipal Board. In addition, the municipality realize of the County Executive and staff structure approved by the County Assembly is yet to be implemented.

This contrary to Section 9(1) of the Urban Areas and Cities Act, 2011 which states that the County Governor may, on the resolution of the County Assembly, confer the status of a Municipality on a town that meets the criteria set out in Subsection (3), by grant of a charter in the prescribed form. In addition, it contravenes Section 12 (1) of the Urban Areas and Cities Act, 2011 which states that the Management of a city and Municipality shall be vested in the County Government and administered on its behalf by a Board, a Manager appointed pursuant to Section 28 and such other staff or officers as the County Public Service may determine.

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

Management Response

The County Government of Nandi, having realized that the previous Board team had failed to meet the expectations of the Municipality, has since recruited a new Board who carry out their mandate as stipulated in the Urban and Cities Act, No. 13 of 2011. The Municipality has recruited a substantive Manager to oversee the daily operations and implement the Board strategic decisions and budgetary obligations.

Further, the Board recently advertised for additional staff to address the human resource needs in its critical sections. The County Government will continue to facilitate the independence of the Municipality.

Committee Observations

The Committee observed that—

1. despite being granted a Charter in 2018, the Municipality has failed to achieve the administrative and functional autonomy envisioned under the Urban Areas and Cities Act, 2011, with its core functions still heavily embedded within the County Executive.
2. the Municipality operates without a dedicated accounting unit, as all revenue collection and financial management are centralized at the County Executive level, leaving the Municipal Board with no direct control over its own resources.
3. the entity lacks a substantive staff establishment, with only 10 out of 297 required positions filled, forcing a continued reliance on the County Executive for basic day-to-day operations.
4. this total dependence on the County Government for funding, staffing, and executive decision-making contradicts the legal requirement for municipalities to operate as separate accounting entities and creates a material uncertainty regarding its "Going Concern" status.

Committee Recommendations

The Committee recommends that-

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

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

2. Unapproved Organizational Chart

The approved municipality Charter provided for review was not supported by approving minutes of the Nandi Municipal Board neither was it signed by the Chairman of the Municipality Board. In addition, whereas the Organizational Charter indicates various departments as gender and Social services, Health/Environment Civil Engineering and e- Government, Finance and Supply Chain Management and internal Audit headed by departmental heads there were no such Department in place.

In the circumstance, management was in breach of law.

Management Response

The Municipality has an organizational chart in place that was finalized and approved by the Municipal Board and has since been adopted for use. Copy of the approved chart was provided for committee verification.

Committee Observations

The Committee observed that the Municipality has an operationalized organizational chart.

Committee Recommendations

The Committee recommends that the matter be marked as resolved.

3. Inadequate Staffing in the Municipality

During the year under review, it was noted that the staff establishment indicates a total of two hundred and Ninety-seven (297) approved position, of which only five (5) positions are currently filled, resulting in a deficit of two hundred and ninety-two (292) vacant positions. This significant understaffing adversely affects the entity's operational efficiency. This was contrary to Regulation 155(5) of the Public Finance Management (County Government) Regulations, 2015 that requires that each County entity maintains an approved staff establishment aligned to its mandate and budgetary provisions.

Management Response

The Municipality has started the process of recruiting staff as at now they have employed 5 staff and it's in the process of recruiting more staff to cover the deficit;

Committee Observations

The Committee observed that—

1. the Municipality is operating with a massive deficit of 287 staff members, as only 10 positions are filled out of an approved establishment of 297.
2. this translates to only 3.4% of the required workforce, posing a severe risk to the entity's operational efficiency and ability to deliver core municipal services.
3. the current staffing level is a direct breach of Regulation 155(5) of the Public Finance Management (County Governments) Regulations, 2015, which requires public entities to maintain an approved staff establishment fully aligned with their statutory mandate.

Committee Recommendations

The Committee recommends that—

- i. **the Governor to ensure that the Accounting Officer, in liaison with the Nandi County Public Service Board, submits a time-bound recruitment and secondment plan to the Committee within sixty (60) days, detailing how the 287 vacant positions will be filled.; and**
- ii. **the Governor ensures the immediate secondment of critical technical and administrative staff from the County Executive to the Municipality to prevent the collapse of core functions during the recruitment phase.**

4. Unsupported Requisitioning of Funds

The statement of financial performance reflects transfers from County Government amount of Kshs. 32,309,300 as disclosed in Noted.6 to the financial statements. However, review of the bank statement revealed that the County Government transferred an amount of Kshs. 32,309, 300 on 30th June, 2025 being the last day of the financial year. In addition, there was no evidence to confirm whether the Municipality Accounting Officer made any requisition for the funds from the County Government. This was contrary to Regulation 43 (1) of the Public Finance Management (County Governments) Regulations, 2015 which requires that Accounting Officers provided the County Treasury with an annual cash flow plans as a requisition for funds needed for that financial year.

In the circumstance, management was in breach of the law.

Management Response

Kapsabet Municipality through the Municipal manager furnish the memo and work plan requesting for funds to be transferred to Municipality. Copy of the work was provided for scrutiny.

Committee Observations

The Committee observed that—

1. the Municipality requested and received Kshs. 38,157,495 from the County Executive, yet management failed to provide documentary evidence, such as payment vouchers, internal memos, or formal requisitions, to justify the transfer.
2. the absence of these critical financial records makes it impossible to verify whether the funds were requested for approved budgetary items or if the transfer adhered to laid-down financial procedures.
3. this failure represents a severe breakdown in internal financial controls and contravenes Section 104(1) of the Public Finance Management Act, 2012, regarding the proper documentation and accounting of public fund movements.

Committee Recommendations

The Committee recommends that the matter be marked as resolved.

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 the conclusion that internal controls, risk management and overall governance were not effective –

1. Weaknesses in Governance

During the year, it was noted that the Board had not effectively fulfilled its mandate under section 1.2 of the Mwongozo Code, which requires the Board to determine the Organization's mission, vision purpose and core values and to ensure that the strategy aligns with these elements and with stakeholders and with interests.

The following non- compliance issues were noted;

- I. Non establishment of the mandatory Audit Committee as per section 1.7 (b) of the Mwongozo code and Committee minutes were not provided for audit II. The Board Charter was not provided for audit which was contrary to part 1.11 of the Mwongozo Code of the Governance for State Corporation on Board Charter which states that the Board should develop and adopt a Board Charter that should define the role, responsibilities and functions and functions of the Board in the governance of the organization.
- II. Lack of staggered tenure of Board members as all the seven (7) board Members were appointed on 1st July, 2024 contrary to Section 1. 14 of the Mwongozo Code of Governance for State Corporation which states that the appointing authority ensure the tenure of Board members are staggered to facilities a phased transition. This provision is intended to preserve institutional memory provide continuity in leadership, and avoid disruption in governance when Board membership changes.

- III. Failure to conduct an annual governance audit, contrary to the Mwongozo Code Section 1.13 (1)
- IV. Board evaluation did not take place contrary to Mwongozo Code 1.12(a). The board has not maintained effective internal controls or discharge its responsibilities as required.

Management Responses

The municipality has an audit committee and a board charter as required by part 1.11 of the mwongozo code of governance for state corporations. The municipality will observe the rule of staggered tenure of board members in order to facilitate a phased transition in future.

The board did not conduct an annual governance and evaluation in 2024-2025 financial year since they were new in office as they were appointed in the same financial year and were yet to put in place the required structures.

However, the board will conduct an annual governance audit and evaluation in accordance with the mwongozo code section 1.13 (l)and 1.12(1a) respectively in the current financial year.

Committee Observations

The Committee observed that—

1. the Municipal Board failed to conduct a mandatory annual governance audit and evaluation. ii. all seven (7) board members were appointed on the exact same date, violating the governance principle of staggered tenure.
2. the lack of staggered board transitions threatens institutional memory and risks a total disruption of municipal governance upon the simultaneous expiry of the current board's term, contrary to the guidelines of the Mwongozo Code.

Committee Recommendations

The Committee recommends that—

- i. the Governor ensures that all future appointments to the Municipal Board are properly staggered to ensure a phased transition and continuity of leadership; and
- ii. the Governor to ensure that the Municipal Board engages an accredited professional from the Institute of Certified Public Secretaries of Kenya (ICPSK) to conduct a comprehensive governance audit within the current financial year, and submits the report to the Auditor-General for verification.

2. Lack of Internal Audit Function

As previously reported, review of internal controls at the Municipality revealed that the Municipality did not have an internal audit function to carry out internal audits' contrary to Regulation 155(2)(a) of the Public Finance Management (County Governments) Regulations, 2015 which states an Accounting Officer shall ensure that the organizational structure of the internal audit unit facilitates the entity to accomplish its internal audit responsibilities;

In the circumstances, the oversight function over the Municipality operations is not effective.

Management Response

The municipality has an internal audit committee and an internal auditor seconded from the executive Furthermore, the internal audit department of the executive has audited the municipality in the year under review.

Committee Observations

The Committee observed that the Municipality has established its own Internal Audit Function and have an internal auditor seconded form the executive.

Committee Recommendations

The Committee recommends that the matter be marked as resolved.

3. Lack of Occupational Safety and Health Policy

As previously reported, review of the Municipality's occupational risk management and disaster preparedness revealed that the Management did not prepare and approve an occupational safety and health policy and does not have an occupational safety Act, 2007 which states that every occupier shall establish an occupational health and safety committee in the workplace.

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

Management Response

The Municipality has an approved Occupational Safety and Health Policy (OSHP). Copy of the OSHP was provided for scrutiny.

Committee Observations

The Committee observed that the Municipality has an approved Occupational Safety and Health Policy

Committee Recommendations

The Committee recommends that the matter be marked as resolved.

4. Lack of Risk Management Policy

As previously reported, review of the internal controls revealed that the Municipality lacks an approved risk management policy. The municipality does not have a framework for risk identification and management policy contrary to 158(1) of the Public Finance Management (County Governments) Regulations, 2015 which states that the accounting officer shall ensure that; (a) the County Government entity develops risk management strategies, which include fraud prevention mechanism; and (b) the County Government entity develops a system of risk management and internal control that builds robust business operations.

In the absence of risk management policy, it is not possible to define the entity's risk appetite and set risk tolerance levels by identifying boundaries against unacceptable exposure to risk.

Management Response

The Municipality has an approved Risk Management Policy. Evidence of the policy as provided for committee verification.

Committee Observations

The Committee observed that the Municipality has an approved Risk Management Policy and Strategy in place.

Committee Recommendations

The Committee recommends that the matter be marked as resolved.

5. Lack of IT Internal Controls

As previously reported, review of the Information and Communication Technology (ICT) set up of the Municipality revealed that the Municipality uses the Nandi County Integrated Finance Management and Information Systems and Integrated Personnel and Payroll System to manage its receipts and payments and payroll, respectively. However, it does have in place an ICT Policy and IT Strategic Plan which stipulates policies such as Data Recovery Plan (DRP), IT Security and Steering Committee which are vital in effective and efficient management of the entity's IT resources.

In addition, it was noted that staff composition in the ICT department had only three (3) qualified personnel who were of the same level of principal ICT officers and have no defined roles and responsibilities on how to oversee the IT operations, thus negating the principle of segregation of duties.

In the circumstances, the municipality risks operating in an environment where external compromises are eminent and can jeopardize the organizations data.

Management Response.

The municipality uses the Nandi County integrated financial management system but has been assigned rights to independent access of its budget and for the payroll system the management is intending to move to its own payroll system once the hiring system is complete.

Regarding staffing, Management acknowledges that the ICT department has three officers at the same designation level and that roles and responsibilities have not been clearly defined. Management is taking steps to assign specific duties to each officer to enhance accountability and ensure adequate segregation of duties.

Additionally, Management will engage the County Government to explore the possibility of strengthening ICT capacity through staff restructuring and/or additional support where necessary.

Committee Observations

The Committee observed that—

1. the Municipality lacks an independent payroll system and operates without a clear definition of roles for its ICT staff.
2. the current setup, where multiple officers hold the same rank without defined, segregated responsibilities, negates the fundamental principle of segregation of duties, thereby exposing the entity's systems to internal manipulation and external compromises.

Committee Recommendations

The Committee recommends that—

- i. **within 60 days of the adoption of this report, the Governor to ensure that the Accounting Officer defines, documents, and enforces the specific roles and responsibilities of the ICT staff to ensure adequate segregation of duties and submit a copy of the strategy put in place to the Senate; and**
- ii. **the Governor to ensure that the Municipality finalizes the transition to its own independent, secure payroll system within ninety (90) days to enhance data integrity and prevent unauthorized access, and provides evidence of the same to the Auditor-General.**

CHAPTER THREE: HOSPITAL

3.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR KAPSABET COUNTY REFERRAL HOSPITAL FOR THE FINANCIAL YEAR 2024/2025.

The Governor of Nandi County, Hon. Stephen Sang, EGH, appeared before the Committee on Monday, 26th January, 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Kapsabet County Referral Hospital for the Financial Year 2024/2025. The Governor was accompanied by the following officers—

1. Alfred Lagat - CECM Finance
2. Frederick Kiptum - CO Health
3. Dr. Richard Chepkwony - Medical Superintendent

REPORT ON THE FINANCIAL STATEMENTS

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

1. Unsupported Rendering of Medical Services Income

The statement of financial performance as disclosed in Note 11 to the financial statements reflects income from rendering of services medical amount of Kshs 311,732,823 which further includes Kshs 172,373,492 and Kshs 57,463,173 in relation to other medical service income and Outstanding SHA claims respectively all totaling to 229,836,665 which was however not supported by detailed schedules of amounts claimed and disbursed to the hospital.

In the circumstance the accuracy and completeness of rendering of services income of Kshs 311,732,823 could not be confirmed

Management Responses

As a result of transition from NHIF to SHA it was difficult to ascertain the claims and receipts from services rendered. Due to the inherent design of the SHA system, it remains challenging to accurately determine and verify the details of services rendered under primary health care and inpatient services, as these cannot be distinctly attributed to specific revenue streams.

Committee Observations

The Committee observed that—

1. the Hospital reported an income of Kshs. 311,732,823 from rendering medical services but failed to support this figure with detailed schedules of amounts claimed and disbursed.
2. while management attributed this to transition challenges between NHIF and the Social Health Authority (SHA) system interfaces, this does not absolve the Accounting Officer from the statutory responsibility of maintaining accurate and verifiable financial records.

Committee Recommendations

The Committee recommends that—

- i. **the Governor ensures that the Accounting Officer should ensure timely submission of documents including evidence of resubmission and follow-up of rejected or partially approved SHA claims during the audit process in line with section 47(1) of the Public Audit Act, Cap.412B as read together with section 149(2)(k) failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act in the subsequent audit; and**
- ii. **the Governor ensures that the Accounting Officer submits detailed, reconciled schedules supporting the Kshs. 311,732,823 revenue to the Auditor-General for verification, and the Auditor-General provides a status update in the subsequent audit cycle.**

2. Revenue from Rent of Facilities

The statements of financial performance and note 12 to the financial statements reflects Nil balance on revenue from rent of facilities. However, the Hospital owns residential houses that have been rented/leased out to an undisclosed number of staff. Similarly, the Hospital owns a canteen occupied by persons whose identities were not disclosed. The terms of tenancy for the rented facilities were not provided for audit review. In addition, there were no contractual agreements between the Hospital and the tenants. Further the hospital did not have a housing policy to guide rental house allocations. lease agreements, invoices and rental payment receipts for all the rental houses were not provided for audit review.

In the circumstances, accuracy of rent income from facilities could not be confirmed.

Management Response.

The Hospital's residential housing is categorized into junior staff housing, 16 units rented at Ksh. 1,500 per month, and senior staff housing, 18 units rented at Ksh. 3,000 per month.

The canteen's lease expired, and the renewal process completed and currently regularized.

All House rental payments are processed through a check-off system under Gok House Rent as provided in the code of regulations; supporting documentation is attached for review.

The Hospital is committed to ensuring proper documentation and adherence to policy in the management of rental spaces and will continue improving oversight to prevent misstatements and misuse of assets.

Committee Observations

The Committee observed that—

1. the Hospital reported a Nil balance for revenue from rent of facilities, despite owning thirty-four (34) residential staff houses and a canteen.
2. at the time of the audit, the Hospital lacked a comprehensive housing policy, updated lease agreements, and rental payment receipts.
3. failure to disclose these revenues and maintain proper tenant records misrepresents the financial statements and creates loopholes for the loss of public revenue.

Committee Recommendations

The Committee recommends that—

- i. **the Governor ensures that the Accounting Officer submits the comprehensive housing policy, updated lease agreements for the canteen, and evidence of the check-off system remittances for the staff housing units to the Auditor-General for verification within sixty (60) days; and**
- ii. **the Governor ensures that the Accounting Officer ensures that all rental income is accurately recognized and disclosed in future financial statements, in strict compliance with Public Sector Accounting Standards (PSAS). The Auditor General to keep the matter in view and report in the subsequent audit cycle.**

3. Valuation of Property, Plant and Equipment

The statement of financial position as disclosed in note 32 Included in the property plant and Equipment balance of Kshs. 6,445,645 which includes book values for plant and medical Equipment of Kshs 4,243,510. However, the management did not provide valuation reports contract agreements.

Management Response

The valuation process was concluded by the Directorate of Asset Management, under the Department of Finance and Economic Planning hence the report is to be tabled in the hospital board for adoption.

Committee Observations

The Committee observed that—

1. the Hospital reported Property, Plant and Equipment (PPE) with a book value of Kshs. 6,445,645, but failed to provide valuation reports and excluded assets of undetermined value relating to land, buildings, and motor vehicles.
2. the Hospital operates without a comprehensive fixed asset register detailing the description, location, cost, and ownership status of its assets, violating guidelines issued by the Public Sector Accounting Standards Board (PSASB).

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; and**
 - iv. **the Governor, through the Accounting Officer ensures that the hospital maintains an up-to-date asset register in accordance with section 149(2)(o) of the Public Finance Management Act Cap 412A and in the format prescribed by the Public Sector Accounting Standards Board (PSASB), failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply.**
- 4. Lack of Depreciation and Amortization Policy**

The statement of financial performance and as disclosed in note 18, reflects Kshs.1,669,007 on depreciation and amortization expense. However, the Hospital did not provide a policy on depreciation and amortization.

Management Response

The management has a draft Assets and Liabilities Management policy that guide the depreciation rates as it awaits approval by Executive to finalize on depreciation policy.

Committee Observations

The Committee observed that—

1. the Hospital charged Kshs. 1,669,007 as depreciation and amortization expenses without an approved, documented policy to guide the specific rates and methods used for these calculations.
2. without an approved policy, the accuracy and consistency of the depreciation charges applied to the Hospital's assets cannot be confirmed, contravening the Public Sector Accounting Standards.

Committee Recommendations

The Committee recommends that the Governor ensures that the Accounting Officer and the County Executive expedite the approval and operationalization of the draft Assets and Liabilities Management Policy within sixty (60) days of the adoption of this report. The Auditor-General to keep the matter in view and report in the subsequent audit cycle.

5. Long Outstanding Trade and Other Payables

The statement of financial position and as disclosed in note 36 reflects Kshs. 71,858,134 in relation to trade and other payables. However, no creditors' ledger was provided with aging analysis, thus, it was not possible to ascertain the duration the liabilities had been outstanding. In addition, trade payables were not captured in the budget and did not form a first charge. Further, Management did not demonstrate measures put in place to ensure bills were paid in time to avoid further accumulation.

Further Review of documents provided by the Hospital revealed that the payables amounting to Kshs. 3,139,562 relating to the previous financial year were still outstanding and were not captured in the budget and did not form first charge. Failure to settle bills during the year to which they relate adversely affects the implementation of the subsequent year's budgeted programs to which they have to be charged.

Management Response

The management provided the aging analysis of the Kshs. 71,858,134. The long outstanding payables of Kshs. 3,139,562 were cleared in the 1st quarter of 2025/2026 Report of the Auditor-General on Kapsabet County Referral Hospital (County Government of Nandi) for the year ended 30 June, 2025.

Committee Observations

The Committee observed that—

1. the Hospital accumulated trade and other payables amounting to Kshs. 71,858,134 without maintaining a creditors' ledger or an aging analysis at the time of the audit.
2. payables amounting to Kshs. 3,139,562 from the previous financial year were not captured in the budget and did not form a first charge, directly contravening Regulation 41(2) of the Public Finance Management (County Governments) Regulations, 2015.

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 hospital makes budgetary provision to clear the outstanding payables by the end of the FY 2026/2027 and provide a status update to the Senate within 60 days of the adoption report; and**
- iii. **the Governor ensures that the County Executive Committee Member in charge of health continuously monitors the financial performance of the hospital 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.**

6. Unsupported Receivables from Exchange Transactions

The statement of financial position and as disclosed in note 29 to the financial statements reflects receivables from exchange transactions of Kshs.57, 463,173 which in turn relates to transfer from the County Government in respect to SHA Refund claims.

Management Response

The management acknowledges the receivables in note 29, the receivables relate to claims from NHIF and SHA as at the close of the financial year however the same cannot be traced to specific services offered because of the system interface between hospital and SHA

Committee Observations

The Committee observed that—

1. the Hospital reported a significant balance of receivables from exchange transactions but failed to provide a detailed aging analysis, debtor schedules, or individual account statements to support the figure.
2. without these supporting documents, the accuracy, validity, and full recoverability of the reported receivables could not be confirmed, indicating a severe weakness in the Hospital's credit control.

Committee Recommendations

The Committee recommends that the governor should ensure that the Accounting Officer should ensure timely submission of documents during the audit process in line with section 47(1) of the Public Audit Act, Cap.412B as read together with section 149(2)(k) failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act in the subsequent audit cycle.

EMPHASIS OF MATTER

1. Unresolved prior Years Audit Matters

In the report of the previous year several issues were raised under the report on Financial statements, report on lawlessness and Effectiveness in use of public resources and report on effectiveness of internal controls risk management and Governance. Though the management has indicated that some issues have been resolved and others. partially resolved there is no evidence of adduced to show how the matters have been resolved

Management Response

The management is committed to resolve all audit matters

Committee Observations

The Committee observed that—

1. the Hospital failed to resolve several audit queries raised in the previous financial year's audit report.
2. this persistent failure by the management to proactively address historical audit findings is a direct contravention of Section 149(2)(l) of the Public Finance Management Act, 2012, which strictly requires Accounting Officers to resolve any issues resulting from an audit that remain outstanding.
3. the continued accumulation of unresolved issues undermines the oversight mechanism and perpetuates systemic financial and operational weaknesses within the facility.

Committee Recommendations

The Committee recommends that—

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

REPORT OF 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. Irregular Waivers and Exemptions.

The statement of financial performance reflects medical services contracts gains/losses amount of Kshs. (8,971,173) as disclosed in note 25 to the financial statements.

Management Response

The reported amount was attributed to patients who could not afford to pay for services and were not covered by the SHA. As a result, they required waivers from the hospital's waiver committee. The waiver forms were available during the audit; summary sheets were prepared but all the minutes are available at the hospital.

Committee Observations

The Committee observed that—

1. the Hospital granted waivers amounting to Kshs. 8,971,173 to patients during the year under review.
2. while management indicated that waiver forms and committee minutes exist, these crucial governance documents were not provided for audit review, making it impossible to justify the exemptions or confirm they were granted to deserving, indigent patients.

Committee Recommendations

The Committee recommends that—

- i. the Governor ensures that the Accounting Officer submits all waiver committee minutes and corresponding waiver forms supporting the Kshs. 8,971,173 to the Auditor-General for verification within sixty (60) days;
- ii. the Governor ensures that the Hospital Board enforces a strict, documented Standard Operating Procedure (SOP) for granting waivers to prevent revenue leakages and ensure transparency; and
- iii. the governor should ensure that the Accounting Officer should ensure timely submission of documents during the audit process in line with section 47(1) of the Public Audit Act, Cap.412B as read together with section 149(2)(k) failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act in the subsequent audit cycle.

2. Failure to Maintain Revenue Cash Book

The statement of financial performance as disclosed in Note 11 to the financial statements reflects kshs.269,835,625 in respect to rendering of services However, the Hospital Management did not maintain a revenue cash book with details on daily Report of the Auditor-General on Kapsabet County Referral Hospital (County Government of Nandi) for the year ended 30 June, 2025 billings and collections (amount paid), transfers to the Fund Account, withdrawals through Authority to Incur Expenditure (AIE), and receipts of revenue receivables.

Management Response

The facility has been facing serious shortage of staff in the Finance and Accounts departments, which affected its ability to ensure full compliance with having daily billings and collections

Committee Observations

The Committee observed that—

1. despite collecting Kshs. 269,835,625 in medical services, the management failed to maintain a revenue cash book detailing daily billings, collections, and transfers.
2. the management failed to prepare and submit quarterly revenue statements, directly breaching Section 158(3) of the Public Finance Management Act, 2012.
- iii. management's justification of "staff shortages" is unacceptable for failing to maintain basic statutory financial records.

Committee Recommendations

The Committee recommends that—

- i. the Governor ensures that the Accounting Officer immediately implements an updated revenue cash book and ensures that quarterly revenue statements are prepared and submitted to the County Treasury as required by law; and**
- ii. the Governor takes appropriate administrative action against the finance officers responsible for this compliance failure, as it severely undermines the oversight functions of the County Executive and the County Assembly.**

3. Failure to Implement E-procurement Systems

During the year under review, the Hospital Management did not fully implement e-procurement nor comply with all the requirements of Executive order No.2 of 2018. It was noted that tenders were maintained and publicized on the hospital's website and bids could be submitted in the same website. This was contrary to the Executive Order No.2 of 2018 which requires hospital to maintain and continuously update, through the websites of e-citizen,Public Procurement Regulatory Authority platforms, public notice boards and /or official government publications, a complete information of all tenders,and that the hospital, updates and publicize a separate comprehensive list of all registered suppliers, contractors and consultants in the various specific categories of goods, works and/or services pre-qualified to its procurement needs and consolidated and published the information above by 15th day of every subsequent month, outlining the tender and supplier data for the previous month.

Management Response

The management of KCRH is committed to implementing an electronic procurement system that aligns with the national laws and regulations governing the procurement of goods and services in Kenya.

Committee Observations

The Committee observed that the hospital failed to fully implement e-procurement and did not publish tender and supplier data on the requisite portals, contravening Executive Order No. 2 of 2018.

Committee Recommendations

The Committee recommends that the Governor ensures that the Accounting Officer fully transitions to the e-procurement system and publishes all comprehensive lists of registered suppliers and awarded tenders as mandated by the Executive Order and the Public Procurement Regulatory Authority (PPRA) guidelines. The Auditor-General to keep the matter in view and report in the subsequent audit cycle.

4. Lack of Hospitals Commitment to Climate Change Agreements

Review of the Hospital's records and physical verification of its infrastructure revealed that the Facility did not have a policy on climate change adaptation, had not undertaken an environmental social impact assessment, and had not conducted environmental audits, contrary to the requirements of the Environmental Management and Coordination Act (EMCA), CAP 387

Management response

The management is keen on developing a policy on climate change adoption and undertaking environmental impact assessment

Committee Observations

The Committee observed that—

1. the Hospital operates without a documented climate change policy, strategy, or framework to address its carbon footprint, energy efficiency, and the sustainable management of biomedical waste.
2. this omission demonstrates a lack of institutional commitment to national environmental sustainability goals, including compliance with the Climate Change Act, 2016, and broader international climate agreements.
3. the absence of green initiatives and sustainable waste disposal protocols exposes the surrounding community to environmental health risks and fails to align the Hospital with the modern public health mandate of environmental stewardship.

Committee Recommendations

The Committee recommends that—

- i. **the Governor ensures that the Hospital Board develops, approves, and adopts a comprehensive Climate Change and Environmental Sustainability Policy within ninety (90) days of the adoption of this report;**
- ii. **the Governor ensures that the Accounting Officer immediately begins the implementation of sustainable biomedical waste management practices, water conservation measures, and energy-efficient strategies across the facility; and**
- iii. **the Governor ensures that the Accounting Officer submits a progress report on these green initiatives to the County Department of Environment and the Auditor-General for review in the subsequent audit cycle.**

5. Non-Compliance with Data Protection Laws

Audit review reveals that the facility collects and processes data of patients during its day-to-day operational activities. The Hospital also handles data related to its employees and suppliers. The data collected and processed by the Hospital are personal and sensitive such as patient medical history, patient current health conditions, mobile phone number details, next of kin, bank account details, patient dependents, mobile money accounts, Social Health Insurance Fund (SHIF) membership details, date of birth, national identification/passport numbers among others.

Review of the data collection, processing, and storage operation activities by the Hospital revealed the following breaches of the data protection laws as at the time of audit in August 2025;

- i. The Hospital had not established personal data retention schedule contrary to Regulation 19(2) (a) of the Data Protection (General) Regulations, 2021 which requires a data controller or data processor to establish personal data retention schedule with appropriate time limits for the periodic review of the need for the continued storage of personal data that is no longer necessary or where the retention period is reached.
- ii. The Hospital had not established appropriate time limits for the periodic review of the need for the continued storage of personal data for any of the law enforcement purposes contrary to Regulation 19(5) of the Data Protection (General) Regulations, 2021 which states that a data controller or data processor shall establish appropriate time limits for the periodic review of the need for the continued storage of personal data for any of the law enforcement purposes.
- iii. The Hospital had not developed and published a policy reflecting their personal data handling practices contrary to Regulation 23 (1) of the Data Protection (General) Regulations, 2021, which states that a data controller or data processor shall develop, publish, and regularly update a policy reflecting their personal data handling practices.
- iv. Management had not implemented the elements necessary to safeguard the principle of storage limitation including having in place a clear internal procedure for deletion and destruction of personal data of subjects, determining what data and length of storage of personal data that is necessary for the purpose and formulating internal retention statements of implementing them contrary to Regulation 35 of the Data Protection (General) Regulations, 2021 which states that the elements necessary to implement the principle of storage limitation include (a) having clear internal procedures for deletion and destruction; (b) determining what data and length of storage of personal data that is necessary for the purpose; (c) formulating internal retention statements of implementing them;
- v. There was no evidence that Management of the Hospital conducts data protection impact assessment before processing of patient data contrary to Regulation 49(2) of the Data Protection (General) Regulations, 2021 which states that a data

processor or data controller shall, before processing data under sub-regulation (1) conduct a data protection impact assessment.

Management response

The Kapsabet County Referral Hospital has registered with the office of the Data Protection Commissioner as both Data Handler and Data Processor as attached herein.

A data protection policy detailing the necessary procedures while collecting, handling and processing personal and sensitive data has been drafted and awaiting the board approval as attached herein.

Committee Observations

The Committee observed that—

1. the Hospital collects highly sensitive personal and medical data but failed to establish a published data protection policy, a data retention schedule, or periodic review limits, directly breaching the Data Protection (General) Regulations, 2021.
2. the Hospital conducts data processing without performing the mandatory Data Protection Impact Assessment.

Committee Recommendations

The Committee recommends that—

- i. **the Governor ensures that the Hospital Board expedites the operationalization of the drafted Data Protection Policy within sixty (60) days of the adoption of this report; and**
- ii. **within 60 days of the adoption of this report the Governor ensures that the Accounting Officer commissions a comprehensive Data Protection Impact Assessment for all health information systems and submits the report to the Office of the Data Protection Commissioner (ODPC) and the Auditor-General for verification.**

6. Lack of quarterly revenue statements

The statement of financial performance and as disclosed in Note 11 to the financial statements, reflects Kshs 269,835,625 in respect to rendering of medical service income. Report of the Auditor-General on Kapsabet County Referral Hospital (County Government of Nandi) for the year ended 30 June, 2025.

However, quarterly revenue statements were not provided for audit, contrary to Section 158(3) of the Public Finance Management Act, 2012, which requires a receiver of

revenue to prepare and provide quarterly revenue statements to the County Treasury with copies to the National Treasury and the Commission on Revenue Allocation.

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

Management Response.

The management acknowledges that it never prepared quarterly Revenue statements resulted by the shortage of staff, thus corrective measures have been put in place to ensure compliance with the law.

Committee Observations

The Committee observed that—

1. the Hospital management failed to prepare and submit the mandatory quarterly revenue statements to the County Treasury and other oversight bodies during the financial year under review.
2. this omission is a direct and severe violation of Section 158(3) of the Public Finance Management Act, 2012, which mandates regular financial reporting to ensure transparency, accountability, and effective budgetary control.
3. the failure to provide these statements significantly hampered the County Executive's and the County Assembly's ability to monitor the Hospital's revenue collection performance against its budgeted targets.

Committee Recommendations

The Committee recommends that—

- i. **the Governor ensures that the Accounting Officer strictly complies with the Public Finance Management Act, 2012, by preparing, reconciling, and submitting all quarterly financial and revenue statements to the County Treasury within the stipulated statutory deadlines.**
 - ii. **the Governor takes immediate administrative action against the finance officers responsible for this compliance failure, and submits a report on the actions taken to the Auditor-General within sixty (60) days.**
7. **Non-Compliance with Kenya Quality Model for Health Policy Guidelines.**

Review of Hospital records and verification of services offered, equipment used and medical specialists in the Hospital at the time of audit revealed that the Hospital did not meet the requirements of Kenya Quality Model for Health Policy Guidelines due to staff deficits by staff requirements of 251 or 78% of the 323 authorized establishment. In addition, the Hospital lacked the necessary equipment and machines outlined in the Health Policy Guidelines. Further, during physical inspection carried out in the month of September, 2025 revealed that a number of equipment had anomalies.

Management Response

The Hospital acknowledges the above issues regarding deficiencies in the implementation Kenya Quality Model for Health Policy Guidelines and provides the following response:

The Hospital has a mix of medical personnel, with some cadres exceeding the established requirements and others experiencing a deficit. To address the staffing gaps, the county has advertised positions for health workers, and recruitment processes is still underway. Despite these challenges, the Hospital remains committed to providing care to all patients, and no one has been turned away due to staffing shortages.

In terms of equipment, efforts are ongoing to purchase additional medical equipment to bridge the identified gaps and align with the Kenya Quality Model for Health Policy Guidelines. The Hospital continues to prioritize delivering high-quality healthcare services while working towards full compliance with the outlined standards.

Committee Observations

The Committee observed that—

1. the Hospital failed to fully implement the Kenya Quality Model for Health (KQMH) guidelines, operating without essential quality assurance committees and standardized patient safety protocols.
2. this non-compliance directly compromises the quality of healthcare service delivery, patient safety, and overall clinical governance within the referral hospital, exposing patients to substandard care and the County to medical negligence liabilities.

Committee Recommendations

The Committee recommends that—

- i. **within sixty (60) days of the adoption of this report, the Governor submits to the Senate a comprehensive plan outlining the specific measures being taken to address the hospital's staffing shortages. The measures should include both short-term and long-term solutions, focusing on optimizing existing resources, improving employee welfare, and ensuring sustainable staffing levels moving forward; and**
- ii. **within ninety (90) days of the adoption of this report, the Committee recommends that the Governor ensures the hospital develops and implements a comprehensive plan, with appropriate budgetary allocations, to acquire and operationalize the required facilities and equipment to provide all services required for a Level 5 hospital. The Auditor-General**

should monitor progress and keep this matter under review in the subsequent audit cycle; and

- iii. the Governor ensures the officer in charge of the facility has the requisite academic and professional qualifications in accordance with the Health Act, 2017 and provide evidence of measures taken to address the matter to Senate within 60 days of the adoption of this report.

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. Anomalies in property plant and Equipment

The statement of financial position and as disclosed in Note 32 to the financial statements, reflects Kshs. 6,445,645 in respect to property, plant and equipment. However, review of documents provided revealed the following anomalies;

1.1 Undisclosed Assets

Included in the property plant and Equipment balance of Kshs 6,445,645 and as disclosed in Note 32 to the financial statement are movable and non-movable assets of undermined value relating to land, buildings, and motor vehicles, which were not valued and disclosed in the financial statements. Further a detailed schedule indicating asset description, location, cost and ownership status was not provided for review.

Management Response

The Office of the CECM Health and Sanitation and the County Attorney is in the process of drafting an enabling legislation to create autonomy of Kapsabet County Referral Hospital to facilitate transfer of assets and as such the hospital does not own the assets.

Committee Observations

1. the Committee observed that the hospital failed to disclose certain critical assets, potentially including donated medical equipment, land, or newly constructed buildings, in its financial statements.
2. the Committee noted that omitting such assets significantly understates the net worth of the hospital and creates loopholes for the misappropriation or loss of public property.

Committee Recommendations

The Committee recommends that the Governor ensures that—

- i. the Governor ensures that the Accounting Officer liaises with the County Directorate of Asset Management to identify, value, and officially incorporate all undisclosed assets into the hospital's financial statements;
- ii. the Governor to make budgetary provisions for adjudication and valuation of assets to ensure a seamless process in the transfer of assets;
- iii. the Governor ensures that the management of the hospital undertakes the valuation of all assets of the hospital and submit the valuation report to the Auditor- General for verification during the subsequent audit cycle;
- iv. upon completion of the transfer and valuation, the Accounting Officer should prepare an updated asset register within 60 days of the adoption of this report and submit to the Auditor-General for verification; and
- v. the Governor, through the Accounting Officer ensures that the hospital maintains an up-to-date asset register in accordance with section 149(2)(o) of the Public Finance Management Act Cap 412A and in the format prescribed by the Public Sector Accounting Standards Board (PSASB), failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply.

1.2 Lack of a Fixed Asset Register

A review of available records revealed that the Management did not maintain a comprehensive fixed assets register detailing the assets that the Hospital owned

Management Response

The Hospital recognizes the importance of maintaining a comprehensive and accurate asset register. A countywide initiative to develop a comprehensive asset register was initiated and the identification and verification exercise was concluded.

In the interim, the Hospital has an updated inventory of all equipment and assets, which is being maintained as we await transfer of all assets after valuation was concluded.

Committee Observations

The Committee observed that —

1. the hospital operates without a comprehensive, updated fixed asset register that captures the cost, location, condition, and unique identification tags of its assets.
2. the Committee noted that this violates the guidelines issued by the Public Sector Accounting Standards Board (PSASB) and exposes valuable medical equipment and infrastructure to the risk of theft and untracked depreciation.

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; and
- iv. the Governor, through the Accounting Officer ensures that the hospital maintains an up-to-date asset register in accordance with section 149(2)(o) of the Public Finance Management Act Cap 412A and in the format prescribed by the Public Sector Accounting Standards Board (PSASB), failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply.

2. Lack of Approved Staff Establishment

Management should develop and have an approved staff establishment, which forms the basis for recruitment (annual recruitment plan).

Management Response

All staff within the facility are domiciled in the department of health who are in custody of the staff establishment. Attached herein is the approved staff establishment.

Committee Observations

The Committee observed that—

1. the Hospital is operating without an approved staff establishment, making it impossible to ascertain the optimal staffing levels required for the facility.
2. operating without an establishment leads to irregular recruitment, critical understaffing in essential clinical areas, and potential wage bill bloat, thereby compromising service delivery.

Committee Recommendations

The Committee recommends that—

- i. **the Governor ensures that the Hospital Management, in collaboration with the County Public Service Board, undertakes a comprehensive workload analysis to draft an optimal staff establishment; and**
 - ii. **the Governor ensures that the approved staff establishment is submitted to the County Assembly for adoption within ninety (90) days, ensuring that all future recruitment is strictly guided by this document. The Auditor-General to keep the matter in view and submit in the next audit cycle.**
- 3. Failure to Establish an Audit Committee and Operational Internal Audit Unit**

The Hospital has not established an audit committee and internal audit function. This was contrary to Regulation 167(1) of the Public Finance Management (County Governments) Regulations, 2015 which requires County Government entities to establish audit committees in accordance with prescribed regulations to monitor the entities' governance process, accountability process, and control systems, offer objective advice on issues concerning risk, control, regulatory requirements and governance. Further, no evidence was provided for the audit to confirm that the Hospital was audited by the internal audit unit from the County Executive of Nandi.

Management Response

The hospital management recognizes the audit concern regarding the lack of an audit committee and an operational internal audit unit. Currently, the hospital depends on the County Internal Audit Unit and audit committee for oversight. To address this issue, the hospital will collaborate with the Department of Finance to conduct regular internal audits these initiatives will enhance governance, accountability, and risk management processes, while also improving service delivery and resource management

Committee Observations

The Committee observed that—

1. the Hospital operated without its own Audit Committee and Internal Audit function, contravening Regulation 167(1) of the Public Finance Management (County Governments) Regulations, 2015.
2. while management claimed reliance on the County Internal Audit Unit, no evidence or audit reports were provided during the audit to confirm that such independent oversight actually occurred.

Committee Recommendations

The Committee recommends that—

- i. **the Governor ensures that the County Internal Audit Unit formally schedules and executes quarterly risk-based audits for the Hospital, with the resulting reports reviewed by the County Audit Committee; and**
- ii. **the Governor ensures that the Accounting Officer submits the gazette notice of the County Audit Committee and the internal audit reports for the period under review to the Auditor-General for verification within sixty (60) days.**

4. Lack of Risk Management Framework

During the year under review, the Hospital operated without a documented risk management policy framework. In addition, there was no evidence of risk identification, risk assessment, and evaluation of the likelihood of risk occurrence and its impact on entities' operations.

Management Response

The Hospital does not have a risk Management framework in place and is actively reviewing a risk management policy to address identified gaps. Management is committed to developing and operationalizing appropriate policies and procedures. These efforts aim to strengthen the internal control environment, enhance governance, and ensure effective risk identification and mitigation strategies.

Committee Observations

The Committee observed that the hospital operates without a documented risk management policy, leaving it unable to formally identify, assess, or mitigate operational risks.

Committee Recommendations

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

5. Lack of an Approved Disaster Recovery Plan

The Hospital operated an Information Technology (IT) system for capturing, storing and processing fees. In addition, the Hospital was responsible for custody of sensitive medical data of patients seeking its services alongside other operational data such as

pharmaceutical and non-pharmaceutical inventory management activities. However, the Hospital did not have an approved IT continuity plan and disaster recovery plan.

Management Response

The management is in the process of developing a comprehensive business plan. Backup management is contained in the ICT policy which is awaiting the facility board's consideration.

Committee Observations

The Committee observed that—

- i. despite holding highly sensitive patient health records and financial data, the Hospital operates without an approved Disaster Recovery Plan (DRP) or a Business Continuity Plan.
- ii. the Hospital operates without a documented Risk Management Policy, leaving it critically vulnerable to data loss, cyber-attacks, and operational failures.

Committee Recommendations

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

6. Poor Management of Medical Supplies

The statement of financial performance and as disclosed in note 15, reflects KSHS. 192,231,916 in relation to medical and clinical expenses. Which further Include KSHS. 21,707,400 in relation to the supply of pharmaceuticals as shown below. However, review of the documents revealed that the supplies were received without the involvement of the inspection and acceptance committee, which should include a pharmacist or appointed specialist.

Management Response

Due to human resource constraints, the management has been unable to place all key staff in all section as required. With the deepening of information technology uptake and the expansion of human resources, we commit to put in place real time inventory tracking systems alongside regular stock takes. Attached herein is a stock take as of 1st July 2025

Committee Observations

The Committee observed that—

1. pharmaceutical supplies worth Kshs. 21,707,400 were received without the involvement of an Inspection and Acceptance Committee containing a pharmacist or appointed specialist.
2. this circumvention of procurement laws exposes the Hospital and the public to the severe risk of receiving substandard, expired, or overpriced medical supplies.

Committee Recommendations

The Committee recommends that—

- i. **within sixty days of the adoption of this report, the Governor ensures that the Accounting Officer immediately constitutes a formally appointed Inspection and Acceptance Committee for all medical supplies, strictly comprising qualified technical specialists as required by the Public Procurement and Asset Disposal Act, 2015; and**
- ii. **the Ethics and Anti-Corruption Commission (EACC) investigates the procurement and receiving process for the Kshs. 21,707,400 pharmaceutical supplies to rule out fraud or collusion, and submits a status update to the Senate within ninety (90) days.**

CHAPTER FOUR: FUNDS

4.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR NANDI COUNTY ALCOHOLIC DRINKS FUND FOR THE FINANCIAL YEAR 2024/2025

The Governor of Nandi County, Hon. Stephen Kipyego Sang, EGH, appeared before the Committee on Wednesday 4th March, 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Nandi County Alcoholic Drinks Fund for financial year 2024/2025. He was accompanied by –

1. Mr. William Melly - Fund Administrator Alcoholic Drinks Control

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified opinion** on the financial statements of Nandi County Alcoholic Drinks Fund for the period under review on the following basis –

Emphasis of Matter

1. Budgetary Control and Performance

The Fund spent an amount of Kshs. 7,486,014 against actual receipts of Kshs. 20,278,795 resulting to an under-utilization of Kshs. 2,792,781 or 13% of the actual receipts. The under expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

Management Response

No response was submitted.

Committee Observations

The Committee observed that no verification was done since the management did not provide a response on the issue. The matter will be verified during the subsequent audit 2025-2026.

Committee Recommendations

The Committee recommends that-

- i. **the Accounting Officer should ensure strict compliance with section 149(2)(h) and (i) of the Public Finance Management Act, Cap. 412A and the standards prescribed by the Public Sector Accounting Standard Board under IPSAS 24 on the presentation of budget information in the financial statements for an entity that prepares financial statements under the accrual basis of financial reporting, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply; and**

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

Other Matter

1. Unresolved Prior Year Audit Matters

In the audit report of the previous year, several paragraphs were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in the Use of Public Resources and Report on the Effectiveness of internal Controls, Risk management and Governance. However, no report or recommendations from the Management of the Company and oversight bodied were submitted for audit verification. Therefore, the issues remain unresolved as indicated below;

Financial Year 2024-2025-Financial Audit Issue	Nature of the Issue
1. Lack of Trial Balance	Report on Financial Statements
2. Unsupported Transfers to National Bank of Kenya	Report on Financial Statements
3. Budgetary Control and Performance	Report on Financial Statements
4. Failure to Establish Rehabilitation Centers	Report on Lawfulness and Effectiveness in the use of Public Resources
5. Lack of Substantive Board	Report on Effectiveness of Internal Controls, Risk Management and Governance
6. Lack of Internal Audit Reports	Report on Effectiveness of Internal Controls, Risk Management and Governance
7. Lack of Strategic Plan	Report on Effectiveness of Internal Controls, Risk Management and Governance

This was contrary to Section 149(2)(l) of the Public Finance Management Act, 2012 which require Accounting Officers designated for County Government entities to try to resolve any issues resulting from an audit that remain outstanding.

Management Response

Nandi County Alcoholic Drinks management had invitation to County assembly for interrogation on prior year unresolved matters as per letter dated 13th May 2025 herein attached. Directorate submitted all require document and appeared before County

Assembly Public account and Investment committee on 30th July 2025. We are yet to receive recommendation from the Nandi County Assembly Public account and investment committee.

However, management has put necessary actions as detail below.

1. Trial balance

Management provided trial balance as per letter dated 10th December 2024 Ref. OAG/ERO/NCADCF/2023/2024 for NANDI COUNTY ALCOHOLIC DRINKS CONTROL FUND and received on 16/12/2024.

2. Unsupported transfers to National Bank of Kenya

The commission in question was erroneously deducted by the bank to include commissions on other revenue streams, the bank was however notified as per letter 3rd September 2024 and a copy herby attached with response letter from the bank. The bank in subsequent financial year will use the extra amount to offset commission owing to it by Alcoholic Drinks Control Fund.

3. Budgetary Control and Performance

Following the directive on 6th March 2024, mitigation measure No.10 from National Government through the Ministry of interior and National Co-ordination that prohibited Police and State officers involved in Enforcement of Nacada Act of 2010, from operating liquor business and closure of all premises in residential areas, a number of outlets that were approved were denied licenses. The directive affected the revenue collection and implementation of programs due to limited resources. Liquor licenses are issued based on calendar year rather than financial year however it was impossible for Directorate to expend the money collected within the two quarters 3rd and 4.

4. Lack of substantive board

Nandi County Alcoholic Drinks 2014 act does not provide for a board but Nandi County Alcoholic drinks control bill 2025 (Part II section 4) provide for establishment of the board.

5. Lack of internal Audit Report

Internal audit reports at the time under review were domicile at County Headquarters Audit Office, however directorate have taken initiative to ensure all directorate report are kept within directorate to ensure its availability whenever required.

6. Lack of strategic plan

The directorate strategic plan was still under work in progress for the year under review and it has ensured that the document is completed and implemented.

Committee Observations

The Committee observed that the management did not resolve some of the issues raised by the Auditor-General in the previous financial year.

Committee Recommendations

The Committee recommends that-

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

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 Establish Rehabilitation Centers

As reported in the previous year, the Fund did not in collaboration with other County and National Government Institutions establish a treatment and rehabilitation facilities and programmes in Nandi County. This was contrary to Section 4(2)(d) of the Nandi County Alcoholic Drinks Control Act, 2014 which states that the function of the Directorates shall be to facilitate and promote in collaboration with other County and National Government institutions, the establishment of treatment and rehabilitation facilities and programs.

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

Management Response

The Nandi County Alcoholic drinks control fund through the County Government of Nandi is in the final stages of taking over Kabirisang rehabilitation centre in Emgwen Sub County from the office of Nandi County women representative which was constructed through National Government affirmative fund. The office of women Representative has equipped the facility and in the final process of handing over the

facility to directorate of alcoholic drinks control. Her office had requested the department to ensure that they provide security to the premises to safeguard the equipment in the facility as per letter 05/6/2024. Further Nandi County Alcoholic drinks control fund will endeavour to establish more rehabilitation centres once funds are available.

Committee Observations

The Committee observed that the handing over process of Kabirisang Rehabilitation Center from the Office of Nandi County Women Representative is ongoing and will endeavor to establish more rehabilitation centres once funds are available.

Committee Recommendations

The Committee recommends that-

- i. The Governor to fast track the handing over process of the Kabirisang Rehabilitation Centre to the Nandi County Alcoholic Drinks Fund and the Auditor-General give a status update on the efforts to the Committee in the subsequent audit cycle; and**
- ii. The Governor to ensure strict adherence to Section 4(1)(2)(d) of the Nandi County Alcoholic Drinks Control Act, 2014 and establish the Alcoholic Drinks Control Directorate to collaborate with National Government institutions and establish rehabilitation facilities and programs.**

2. Non-Establishment of County Government Chemist

Review of schedules and payment vouchers provided revealed that the Fund made payments amounting to Kshs. 1,400,000 to the Government chemist towards sample testing in Nairobi as detailed in the table below;

No.	Description	Bill Ref No.	Amount Paid (Kshs)
1	Analysis fee for 15 samples	8YBRQ2C	300,000
2	Analysis fee for 15 samples	8YBRQ8AC	300,000
3	Analysis fee for 15 samples	9YBRQ95YO	300,000
4	Analysis fee for 15 samples	9YBRQ95YI	300,000
5	Analysis fee for 10 samples	8YBRQ6Z	200,000
	Total		1,400,000

This was contrary to section 4(1) and (2) of Nandi County Alcoholic Drinks Control Act, 2014 which states that the functions of the Directorate shall be to facilitate the establishment and oversee operations of a County Government Chemist and laboratory facilities for research and testing of samples of alcoholic drinks.

In circumstances, Management was in breach of the law.

Management Response

Nandi County Assembly in their wisdom had a noble idea of establishment of Nandi County Government chemist and lab, however it has been difficult for its materialization because it requires huge amounts of resources which the fund cannot accommodate. Amendments of the act under Nandi County Alcoholic drinks control bill 2025 is in final stages and is awaiting Governor's accent. The bill does not include the establishment of the same.

Committee Observations

The Committee observed that Amendments to the Nandi County Alcoholic Drinks Control Act to provide for a Directorate that shall oversee operations including the establishment of County Government chemist is in final stages and is awaiting Governor's accent.

Committee Recommendations

The Governor, through the county Assembly, to fast track the passage of the proposed amendments to the Nandi County Alcoholic Drinks Control Act, 2014. The Auditor-General to keep the matter in view and report to the Committee 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 matter formed the basis for conclusion that internal controls, risk management and overall governance were not effective –

1. Lack of Internal Audit Reports

As reported in the previous year, a review of records revealed that the Fund had not been subjected to internal audit review to strengthen the internal controls and provide oversight as required by Regulation 157(l)(a) to (e) of the Public Finance Management (County) Regulations, 2015.

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

Management Response

The Nandi County Alcoholic Drinks Control Fund relied on the internal audit committee which is not in existence as most of the employees in that office were affected during County staff audit on employment irregularities. All the underrating relating to the checks and control was supposed to be done by the County internal audit unit.

Committee Observations

The Committee observed that the query remains unresolved as the fund management did not provide evidence of internal audit reports.

Committee Recommendations

The Committee recommends that Governor to ensure compliance to Regulation 157(l)(a) to (e) of the Public Finance Management (County) Regulations, 2015 and secure an independent audit function for the fund and implement regular audits to restore effective oversight and compliance with regulations. The Auditor-General to keep the matter in view and report in the subsequent audit cycle.

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

The Governor of Nandi County, Hon. Stephen Kipyego Sang, EGH, appeared before the Committee on Wednesday 4th March, 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Nandi County Climate Change Fund for financial year 2024/2025. He was accompanied by –

1. CPA Alfred Lagat - CECM Finance and Economic Planning
2. Mr. Jonah Biwott - Chief Officer Climate Change

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified opinion** on the financial statements of Nandi County Climate Change Fund for the period under review on the following basis –

1. Inaccurate Disclosure of Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment of Kshs 228,661,911 as disclosed at Note 22 to the financial statements. However, computation of fixed asset schedule reflects the balance of Kshs 228,703,913 resulting to a variance of Kshs 42,002.

Management Response

The true position of property plant and equipment stands at Kshs. 228,661,911 and not Kshs. 228,703,913 as per your computation.

Committee Observations

The Committee observed that management did not provide the correct schedule to support the PPE amount in the financial statements. The lease agreements, land ownership documents, consent letters, and other legal arrangements for the parcels of land on which the water tanks for the Kiropket, Kiptenden, and Kapkawa water projects were constructed were not provided.

Committee Recommendations

The Committee recommends that-

- i. **the Governor takes appropriate administrative action on responsible officers within the Accounts and Finance department who fail to keep complete financial records in accordance with section 156(1) of the Public Finance Management Act, Cap.412A and in line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act,**

Cap.412A on penalties for offences shall apply. Further, the Governor submits a status update report of the administrative action taken to the Senate within 60 days of the adoption of this report;

- ii. the Governor ensures that the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply; and**
- iii. Governor ensures that the Accounting Officer ensures that supporting documents are availed to the Auditor during audit as required under section 9(1)(e) of the Public Audit Act, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act, 2015 in the subsequent audit cycle.**

2. Misstatement of Depreciation Charge

Statement of financial performance reflects current depreciation of Kshs 26,628,404 as disclosed at Note 13 to the financial statements. However, computation of depreciation reflects Kshs 26,248,516 resulting to a variance of Kshs 379,888.

Management Response

Using the applicable National depreciation rates 2% on buildings, 20% on motor vehicles, 12.5% on furniture and fittings, 25% on computers, and 10% on infrastructure the total depreciation stands at Kshs. 26,628,404. This aligns with the figure disclosed in Note 13.22 and reflects accurate application of the depreciation policy across asset categories.

Committee Observations

The Committee observed that management applied the national depreciation rates but did not provide supporting workings to demonstrate how the amount of Kshs. 26,628,404 was arrived at instead of Kshs. 26,248,516.

Committee Recommendations

The Committee recommends that the Governor ensures that the Accounting Officer ensures that supporting documents are availed to the Auditor during audit as required under section 9(1)(e) of the Public Audit Act, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act, 2015 in the subsequent audit cycle.

3. Un-Balanced Trial Balance

The trial balance provided for review did not balance. The book value for building of Kshs 7,233,290 was omitted from the trial balance and did not exist in books of accounts. Management did not explain how the net book value of buildings of Kshs. 7,233,290 was disclosed in financial statements.

Management Response

An amount of Kshs. 7,233,290 was an error of omission which is highly regretted. This amount will be rectified in the subsequent financial year financial statements. However, the management has taken administrative action to ensure that such errors will not recur again in future.

Committee Observations

The Committee observed that there was an error of omission of Kshs. 7,233,290 in the financial statements which management committed to rectify in the subsequent financial statements.

Committee Recommendations

The Committee recommends that-

- i. the Governor ensures the Accounting Officer strengthens internal audit controls and ensures proper record keeping in line with section 155 of the Public Finance Management Act, Cap.412A and submit a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- ii. the Governor ensures that the Accounting Officer enhances the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements; and**
- iii. the Accounting Officer ensures that prior year adjustments are carried out in the company's financial statements of the subsequent year to correct the errors to reflect the true financial position of the company.**

4. Unconfirmed Transfer from County Government Entities

Statement of performance reflects transfer from county Government entities of Kshs. 62,500,000 and as disclosed at Note 7 to the financial statement. However, review of

financial statements of County Government entities indicates Kshs. 25,991,580 resulting to a variance of Kshs. 36,508,420.

Management Response

The true position is that an amount Kshs. 62,500,000 was transferred from the County Revenue Fund to the Nandi Climate Change Fund. This is confirmed by the confirmation letter for inter-entry confirmation letter from the Nandi County executive.

Committee Observations

The Committee observed that Management provided the inter-entry confirmation letter from the Nandi County Executive, which was verified and showed an amount of Kshs. 62,500,000. However, the special purpose bank statement was not provided for verification.

Committee Recommendations

The Committee recommends that the Governor ensures that the Accounting Officer ensures that supporting documents are availed to the Auditor during audit as required under section 9(1)(e) of the Public Audit Act, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act, 2015 in the subsequent audit cycle.

5. Unconfirmed Use of Goods and Services Expenses

The payment of Kshs 3,993,450 did not have details of payees, Kshs. 6,638,747 was paid as daily subsistence to individuals who are not employees of the fund as the fund does not have employees of its own and Kshs. 980,989 was paid as legal fees whose details were not provided for review.

Management Response

At the time of audit, they did provide the payment details of Kshs. 3,993,450. However, they resubmitted for review and advice.

The amount of Kshs. 6,638,747 paid as daily subsistence was disbursed to technical staff from the County Government of Nandi, specifically from the Department of Lands, Water, Physical Planning, Housing, Natural Resources, and Climate change. While the fund does not have employees of its own, it operates with appointed County Climate Change Unit (CCU) members and regularly requests support from relevant departmental staff to carry out its activities.

The payment of Kshs. 980,989 paid as legal fees has been annexed for review and advice.

Committee Observations

The Committee observed that whereas Payment vouchers were provided and verified by the Auditor-General, the submission was done outside the timelines contemplated under the Public Audit Act, Cap.412B and constitutes an offence under section 62(2) of the Act.

Committee Recommendations

The Committee recommends that the Governor ensures that the Accounting Officer ensures that supporting documents are availed to the Auditor during audit as required under section 9(1)(e) of the Public Audit Act, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act, 2015 in the subsequent audit cycle.

Emphasis of Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs. 302,278,749 and Kshs. 289,145,394 respectively resulting into under-realization of Kshs. 13,133,355 or 4% of the budget. Similarly, the Fund incurred total expenditure of Kshs. 202,551,995 against actual receipts of Kshs. 289,145,394 thereby resulting into an under-expenditure of Kshs. 86,593,99 or 30% of the actual receipts.

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

Management Response

The under-expenditure did not affect the planned activities, since the amount represents outstanding payables that had already been committed and planned for within the financial year. The settlement of these payables will be undertaken in the subsequent financial year in line with approved budgetary provisions.

Accordingly, all planned activities for the year remain intact, and service delivery to the public has not been compromised.

Committee Observations

The Committee observed that-

1. management realized a revenue of Kshs. 302,278,749 and utilized Kshs. 289,145,394 resulting into under-realization of Kshs. 13,133,355 or 4% of the budget.

2. the Fund incurred total expenditure of Kshs. 202,551,995 against actual receipts of Kshs. 289,145,394 thereby resulting into an under-expenditure of Kshs. 86,593,99 or 30% of the actual receipts.

Committee Recommendations

The Committee recommends that-

- i. the Accounting Officer should ensure strict compliance with section 149(2)(h) and (i) of the Public Finance Management Act, Cap. 412A and the standards prescribed by the Public Sector Accounting Standard Board under IPSAS 24 on the presentation of budget information in the financial statements for an entity that prepares financial statements under the accrual basis of financial reporting, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply; and
- ii. the Accounting Officer should comply with regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures, failure to which the provisions of section 199 of the Public Finance.

Other Matter

1. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised. However, management had not resolved and disclosed the status of all the prior year matters as prescribed in the reporting requirements set by the Public Sector Accounting Standards Board. Management did not provide satisfactory explanation for the delay in resolving the issues.

Management Response

They wish to confirm that the outstanding issues have since been addressed and resolved. The status of each prior year matter has now been appropriately disclosed in the amended financial statements.

This corrective action ensures compliance with the prescribed disclosure requirements and enhances the transparency and reliability of the financial reporting process.

Committee Observations

The Committee observed that the management did not resolve some of the issues raised by the Auditor-General in the previous financial year.

Committee Recommendations

The Committee recommends that-

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

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. Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment amount of Kshs. 228,661,911 as disclosed in Note 22 to the financial statements. During project verification it was observed that distribution tanks for Kiroket water project, Kiptenden water project, and Kapkawa water project are constructed on private land. Further, the agreement between County Government Nandi and private land owners authorizing construction of the distribution tanks were not provided.

In the circumstance the ownership of the distribution tanks could not be confirmed.

Management Response

Management note the audit observation on property, plant and equipment amounting to Kshs. 228,661,911 and the issues identified during project inspections. We wish to state as follows:

- Concerning the projects implemented on private land, the County Legal Department is finalizing formal agreements with the respective landowners to safeguard public investments and secure continued access.

Committee Observations

The Committee observed that management did not provide the correct schedule to support the PPE amount in the financial statements. The lease agreements, land ownership documents, consent letters, and other legal arrangements for the parcels of

land on which the water tanks for the Kiropket, Kiptenden, and Kapkawa water projects were constructed were not provided.

Committee Recommendations

The Committee recommends that-

- i. the Governor takes appropriate administrative action on responsible officers within the Accounts and Finance department who fail to keep complete financial records in accordance with section 156(1) of the Public Finance Management Act, Cap.412A and in line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply. Further, the Governor submits a status update report of the administrative action taken to the Senate within 60 days of the adoption of this report;**
- ii. the Governor ensures that the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply; and**
- iii. Governor ensures that the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9(1) (e) of the Public Audit Act, Cap.412B failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act in the subsequent audit cycle.**

4.3. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR NANDI COUNTY EXECUTIVE EDUCATION FUND FOR THE FINANCIAL YEAR 2024/2025

The Governor of Nandi County, Hon. Stephen Kipyego Sang, EGH, appeared before the Committee on Wednesday 4th March, 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Nandi County Executive Education Fund for financial year 2024/2025. He was accompanied by –

1. Alfred Lagat - CECM Finance
2. Cheruiyot Nicholas - Accountant

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified opinion** on the financial statements of Nandi County Executive Education Fund for the period under review on the following basis –

1.0 Acknowledgement of Bursary Transfers

The statement of financial position reflects cash and cash equivalents balance of Kshs. 79,573,860 which according to Note 10 to the financial statements was made up of transfers to Universities of Kshs. 12,849,705, transfers to TVETS and VTCs of Kshs. 22,873,966, transfers to Secondary schools of Kshs. 36,888,524 and transfers to special needs education of Kshs. 6,961,665. However, out of the disbursements of Kshs. 79,573,860, only Kshs. 16,860,160 were supported by acknowledgement receipts from the receiving institutions thereby leaving a balance of Kshs. 62,713,700 unacknowledged.

In the circumstances, the accuracy and completeness of bursary transfers amount of Kshs. 79,573,860 could not be confirmed.

Management Response

Management acknowledges the audit observation. The noted variance arose due to delayed submission of acknowledgement receipts from some of the learning institutions, mainly owing to differences in institutional reporting timelines and challenges in obtaining confirmations from institutions outside the county.

Subsequent to the audit, the Fund Secretariat has since followed up with all beneficiary institutions, and the majority have provided the necessary acknowledgement receipts to support the disbursements. The remaining few institutions are being engaged to provide the receipts, and the process is at an advanced stage.

Management confirms that all the bursary transfers amounting to Kshs. 79,573,860 were disbursed to eligible institutions as per approved beneficiary lists and within the approved bursary allocation for the year under review. The expenditure is therefore fully accounted for and properly supported.

The variance was purely due to delayed submission of acknowledgement receipts and not unsupported expenditure. Management has since obtained most of the outstanding receipts and acknowledgements amounting to Kshs. 64,331,772 and the remaining are still being pursued to ensure 100% compliance.

Committee Observations

The Committee observed that

1. management provided acknowledgement for Kshs. 64,331,772 whereas the balance of Kshs. 15,242,088 has not been acknowledged.
2. The variance arose due to delayed submission of acknowledgement receipts from some of the learning institutions, mainly owing to differences in institutional reporting timelines and challenges in obtaining confirmations from institutions outside the county.

Committee Recommendations

The Committee recommends that-

- i. management should follow-up the outstanding acknowledgements and confirm receipt of the funds. The Auditor-General to keep the matter in view and report in the subsequent audit cycle; and**
- ii. Governor ensures that the Accounting Officer should ensure timely submission of documents during the audit process in line with section 47(1) of the Public Audit Act, Cap.412B as read together with section 149(2)(k) failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act in the subsequent audit cycle.**

2.0 Cash and Cash Equivalents

Statement of financial position and as disclosed in Note 13 to the financial statements reflects cash and cash equivalents of Kshs. 19,582,803. However, review of June 2025 bank reconciliation statements revealed unrepresented cheques amounting Kshs. 60,685,262 out of which cheques totaling Kshs. 51,175,162 had been cleared as at the time of Audit in mid-October, 2025 leaving a balance of Kshs. 9,510,100 uncleared.

In the circumstances, the accuracy and completeness of bursaries amounting Kshs. 9,510,100 could not be confirmed.

Management Response

The unrepresented cheques amounting to Kshs. 60,685,262 as at 30 June 2025 were payments processed towards bursary disbursements to various learning institutions under the Nandi County Education Scheme. Out of these, cheques totaling Kshs.

51,175,162 had been presented and cleared by the time of audit in October 9th, 2025, leaving an outstanding balance of Kshs. 9,510,100.

The delay in clearance of the remaining cheques was mainly attributed to late presentation by some beneficiary institutions, most of which are located in remote areas or institutions with geographical disparities. Management has since followed up with the respective institutions, and confirmation of receipt and banking of the remaining cheques has been obtained; Kshs 55,808,662 cleared as at 31st October, 2025.

Additionally, further cheques amounting to Kshs 4,045,000 had been cleared by 31st December, 2025 meaning uncleared cheques remains at Kshs 831,600. All the payments were properly authorized, supported by bursary award lists, and issued to legitimate beneficiaries as approved by the Fund's Management Committee. The Fund maintains adequate records, including acknowledgment registers and supporting documentation, to verify that the bursaries reached the intended recipients.

Management will continue to strengthen follow-up mechanisms and ensure timely reconciliation and clearance of all issued cheques to enhance accountability and improve financial reporting accuracy in subsequent periods.

Committee Observations

The Committee observed that-

1. Management confirmed Kshs 55,808,662 had been cleared as at 31st October, 2025. Additionally, further cheques amounting to Kshs 4,045,000 had been cleared by 31st December, 2025 meaning uncleared cheques remains at Kshs 831,600. However, they did not provide evidence to show that the amounts have been partially settled.
2. The delay in clearance of the remaining cheques was mainly attributed to late presentation by some beneficiary institutions, most of which are located in remote areas or institutions with geographical disparities.

Committee Recommendations

The Committee recommends that-

- i. **Management should provide bank reconciliation statements supporting the cleared cheques and ensure that those which have not cleared and gone stale are reversed in the cash book; and**
- ii. **Governor ensures that the Accounting Officer should ensure timely submission of documents during the audit process in line with section 47(1) of the Public Audit Act, Cap.412B as read together with section 149(2)(k) failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act in the subsequent audit cycle.**

Emphasis of Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final budget and actual on a comparable basis of Kshs. 164,000,000 and Kshs. 90,000,000 respectively resulting to an underfunding of Kshs. 74,000,000 or 45% of the budget. Similarly, the Fund spent Kshs. 88,531,209 against actual receipts of Kshs. 90,000,000 resulting to an under-utilization of Kshs. 1,468,791 or 2% of the actual receipts.

In the circumstance, the underfunding and under-realization on the budgeted funds may have affected disbursement of bursary funds to needy students and impacted negatively on their education.

Management Response

The variance between the final budget of Kshs. 164,000,000 and actual receipts of Kshs. 90,000,000, resulting in an underfunding of Kshs. 74,000,000 (45%), was mainly due to reduced exchequer releases from the County Treasury occasioned by overall county cash flow constraints during the financial year. Consequently, the Fund's receipts were lower than the budgeted amounts, leading to the noted underfunding.

Despite the funding shortfall, the Fund utilized Kshs. 88,531,209 representing 98% of the actual receipts, ensuring that the available resources were optimally applied to support the targeted bursary beneficiaries. The slight under-utilization of Kshs. 1,468,791 (2%) was due to timing differences between the close of the financial year and completion of disbursement processes, which have since been finalized in the subsequent period.

Management continues to liaise closely with the County Treasury to enhance predictability and timeliness of fund disbursements and will strengthen budget monitoring and cash flow planning to minimize the impact of underfunding on bursary disbursements in future financial periods.

Committee Observations

The Committee observed that there was an underfunding of Kshs. 74,000,000 or 45% of the budget. Similarly, the Fund spent Kshs. 88,531,209 against actual receipts of Kshs. 90,000,000 resulting to an under-utilization of Kshs. 1,468,791 or 2% of the actual receipts

Committee Recommendations

The Committee recommends that-

- i. the Accounting Officer should ensure strict compliance with section 149(2)(h) and (i) of the Public Finance Management Act, Cap. 412A and the**

standards prescribed by the Public Sector Accounting Standard Board under IPSAS 24 on the presentation of budget information in the financial statements for an entity that prepares financial statements under the accrual basis of financial reporting, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply; and

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

Other Matter

1. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under report on Financial Statements, Report on Lawfulness and Effectiveness in the use of Public Resources and Report on effectiveness of Internal Controls, Risk management and Governance. However, they have remained unresolved.

Management Response

During the year under review, the Fund initiated corrective measures to address the cited issues, including strengthening internal controls, improving documentation and record-keeping, enhancing compliance with applicable laws and regulations, and implementing recommendations from both internal and external audits. However, full resolution of some matters was delayed due to factors such as delayed system enhancements, and dependencies on actions from other key stakeholders like county assembly and senate.

Continuous engagement with the County Treasury, Internal Audit, and Audit Committee is ongoing to ensure that all pending matters are fully resolved in the subsequent financial year.

Committee Observations

The Committee observed that the query remains unresolved as the management did not resolve some of the issues raised by the Auditor-General in the previous financial year.

Committee Recommendations

The Committee recommends that-

- i. the Accounting Officer should resolve any issues resulting from an audit that remains outstanding in accordance with section 149(2)(l) of the Public Finance Management Act as read together with section 53(1) of

the Public Audit Act. Failure to which the accounting officer shall be in contempt of parliament and we may recommend administrative sanctions such as the removal of the accounting officer, reduction in rank; and

- ii. **the Governor ensures the accounting officer submits a detailed status report on the mitigation measures taken to resolve prior year matters within 60 days of the adoption of this report.**

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. Lack of Internal Audit and Audit Committee Report

Examination of governance arrangements of the Fund revealed that there was no internal audit and audit committee reports on the Fund's operations for the year under review. In the circumstance, it was not possible to confirm whether oversight on the internal control system, and risk management and overall governance structures was effective. This is contrary to Regulation 158 of the Public Finance Management (County Governments) Regulations, 2015.

In the circumstances, it was not possible to confirm the overall governance on the Funds operations.

Management Response

The absence of specific internal audit and audit committee reports on the Fund's operations during the year under review was mainly due to capacity and structural constraints within the County Government's internal audit function. The County Internal Audit Department is responsible for auditing all county entities, including the Nandi County Education Scheme, and due to limited staffing and competing audit priorities, the Fund was not subjected to a standalone audit during the year.

Nonetheless, the Fund's operations were subject to periodic financial reviews and monitoring by the County Treasury and the Internal Audit Department as part of the overall County audit plan. In addition, management has continued to uphold sound internal control practices, proper documentation, and compliance with established financial management procedures to ensure accountability and transparency.

To address the gap, management has formally requested the County Internal Audit Department to prioritize the Fund in its upcoming annual audit plan. Furthermore, engagement with the County Audit Committee is ongoing to ensure that oversight

mechanisms are strengthened and that future internal audit and audit committee reports specific to the Fund are prepared and tabled in a timely manner, in line with Regulation 158 of the Public Finance Management (County Governments) Regulations, 2015

Committee Observations

The Committee observed that the fund operations was not oversighted by internal Audit and Audit Committee.

Committee Recommendations

The Committee recommends that Management should ensure that the fund's operations are reviewed by the Internal audit to strengthen the controls and report reviewed by the audit committee. The Auditor-General to keep the matter in view and report in the subsequent audit cycle.

2. Lack of Risk Management Policy

The Fund does not have a Risk Management Policy or a disaster recovery plan in place during the year under audit. In the circumstances, management lacks a mechanism to help in detection and mitigation of any possible risks to the Fund.

Management Response

It is true that during the year under review, the Fund did not have a formal Risk Management Policy or Disaster Recovery Plan in place. This was mainly due to the fact that the Fund relies on the County Government's overarching risk management framework, which was still in the process of being cascaded to individual county entities and funds.

Management recognizes the importance of having a structured approach to identifying, assessing, and mitigating risks that may affect the Fund's operations and service delivery. Consequently, the Fund, in collaboration with the County Treasury and Internal Audit Department, has initiated the process of developing a Risk Management Policy and Disaster Recovery Plan tailored to its operations. The policy will provide clear guidelines for risk identification, assessment, monitoring, and reporting, while the disaster recovery plan will outline procedures for continuity of operations in case of disruptions. These measures are expected to be finalized and implemented in the next financial year to strengthen governance, accountability, and operational resilience

Committee Observations

The Committee observed that the Fund did not have a risk management policy in place at the time of audit.

Committee Recommendations

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

4.4. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR NANDI COUNTY EMERGENCY FUND FOR THE FINANCIAL YEAR 2024/2025

The Governor of Nandi County, Hon. Stephen Kipyego Sang, EGH, appeared before the Committee on Wednesday 4th March, 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Nandi County Emergency Fund for financial year 2024/2025. He was accompanied by –

1. CPA Alfred Lagat - CECM Finance and Economic Planning

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified opinion** on the financial statements of Nandi County Emergency Fund for the period under review on the following basis –

Emphasis of Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget of Kshs. 45,005,863 against actual receipts of Kshs. 44,901,463, resulting in an under-receipt of Kshs. 104,400 (0.2%). Similarly, the Fund spent Kshs. 36,489,134 against actual receipts of Kshs. 44,901,463 leading to under expenditure of Kshs. 8,412,329 (23%).

In the circumstances, although the under-receipt of Kshs. 104,400 (0.2%) is negligible and had minimal impact on the Fund's financing, the significant under-expenditure of Kshs. 8,412,329 (23%) adversely affected the timely implementation.

Management Response

During the year under review no planned activities were hampered as an amount of Kshs. 8,412,329 will be utilized in paying the pending commitments for the financial year 2024/2025.

Committee Observations

The Committee observed that the unutilized balance of Kshs. 8,412,329 would be used to settle pending commitments in the 2024/2025 financial year.

Committee Recommendations

The Committee recommends that-

- i. **The Governor ensures that the Accounting Officer ensures strict compliance with section 149(2) (h) and (i) of the Public Finance Management Act, Cap. 412A and the standards prescribed by the Public**

Sector Accounting Standards Board under IPSAS 24 on the presentation of budget information in the financial statements for an entity that prepares their financial statements under the accrual basis of accounting, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply; and

- ii. The Governor ensures that the Accounting Officer complies with regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply.**

Other Matter

1. Unresolved Prior Year Audit Matters

In the audit report of the previous year, three paragraphs were raised under the Report on Financial Statements and Report on Lawfulness and effectiveness in the use of public Resources as detailed below;

	Issue As Per Previous Year Financial Statements FY 2023/2024	Status
1	Accuracy, Presentation and Disclosure of the Financial Statements	Report on the Financial Statements
2	Delayed Transfer of Receipts from County Government of Nandi	Report on the Financial Statements
3	Funding to the County Emergency Fund	Report on Lawfulness and Effectiveness in use of Public Resources

However, no report or recommendations from the Management of the Fund and oversight bodies were submitted for audit verification. Therefore, the issues remain unresolved contrary to Section 149(2)(1) of the Public Finance Management Act, 2012 which require accounting officers designated for county government entities to try to resolve any issues resulting from an audit that remain outstanding.

Management Response

The Nandi County Executive, through a letter dated 1st July 2025 (Ref: CG/NDI/ADM/1/55.VOL.1/163) appeared before the Senate County Public Investments Committee on 8th July 2025 to deliberate on the Audit Report for the Financial Year 2023/2024 of which we are yet to receive recommendations on the committee resolutions.

However, we took the initiative to address the actions that were raised in the prior years audit. Presented herein are the specific prior year issues raised together with the

corresponding actions undertaken by the County Executive to ensure compliance, strengthen governance and enhance financial management practices in line with statutory and oversight requirements.

	Issue As Per Previous Year Financial Statements FY 2023/2024	Action Taken In FY 2024/2025
1	Accuracy, Presentation and Disclosure of the Financial Statements	All errors in the Financial Statements for FY 2023/2024 were rectified in the FY 2024/2025
2	Delayed Transfer of Receipts from County Government of Nandi	Timely transfer of emergency funds was realized in the FY 2024/2025
3	Funding to the county Emergency Fund	Increased from Kshs. 25 M in FY 2023/2024 to Kshs. 44.9M in the FY 2024/2025

Committee Observations

The Committee observed that the fund management are awaiting committee recommendations on the audit issues raised.

Committee Recommendations

The Committee recommends that-

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

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 Fund Emergency Management Plan

Review of the Nandi County Emergency Fund operations revealed that while Management responded to various emergencies during the year, there was no evidence of an approved County Emergency Management Plan. This was contrary to Section 13(1) of the Nandi County Emergency Fund Act, 2020 which explicitly states that the relevant County Executive Committee Member to prepare a County Emergency Management Plan. In addition, the Fund had also contravened Section 13(2) of the same Act, which states that the plan must include specific elements such as vulnerability assessments, mitigation measures, integration with development plans, capacity-building initiatives, and departmental roles.

Further, this was also contrary to Section 13(3) which stipulates that the plan must be adopted by the County Executive Committee, approved by the County Assembly, and periodically reviewed. The absence of such a plan indicates systemic non-compliance with these statutory provisions.

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

Management Response

The county government of Nandi has a draft disaster management plan in place which serves the same purpose as emergency plan. This plan outlines the disaster preparedness, disaster mitigation and disaster handling procedures. This draft will be approved in this financial year 2025/2026.

Committee Observations

The Committee observed that the County Disaster Management Plan was submitted and verified but was in draft form.

Committee Recommendations

The Committee recommends that the Governor ensures compliance to Section 13(1)– (3) of the Nandi County Emergency Fund Act, 2020 which requires the relevant County Executive Committee Member to prepare a County Emergency Management Plan detailing the County’s vulnerabilities to emergencies, which must be adopted and approved by the County Executive Committee and the County Assembly and reviewed periodically.

2. Non-Compliance with Financial Statements Presentation Requirements

Review of the financial statements for the year ended 30 June, 2025 revealed several deviations from the prescribed format including wording "Revised 30 June 2025 on the

cover page, misalignment of the Table of Contents, a blank page iii, omission of the year end date under Fiduciary Management, misalign in Key Management Team, and inconsistent formatting where contents under sub-titles in the Report of the County Executive Member for Finance and Management Discussion and Analysis were bolded.

Further, the Statement of Performance against Predetermined Objectives was not presented in the prescribed Public Sector Accounting Standards Board format contrary to Section 80(1) of the Public Finance Management Act, 2012 requiring the Emergency Funds to prepare clear and comprehensive annual financial statements in accordance with formats prescribed by the Public Sector Accounting Board (PSASB).

Management Response

These are errors of omission which is highly regreted. However, we have rectified all these errors in the amended financial statements herein annexed. Going forward errors will not occur again.

Committee Observations

The Committee observed that there were errors in the financial statements which were amended.

Committee Recommendations

The Committee recommends that-

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

4.5. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR NANDI COUNTY FACILITIES IMPROVEMENT FUND FOR THE FINANCIAL YEAR 2024/2025

The Governor of Nandi County, Hon. Stephen Kipyego Sang, EGH, appeared before the Committee on Wednesday 4th March, 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Nandi County Facilities Improvement Fund for financial year 2024/2025. He was accompanied by –

1. Mr. Fredrick Kiptum - Chief Officer Health
2. CPA Julius Kemboi - FIF Administrator

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified opinion** on the financial statements of Nandi County Executive Education Fund for the period under review on the following basis –

1. Irregular Expensing of Assets

The statement of financial performance reflects use of goods and services amount of Kshs. 65,732,507 as disclosed in Note 12 to the financial statements. Included in this amount is Kshs. 3,995,500 spent on acquisition of hospital bed that was expended instead of being disclosed under property, plant and equipment. Included in use of goods and services expense of Kshs. 65,732,507 is Kshs. 1,049,800 for sundry expenses of Kshs. 500,000 spent on National Day celebrations and Kshs. 366,400 spent on subscription and professional bodies. However, supporting documents were not provided for review and Management did not explain whether these amounts were budgeted for and approved.

In the circumstances, the accuracy, validity and completeness of use of goods expense of Kshs. 65,732,507 could not be confirmed.

Management Response

The misposting of Ksh. 3,995,500 for acquisition of hospital beds for Kapsabet Referral Hospital to Use of Goods and Services instead being disclosed under Property Plant and Equipment was erroneous and an amendment will be effected in the subsequent financial statements under Prior year adjustments.

The supporting documents relating to sundry expenses of Kshs. 1,049,800, National Day celebrations expense of Kshs. 500,000 and Subscription and Professional bodies fees of Kshs. 366,400 are available and copies are attached.

Committee Observations

The Committee observed that-

1. There was missposting of Ksh. 3,995,500 for acquisition of hospital beds for Kapsabet Referral Hospital to Use of Goods and Services instead being disclosed under Property Plant and Equipment.
2. Management did not provide supporting documents relating to sundry expenses of Kshs. 1,049,800, National Day celebrations expense of Kshs. 500,000 and Subscription and Professional bodies fees of Kshs. 366,400.

Committee Recommendations

The Committee recommends that-

- i. **the Governor ensures that the Accounting Officer enhances the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements;**
- ii. **the Accounting Officer ensures that prior year adjustments are carried out in the company's financial statements of the subsequent year to correct the errors to reflect the true financial position of the company; and**
- iii. **the Accounting Officer ensures that supporting documents are availed to the Auditor during audit as required under section9(1)(e) of the Public Audit Act, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act, 2015 in the subsequent audit cycle.**

2. Unconfirmed Utilization of funds transferred to Health Facilities

The statement of financial performance and as disclosed in Note 14 to the financial statements reflects transfers to various health facilities of Kshs. 229,990,227. The amounts transferred as disclosed in Note 14 agree with amounts received in the various health facilities. However, three (3) health facilities which include; Kaptumo, Chepterwai and Kabiyet Sub County Hospitals received Kshs. 5,784,606, Kshs. 5,357,215 and Kshs. 4,313,687 respectively totaling to Kshs. 15,455,518 but did not prepare and submit financial statements for audit. Therefore, it was not possible to confirm the utilization of these amounts.

In the circumstances, the accuracy and completeness of transfers to health facilities of Kshs. 229,990,227 could not be confirmed.

Management Response

The three Health facilities; Kaptumo, Chepterwai and Kabiyet Sub-County Hospitals did not prepare and submit their respective financial statements due to their classification as health centres, level 3A at the time of audit. The said health facilities

have since been upgraded in terms of infrastructure and staffing and were recently inspected by the regulatory bodies led by Kenya Medical Practitioners and Dentist Council (KMPDC) and have now been categorized and licensed as level 4. They therefore committed to prepare and submit financial statements for the said health facilities going forward beginning with the next financial year 2025-2026.

Committee Observations

The Committee observed that-

1. Kaptumo, Chepterwai and Kabiyet Sub-County Hospitals did not prepare and submit their respective financial statements due to their classification as health centres, level 3A at the time of audit.
2. Kenya Medical Practitioners and Dentist Council (KMPDC) issued these facilities with their license for 2026 and have now been categorized as level 4 hospitals and committed to submit financial statements.

Committee Recommendations

The Committee recommends that the Governor should ensure that the Accounting Officer should ensure timely submission of documents during the audit process in line with section 47(1) of the Public Audit Act, Cap.412B as read together with section 149(2)(k) failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act in the subsequent audit cycle.

Emphasis of Matter

1. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on a comparable basis of Kshs. 343,512,072 and Kshs. 328,167,140 respectively resulting to an under collection of Kshs. 15,344,932 or 5% of the budget. Similarly, the Municipality spent Kshs. 320,555,331 against actual receipts of Kshs. 328,167,140 resulting to under-expenditure of Kshs. 7,611,809 or 2% of the actual receipts.

The under-collection and under-performance affected overall effectiveness of the Fund's service delivery to the public.

Management Response

The Nandi County Facilities Improvement Fund (NCFIF) receives and manages funds from seven (7) hospitals whose revenue sources include cash and NHIF/ SHA claims. The fund had a budget of Ksh. 343,512,072, however at the close of financial year 2024/2025 a total of Kshs. 328,167,140 (95.5%) had been received. Due to the delay in

SHA reimbursements to the respective hospitals, the fund could not achieve the target hence an under collection of Kshs. 15,344,932.

The under- expenditure of Kshs. 7,611,809 was due to delayed procurement processes and also delay in disbursement of SHA funds.

Committee Observations

The Committee observed that fund had an under-expenditure due to the delay in SHA reimbursements to the respective hospitals whose revenue are managed by the fund.

Committee Recommendations

The Committee recommends that-

- i. The Governor ensures that the Accounting Officer ensures strict compliance with section 149(2) (h) and (i) of the Public Finance Management Act, Cap. 412A and the standards prescribed by the Public Sector Accounting Standards Board under IPSAS 24 on the presentation of budget information in the financial statements for an entity that prepares their financial statements under the accrual basis of accounting, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply; and**
- ii. The Governor ensures that the Accounting Officer complies with regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply.**

Other Matter

1. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under report on Financial Statements, Report on Lawfulness and Effectiveness in the use of Public Resources and Report on effectiveness of Internal Controls, Risk management and Governance. However, they remain unresolved.

Management Response

The Facilities Improvement Fund appeared before County Public Investment and Special Funds committee that sat and submitted explanations to resolve prior year matters. The Fund awaits the committee recommendations for implementation.

Committee Observations

The Committee observed that the query remains unresolved as management has stated that they appeared before the Senate committee and are awaiting committee recommendation for implementation.

Committee Recommendations

The Committee recommends that-

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

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. Non-submission of Financial Statements for Audit

The statement of financial performance reflects transfers to health facilities of Kshs. 229,990,227 as disclosed in Note 14 to the financial statements. However, three (3) health facilities namely Kaptumo, Chepterwai and Kabiyet Sub County Hospitals did not prepare and submit financial statements for audit. This was contrary to paragraph 1.8 of circular No: AG.3/88VOL.VII (41) dated 4 December, 2025 which requires all public sector entities for both national and County Governments to prepare and submit financial statement by 31 August, 2025.

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

Management Response

The three Health facilities; Kaptumo, Chepterwai and Kabiyet Sub-County Hospitals did not prepare and submit their respective financial statements due to their classification as health centres, level 3A at the time of audit. The said health facilities have since been upgraded in terms of infrastructure and staffing and were recently inspected by the regulatory bodies led by Kenya Medical Practitioners and Dentist

Council (KMPDC) and have now been categorized and licensed as level 4. They therefore commit to prepare and submit financial statements for the said health facilities going forward beginning with the next financial year 2025-2026.

Committee Observations

The Committee observed that-

1. Kaptumo, Chepterwai and Kabiyet Sub-County Hospitals did not prepare and submit their respective financial statements due to their classification as health centres, level 3A at the time of audit.
2. Kenya Medical Practitioners and Dentist Council (KMPDC) issued these facilities with their license for 2026 and have now been categorized as level 4 hospitals and committed to submit financial statements.

Committee Recommendations

The Committee recommends that-

- i. **the Fund management should adhere to section 164(3) and (4) of the Public Finance Management Act,2012 and submit financial statements not later than three months after the end of the Financial Year, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offenses shall apply; and**
 - ii. **the Governor should ensure that the Accounting Officer should ensure timely submission of documents during the audit process in line with section 47(1) of the Public Audit Act, Cap.412B as read together with section 149(2)(k) failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act in the subsequent audit cycle.**
- 2. Contradictions between the County Government and National Government Facilities Improvement Funds Acts**

Review of the Fund's records provided revealed the following conflicting clauses between the National and County Facilities Improvements' Acts as detailed below;

- i. Nandi County Facilities Improvement Fund (FIF) continued to operate under the Nandi County Facility Improvement Fund Act, 2022. However, the enactment of the Facilities Improvement Financing Act, 2023 (National legislation) had rendered the County Act null and void which resulted in retention and utilization of funds under provisions of the County Act, 2022 contrary to the requirements of the National Act, 2023. In addition, the Fund was governed under structures not recognized by the National Act such as

the County Facility Improvement Fund Board instead of the prescribed Health Management Teams and Facility Committees.

Management Response

The management acknowledges the discrepancies between the Facilities Improvement Financing Act, 2023 (National legislation) and the Nandi County Facilities Improvement Fund Act, 2022 and has sought the guidance of the county solicitor for necessary action.

- ii. Review of the Nandi County Facilities Improvement Fund (FIF) Act, 2022 revealed conflicting provisions with the Facilities Improvement Financing Act, 2023, as summarized below:

No	Detail	Nandi County FIF Act, 2022	Facilities Improvement Financing Act, 2023/PFM Regulations
1	Financing of Facilities	Section 3(e)(vii) requires 70% of funds to be retained within collecting facilities.	Section 5(1)-(2) requires that all monies raised or received by or on behalf of public health facilities be retained in full in facility improvement financing accounts.
2	Administrative Services	Section 3(e)(vii) requires 10% of funds to be used for administrative services.	Regulation 197(1)(d) of Public Finance Management (County Governments) Regulations, 205 which provide those administrative costs of the Fund shall not exceed 3% of the approved budget.
3	Establishment of Boards/Committees	Section 13(1) establishes the Nandi County FIF Board comprising 11 Members.	Sections 10-17 of the FIF Act, 2023 provide for County Health management teams, Sub-County Health

			Management Teams, Hospital Management Teams and Facility Management Committees, with composition and appointment prescribed by law.
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Management Response

The management acknowledges the discrepancies between the facilities Financing Act, 2023 (National legislation) and the Nandi County Facilities Improvement Fund Act, 2022 and has sought the guidance of the county solicitor for necessary action.

- iii. The County Executive of Nandi had not developed regulations to operationalize Facilities Improvement Fund National Act, 2023

This was contrary to Article 191 of the Kenya Constitution 2010(1) and (2) (a) which states that whenever there is a conflict between national legislation and County legislation in respect of matters falling within the concurrent jurisdiction of both levels of Government the national legislation prevails over County legislation if the national legislation applies uniformly throughout Kenya and any of the conditions specified in the clause. Whenever there is contradiction between the national law and County law, the national law prevails. In the circumstances, Management was in breach of the law.

Management Response

The Nandi County Health Facilities Improvement Fund regulations, 2022 was approved and gazette on 4th November 2022 and has since been on use by the Fund.

Committee Observations

The Committee observed that the management has sought the guidance of the county solicitor for necessary action regarding the matter.

Committee Recommendations

The Committee recommends that Governor ensures that the Fund management complies to section 5(1) of the facilities Improvement Financing Act, 2023 and retain monies made from the facilities. The Auditor-General to keep the matter in view and report in the subsequent audit cycle.

3. Employee Costs

The statement of financial performance reflects employee costs amounting to Kshs. 24,832,597 as disclosed in Note 11 to the financial statements. However, it was noted that the employee costs had significantly increased from Kshs. 540,000 (2024) to Kshs. 24,832,597 with a variance of Kshs. 24,292,587. Management explained that the variance arose due to medical staff paid on part-time basis because the County Executive had suspended staff in the facilities. The reasons for suspension and approval to contract part time employees were not provided for review. Further, the Fund spent Kshs. 24,832,597 at source instead of transferring the funds to the individual facilities for use contrary to Section 3(e) (vii) of the Nandi County Facilities Improvement Fund Act, 2022 which requires that 70% of the resources of the Fund should be retained within the collecting facilities.

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

Management Response

The County Government conducted staff audit which resulted in staff rationalization exercise leading to revocation of employment letters for 1899 staff, among them were those offering essential health services.

To ensure continuity of services, the management through respective hospital boards engaged a few essential staff e.g., Medical Officers, Clinical Officers and Nurses among others on local contracts awaiting the employment by County Public Service Board.

The salaries/ wages resulting from the local contracts were paid centrally from the 30% budget as the individual hospitals could not afford the hiring cost. The County Public Service Board has since completed the recruitment process and no employee is still paid from FIF Fund.

Committee Observations

The Committee observed that-

1. The suspension and approval to contract part time employees by management was due to staff rationalization exercise leading to revocation of employment letters for 1899 staff.
2. The management has stated that the County Public Service Board has since completed the recruitment process but no documentary evidence was provided for audit verification.
3. Management spent Kshs. 24,832,597 at source contrary to the Nandi County FIF Act, 2022.

Committee Recommendations

The Committee recommends that-

- i. Management should ensure that all recruitment processes are fully documented and that relevant evidence, including appointment letters, recruitment reports, and other supporting records, is submitted to the Auditor for verification; and**
- ii. Management to adhere to Section 3(e)(vii) of the Nandi County Facilities Improvement Fund Act, 2022 which requires that 70% of the resources of the Fund should be retained within the collecting facilities.**

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 Spreadsheet as an Accounting System

Review of records provided revealed that the Fund uses spread sheet for recording and posting transactions. However, the use of a spreadsheet as an accounting system does not guarantee the internal check normally achieved with inbuilt double entry system in an Enterprise Resource Management system or an Accounting System.

In addition, it was noted that the financial records, ledgers and cash books were maintained in a spreadsheet with no backup system and lacked an audit trail. Further, the use of spreadsheet does not provide for approval and authorization of transactions. This was contrary to Regulation 102(3) on financial records and automation of financial operations which requires an Accounting Officer to satisfy himself or herself that transactions are authorized and recorded and that there is sufficient audit trail which shall identify the person who approved the transaction.

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

Management Response

The Management acknowledges the importance of an Enterprise Resource Management system or an Accounting System in streamlining accounting and internal control processes. The fund is however still small and growing is faced with a number of challenges including budget constraints. The employment and use of an Enterprise Resource Management system or an Accounting System remains a priority, we commit to source and employ a competent ERM system going forward.

Committee Observations

The Committee observed that the fund used spreadsheet as an accounting system as the implementation of the ERM system was constrained by the fund's size and budget limitation.

Committee Recommendations

The Committee recommends that-

- i. the Accounting Officer ensures that prior year adjustments are carried out in the company's financial statements of the subsequent year to correct the errors in order to reflect the true financial position of the company; and
- ii. the Governor ensures that the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply.

2. Failure to Subject the Fund to Internal Audit

As previously reported, the Fund did not have in place both the Audit Committee and the Internal Audit Department. Further, no evidence was provided for audit to confirm that the Fund was audited by the Internal Audit Unit from the Nandi County Executive.

Management Response

The management acknowledges the observation and clarifies that following the recruitment and deployment of internal audit officers, the internal audit unit has been fully constituted and is now operational. The officers have since undertaken the development of the requisite risk-based three-year strategic plan and the corresponding annual internal audit work plan in line with regulation 163 of Public Finance Management (County Government) regulations, 2015. The audit plans have been prepared and submitted for audit review.

Committee Observations

The Committee observed that the audit unit has been constituted and is operational but the audit work plan has not been availed for verification.

Committee Recommendations

The Committee recommends that the Governor ensures that the fund complies with section 155(1)(a) of the Public Finance Management act and have a functional audit unit that will continues to operate in accordance with the approved risk-based three-year strategic plan and annual internal audit work plan.

3. Failure to Develop Internal Control Policy Documents

The Fund did not have in place a Risk Management Policy and a Strategic Plan. This was contrary to Regulation 158(1) of the Public Finance Management (County Governments) Regulations, 2015 which requires that the Accounting Officer shall ensure that the County Government entity develops risk management strategies, which include fraud prevention mechanism and a system of risk management and internal control that builds robust business operations. Further, there was no evidence of risk identification, risk assessment and evaluation of likelihood of risk occurrence and its impact on entities' operation.

In the circumstances, it was not possible to confirm that the Fund's operations were effectively managed without the policy documents.

Management Response

The fund has largely been dependent on the guidelines enshrined in the Facilities Improvement Fund Act, 2022 and now has the County Risk Management Policy and Strategic plan to guide the operations.

Committee Observations

The Committee observed that the fund has an operational Risk Management Policy.

Committee Recommendations

The Committee recommends that the matter be marked as resolved.

ANNEXTURES

Minutes of the 52nd Sitting held on Monday 23rd March, 2026



13TH PARLIAMENT 5TH SESSION

MINUTES OF THE FIFTY SECOND SITTING OF THE COUNTY PUBLIC INVESTMENTS AND SPECIAL FUNDS COMMITTEE HELD ON MONDAY, 23RD MARCH 2026 IN COMMITTEE ROOM 10, BUNGE TOWER AT 4.00 P.M.

PRESENT

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

ABSENT WITH APOLOGY

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

SECRETARIAT

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

A. OFFICE OF THE AUDITOR GENERAL

Mr. Mark Gachanja Liasion

B. ETHICS AND ANTI CORRUPTION COMMISION

Mr. Patrick Kinoti -Liaison Officer

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

The meeting was called to order by the Chairperson at twenty minutes past four O'clock in the afternoon 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 by Sen. Agnes Kavindu Muthama, MP and seconded by Sen. George Mungai Mbugua, MP as follows –

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

MIN. NO. SEN/CPICSF/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. **Report of the Select Committee on County Public Investments and Special Funds on the consideration of the Audit Reports of the following entities in Kisumu County for the Financial Year 2024/2025 (1st July, 2024 to 30th June, 2025)-**
 - a. Kisumu Water and Sanitation Company (KIWASCO)
 - b. City Of Kisumu
 - c. Ahero County Hospital
 - d. Chulaimbo County Hospital
 - e. Kisumu County Hospital
 - f. Kombewa County Referral Hospital
 - g. Lumumba Sub County Hospital
 - h. Migosi Sub County Hospital
 - i. Muhoroni County Hospital
 - j. Nyakach County Hospital
 - k. Kisumu County Mortgage & Car Loan (Executive) Fund
 - l. Kisumu County Mortgage & Car Loan Assembly Fund
 - m. Kisumu Lakefront Development Corporation
 - n. Kisumu County Emergency Fund
 - o. Kisumu County Bursary Fund
 - p. Kisumu County Climate Change Fund
 - q. Kisumu County Covid-19 Emergency Response Fund Account
 - r. Kisumu County Education Fund
 - s. Kisumu County Women, Youth and People with Disabilities Fund

2. Report of the Select Committee on County Public Investments and Special Funds on the consideration of the Audit Reports of the following entities in Kwale County for the Financial Year 2024/2025 (1st July, 2024 to 30th June, 2025)-

- a. Kwale Water and Sewerage Company Limited
- b. Diani Municipality
- c. Lungalunga Municipality
- d. Kwale Municipality
- e. Kinango Municipality
- f. Kwale Sub-County Hospital
- g. Msambweni County Referral Hospital
- h. Lungalunga Sub-County Level 4 Hospital
- i. Kinango Level 5 Hospital
- j. Kwale County Bursary and Scholarship Fund
- k. Kwale County Emergency Fund
- l. Kwale County Youth, Women and Person with Disabilities Revolving Fund
- m. Kwale County Trade Revolving Fund
- n. Kwale County Climate Change Fund

3. Report of the Select Committee on County Public Investments and Special Funds on the consideration of the Audit Reports of the following entities in West Pokot County for the Financial Year 2024/2025 (1st July, 2024 to 30th June, 2025)-

- a. Kapenguria Water Company Limited
- b. Kapenguria Municipality
- c. Kapenguria Referral Hospital
- d. Chepareria Sub-County Level 4 Hospital
- e. Kacheliba Sub-County Level 4 Hospital
- f. Sigor Sub-County Level 4 Hospital
- g. West Pokot County Cooperative Development Fund

4. Report of the Select Committee on County Public Investments and Special Funds on the consideration of the Audit Reports of the following entities in Nandi County for the Financial Year 2024/2025 (1st July, 2024 to 30th June, 2025)-

- a. Kapsabet Nandi Water and Sanitation Company (KANAWASCO)
- b. Kapsabet Municipality
- c. Kapsabet County Referral Hospital
- d. Nandi County Alcoholic Drinks Fund
- e. Nandi County Climate Change Fund
- f. Nandi County Executive Education Fund

- g. Nandi County Emergency Fund
- h. Nandi County Facilities Improvement Fund

5. Report of the Select Committee on County Public Investments and Special Funds on the consideration of the Audit Reports of the following entities in Bomet County for the Financial Year 2024/2025 (1st July, 2024 to 30th June, 2025)-

- a. Bomet Water and Sanitation Company Limited (BOMWASCO)
- b. Bomet Municipality
- c. Cheptalal Level 3b Hospital
- d. Kapkoros Level 3a Hospital
- e. Longisa Level 4 Hospital
- f. Ndanai Level 4 Hospital
- g. Sigor Level 4 Sub-County Hospital
- h. Bomet County Education Revolving Fund
- i. Bomet County Bursary Fund
- j. Bomet County Climate Change Fund
- k. Bomet County Executive Car and Mortgage Scheme Fund

6. Report of the Select Committee on County Public Investments and Special Funds on the consideration of the Audit Reports of the following entities in Kirinyaga County for the Financial Year 2024/2025 (1st July, 2024 to 30th June, 2025)-

- a. Kirinyaga County Water and Sanitation Plc(KICOWASCO)
- b. Rukanga Makutano Water and Sanitation Plc. (RUMAWASCO)
- c. Kerugoya -Kutus Municipal
- d. Sagana Sub - County Level 4 Hospital
- e. Kianyaga Sub County Level 4 Hospital
- f. Kimbimbi Sub County Level 4 Hospital
- g. Kirinyaga County Executive Emergency Fund
- h. County Government of Kirinyaga Executive Mortgage Fund
- i. Kirinyaga Executive Car Loan & Mortgage Fund
- j. Kirinyaga County Alcoholic Drinks Control Fund
- k. Kirinyaga County Climate Change Fund
- l. Kirinyaga County Executive Bursary Fund

7. Report of the Select Committee on County Public Investments and Special Funds on the consideration of the Audit Reports of the following entities in Nyeri County for the Financial Year 2024/2025 (1st July, 2024 to 30th June, 2025)-

- a. Mathira Water and Sanitation Company Limited
- b. Narumoru Water and Sanitation Company Limited
- c. Nyeri Water and Sanitation Company Limited

- d. Othaya-Mukurweini Water and Sanitation Company
- e. Tetu Water and Sanitation Company Limited
- f. Nyeri Municipality
- g. Karatina Subcounty Level 4 Hospital
- h. Mt Kenya Subcounty Referral Hospital
- i. Mukureini Sub County Hospital
- j. Nyeri County Referral Hospital
- k. Othaya Sub County Hospital
- l. Nyeri County Climate Change Fund
- m. Nyeri County Elimu Fund
- n. Nyeri County Enterprise Fund
- o. Nyeri County Health Services Fund

8. Report of the Select Committee on County Public Investments and Special Funds on the consideration of the Audit Reports of the following entities in Taita-Taveta County for the Financial Year 2024/2025 (1st July, 2024 to 30th June, 2025)-

- a. Tavevo Water and Sewerage Company Limited
- b. Special Municipality of Mwatate
- c. Taveta Municipality
- d. Voi Municipality
- e. Moi (Voi) County Referral Hospital
- f. Wesu Sub-County Hospital
- g. Taveta Sub-County Hospital
- h. Mwatate Sub-County Hospital
- i. Taita Taveta County Education Fund Board
- j. Taita Taveta County Car Loan and Mortgage Fund
- k. Taita Taveta County Facilities Improvement Fund
- l. Taita Taveta County Climate Change Fund
- m. Taita Taveta Investment and Development Corporation

9. Report of the Select Committee on County Public Investments and Special Funds on the consideration of the Audit Reports of the following entities in Nyandarua County for the Financial Year 2024/2025 (1st July, 2024 to 30th June, 2025)-

- a. Nyandarua Water and Sanitation Company Limited
- b. Olkalou Water and Sanitation Company Limited
- c. Mairo-Inya Municipality
- d. Engineer Municipality
- e. Olkalou Municipality
- f. Engineer County Hospital
- g. Jm Kariuki Memorial County Referral Hospital

- h. Nyandarua County Bursary Fund
- i. Nyandarua County Climate Change Fund
- j. Nyandarua County Executive (State and Public) Car Loan and Mortgage Scheme Fund
- k. Nyandarua County Emergency Fund

10. Report of the Select Committee on County Public Investments and Special Funds on the consideration of the Audit Reports of the following entities in Samburu County for the Financial Year 2024/2025 (1st July, 2024 to 30th June, 2025)-

- a. Samburu Water and Sanitation Company Limited (SAWASCO)
- b. Maralal Municipality
- c. Samburu County Teaching and Referral Hospital
- d. Baragoi Sub-County Hospital
- e. Samburu County Executive Staff Mortgage Fund
- f. Samburu County Bursaries Fund
- g. Samburu County Climate Change Fund
- h. Samburu County Conservancies Fund
- i. Samburu County Persons Living with Disability Fund
- j. Samburu County Youth and Women Enterprise Development Fund

11. Report of the Select Committee on County Public Investments and Special Funds on the consideration of the Audit Reports of the following entities in Samburu County for the Financial Year 2024/2025 (1st July, 2024 to 30th June, 2025)-

- 1. Garissa Water and Sewerage Company Limited.
- 2. Garissa Municipality
- 3. Dadaab Municipality
- 4. Masalani Municipality
- 5. Garissa County Level 5 Teaching and Referral Hospital
- 6. Ijara Sub-County Hospital
- 7. Modogashe Sub-County Hospital
- 8. Dadaab Sub-County Hospital
- 9. Garissa County Emergency Fund
- 10. Garissa County Revolving Fund
- 11. Garissa Climate Change Fund
- 12. Garissa County Scholarship Fund

12. Report of the Select Committee on County Public Investments and Special Funds on the consideration of the Audit Reports of the following entities in Elgeyo Marakwet County for the Financial Year 2024/2025 (1st July, 2024 to 30th June, 2025)-

- 1. Iten Tambach Water and Sewerage Company Limited.
- 2. Cherang'any Marakwet Water and Sanitation Company Limited
- 3. Iten Tambach Unicity

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

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

There was no any other business.

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

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



SIGNED: DATE:

24/3/2026

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