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THE SENATE

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J. M. Nyegenye, C.B.S.,  
Clerk of the senate/secretary, PSC  
Date: 25/03/26

THIRTEENTH PARLIAMENT – FIFTH SESSION

REPORT OF THE SELECT COMMITTEE ON COUNTY PUBLIC INVESTMENTS AND SPECIAL FUNDS ON THE CONSIDERATION OF THE AUDIT REPORTS OF EMBU COUNTY WATER COMPANIES, MUNICIPALITY AND HOSPITALS FOR THE FINANCIAL YEAR 2024/2025 (1<sup>st</sup> JULY, 2024 TO 30<sup>th</sup> JUNE, 2025):

SECTOR	NO.	ENTITY
WATER COMPANIES	4	NGANDORI WATER AND SANITATION COMPANY
		NYAGAKA WATER AND SANITATION
		EMBE WATER AND SANITATION COMPANY LIMITED
		EMBU WATER AND SANITATION COMPANY
MUNICIPALITY	1	EMBU MUNICIPALITY
HOSPITALS	4	EMBU LEVEL 5 HOSPITAL
		MBEERE SUB COUNTY HOSPITAL
		RUNYENJES SUB COUNTY HOSPITAL
		ISHIARA SUB COUNTY HOSPITAL
FUNDS	5	EMBU COUNTY EDUCATION SUPPORT FUND
		EMBU COUNTY CLIMATE CHANGE FUND
		EMBU COUNTY EXECUTIVE CAR & MORTGAGE FUND
		EMBU COUNTY GOVERNMENT EMERGENCY FUND

26/03/26

MARCH 2026

PAPERS LAID	
DATE	26/3/2026
TABLED BY	Sen Cherankey
COMMITTEE	CPI & SF
CLERK AT THE TABLE	Belinda

APPROVED  
RT. HON. SEN  
MASON J. KING

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## **ABBREVIATIONS**

<b>CBK</b>	Central Bank of Kenya
<b>CECM</b>	County Executive Committee Member
<b>COB</b>	Controller of Budget
<b>PPE</b>	Property, Plant and Equipment
<b>MOH</b>	Ministry of Health
<b>EACC</b>	Ethics and Anti-Corruption Commission
<b>FIF</b>	Facilities Improvement Financing Act
<b>GAAP</b>	Generally Accepted Accounting Principles
<b>HDU</b>	High Dependency Unit
<b>ICU</b>	Intensive Care Unit
<b>IFMIS</b>	Integrated Financial Management Information System
<b>IGRTC</b>	Intergovernmental Relation Technical Committee
<b>IHMS</b>	Integrated Hospital Management System
<b>IMS</b>	Inventory Management System
<b>KEMSA</b>	Kenya Medical Supplies Authority
<b>NESP</b>	National Equipment Service Program
<b>NHIF</b>	National Health Insurance Fund
<b>NRW</b>	Non-Revenue Water
<b>NSSF</b>	National Social Security Fund
<b>OAG</b>	Office of the Auditor-General
<b>PAA</b>	Public Audit Act
<b>PFM</b>	Public Finance Management
<b>PSASB</b>	Public Sector Accounting Standards Board
<b>RWWDA</b>	Regional Water Works Development Agency
<b>SHA</b>	Social Health Authority
<b>SO</b>	Standing Orders
<b>TNT</b>	The National Treasury
<b>UHC</b>	Universal Health Coverage
<b>WASREB</b>	Water Services Regulatory Board
<b>KUSP</b>	Kenya Urban Support Program

## 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 by physical losses such as leakages, bursts, and overflows through the existing old and dilapidated water supply network, and 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 and county funds, within six months after the end of each financial year.

This report covers the consideration by the Committee of the Auditor-General's reports on the financial statements of Mandera County water companies, municipality and funds for the Financial Year 2024/2025. The entities considered include Mandera Water and Sewerage Company (MANDWASCO), Elwak Water and Sanitation Company, Elwak Municipality, Mandera Municipality, Mandera County Climate Change Fund and Mandera County Education Bursary Fund.

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

## COMMITTEE MEMBERSHIP

The membership of the Committee comprises the following Senators-

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

## COMMITTEE SECRETARIAT

- |                              |                            |
|------------------------------|----------------------------|
| 1. Mr. Yussuf Shimoy         | - Clerk Assistant I        |
| 2. Mr. Erick Njogu           | - Clerk Assistant II       |
| 3. Mr. Godfrey Nyaga         | - Clerk Assistant III      |
| 4. Mr. Khatib Omar           | - Clerk Assistant III      |
| 5. Mr. Kennedy Owuoth        | - Fiscal Analyst           |
| 6. Mr. Jeremy Chabari        | - Legal counsel            |
| 7. Mr. Erick Osoi            | - 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' enoh     | - Media Relations officer. |
| 15. Mr. Victor Kimani        | - Audio officer            |
| 16. Mr. Fredick Okola        | - Serjeant-at-arms         |

## **ESTABLISHMENT OF THE COMMITTEE**

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

The County Public Investments and Special Funds Committee is one of the financial audit committees through which the Senate under the provisions of Article 96(3) of the Constitution conducts ex-post scrutiny on Public Investments and Special Funds in Counties. The Committee is further mandated to examine the systems, procedures and mechanisms for the management of county public investments and special funds to determine whether they are efficiently, effectively and transparently managed.

## **EXECUTIVE SUMMARY**

In the execution of its mandate, the Committee relied on the reports of the Auditor-General on audited Accounts of the water companies, municipality and hospitals for the Financial year 2024/2025 (1<sup>st</sup> July, 2024 to 30<sup>th</sup> June, 2025) as the primary documents for the investigations. The Committee invited the Governor as the Chief Executive Officer of County Government pursuant to Article 179(4) as witnesses to respond to the audit queries raised in the reports under considerations.

The Committee received both written and oral evidences from the Governor in response to the various audit queries raised by the Auditor-General in the reports under consideration on various dates. The Committee considered and concluded its inquiry onto the reports of the Auditor-General on the Financial Operations of the Water companies, Municipality and Hospitals for the Financial Year 2024/2025.

This report presents the findings and recommendations of the Select Committee on County Public Investments and Special Funds following its consideration of the Auditor-General's reports on nine (9) entities in Embu County for the Financial Year 2024/2025. The entities covered are: Four water companies (Ngandori Water and Sanitation Company Limited Plc, Ngagaka Water and Sanitation Company Limited, Embe Water and Sanitation Company Limited and Embu Water and Sanitation Company Limited); One municipality (Embu Municipality) and Four hospitals (Embu level 5 County Hospital, Mbeere Sub County Hospital, Runyenjes Sub-County Hospital, and Ishiara Sub County Hospital)

The audit reveals systemic weaknesses in financial management, governance, and service delivery across Embu County's water companies, municipality and hospitals. Key issues include massive liabilities and high Non-Revenue Water at the water company, a lack of operational autonomy in municipality and critical staffing and equipment shortages in hospitals contrary to health standards, undisclosed rental income, inaccurate property, plant and equipment balances, unsupported trade payables, irregular Board composition, lack of segregation of duties, absence of a strategic plan, risk management policy and ICT policy.

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

## **REPORT STRUCTURE**

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

**CHAPTER ONE** is a record of the audit queries raised in the report of the Auditor-General for Ngandori, Ngagaka, Embu and Embe water and Sanitation Company Limited for the Financial Year 2024/2025 and observations and recommendations of the Committee on each audit query.

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

**CHAPTER THREE** is a record of the audit queries raised in the report of the Auditor-General for Embu Level 5 Hospital, Mbeere Sub County Hospital, Runyenjes sub-county hospital and Ishiara Sub County hospital for the Financial Year 2024/2025 and observations and recommendations of the Committee on each audit query.

## GENERAL OBSERVATIONS FOR THE WATER COMPANIES

1. **High Non-Revenue Water Levels** — The Committee observed that all water companies in Embu County recorded Non-Revenue Water levels significantly above the WASREB benchmark of 25%, with Embe Water at 52%, resulting in massive revenue losses running into millions of shillings, attributed to dilapidated infrastructure, inaccurate meter reading, illegal connections and vandalism.
2. **Non-Compliance with Fiscal Responsibility Principles on Wage Bill** — The Committee observed that all water companies exceeded the prescribed wage bill threshold, with personnel costs ranging from 43.5% to 50% of operation and maintenance costs, well above the WASREB recommended benchmark of 35%, pointing to bloated and unsustainable staff structures across all entities contrary to Regulation 25(1) of the Public Finance Management (County Governments) Regulations, 2015.
3. **Long Outstanding Trade Receivables and Payables** — The Committee observed that all water companies had trade receivables outstanding for over 120 days without adequate recovery measures, and long outstanding trade payables.
4. **Unaccounted for Customer Deposits** — The Committee observed that water companies had significant variances between recorded customer deposit balances and bank account balances, indicating that customer deposits were being utilized for operational expenses contrary to Regulation 53(1) of the Public Finance Management (County Governments) Regulations, 2015, with no clear repayment timelines provided.
5. **Non-Adherence to Staff Ethnic Diversity Requirements** — The Committee observed that all water companies had staff ethnic composition dominated by one ethnic community, ranging from 64% to 97% of total staff, well above the one-third threshold contrary to Section 7(2) of the National Cohesion and Integration Act, 2008.

## GENERAL RECOMMENDATIONS FOR THE WATER COMPANIES

1. **Reduction of Non-Revenue Water** — The Governor ensures that all water companies implement comprehensive Non-Revenue Water reduction strategies including replacement of aging infrastructure, installation The Governor should ensure that the Accounting Officer develops and implements a Non-Revenue Water reduction strategy within ninety (90) days of adoption of this report, including segregation of physical and commercial losses, infrastructure rehabilitation, enhanced metering and billing systems, strengthened enforcement against illegal connections, and periodic performance monitoring. Submit the

progress report to the Senate and a copy to the Auditor General. The Auditor General to provide a status update to the Senate on the same.

2. **Wage Bill Compliance** — The Governor ensures that all the water companies comply with the 35% wage bill threshold as prescribed by WASREB Corporate Governance Guidelines and Regulation 25(1) of the Public Finance Management (County Governments) Regulations, 2015 by establishing lean staff structures and submitting to the Senate measures being taken to reduce the wage bill within 60 days of adoption of this report, failure to which the provisions of Section 199 of the Public Finance Management Act Cap 412A on penalties for offences shall apply.
3. **Debt Management and Financial Obligations** — The Governor ensures that all water companies put in place comprehensive Debt Management Policies with clear timelines for recovery of long outstanding receivables and settlement of payables, and submit debt schedules to the Senate and Auditor-General within 60 days of adoption of this report, treating debt service payments as a first charge on revenue in compliance with Regulation 41(2) of the Public Finance Management (County Governments) Regulations, 2015, failure to which the provisions of Section 199 of the Public Finance Management Act Cap 412A on penalties for offences shall apply.
4. **Protection of Customer Deposits** — The Governor ensures that all water companies secure customer deposits in dedicated fixed or call accounts with limited management access, develop Customer Deposits Management Policies, and submit repayment plans for all borrowed customer deposits to the Senate and Auditor-General within 60 days of adoption of this report.
5. **Ethnic Diversity in Staffing** — The Governor ensures that the Embu County Public Service Board progressively complies with Section 65 of the County Governments Act, 2012 and Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 by filling vacant posts in a manner that promotes ethnic diversity and represents the people of Kenya. The Auditor-General to monitor progress and keep the matter under review in the subsequent audit cycle.

## GENERAL OBSERVATIONS FOR THE MUNICIPALITY

1. **Lack of Operational Autonomy** — The Committee observed that the Municipality lacked financial independence, relying solely on County Government and donor funding without collecting its own source revenue, contrary to Section 9(3)(c) and (d) of the Urban Areas and Cities Act, 2011 and Section 172 of the Public Finance Management Act, 2012, compounded by a conflict between the Embu County Revenue Authority Act, 2017 and national legislation on revenue collection.

## GENERAL RECOMMENDATIONS FOR THE MUNICIPALITY

1. **Operational Autonomy and Adequate Funding** - The Governor ensures that the operation of municipalities is undertaken according to the functions delegated as gazetted by the County Government. Further, the Governor should ensure that municipalities are adequately funded in accordance with section 172 of the Public Finance Management Act, 2012, to enhance their operational independence and enable effective service delivery. The Governor should further ensure that all municipalities in the county are operationalized to undertake their delegated functions in line with law by the commencement of the Financial Year 2026/2027.

## GENERAL OBSERVATIONS FOR THE HOSPITALS

1. **Failure to Meet Minimum Hospital Level Standards** — The Committee observed that all four hospitals failed to meet the minimum staffing and equipment requirements prescribed by the Kenya Quality Model for Health Policy Guidelines and the Health Act, 2017. Critical cadres including anesthesiologists, radiologists, and pediatricians were either absent or grossly understaffed, and all hospitals lacked functional ICU beds, HDU units, newborn unit incubators and cots, and renal dialysis machines, directly compromising the right to health under Article 43(1) of the Constitution of Kenya, 2010.
2. **Non-Compliance with the Facilities Improvement Financing Act, 2023** — The Committee observed that hospitals transferred Facility Improvement Financing revenues to the County Revenue Fund instead of retaining them in dedicated facility accounts, and that the County Government irregularly deducted 3% of FIF collections as administrative expenses contrary to Sections 5 and 20 of the Facilities Improvement Financing Act, 2023, depriving facilities of timely operational funding.
3. **Weak Internal Controls, Risk Management and Governance** — The Committee observed that all hospitals lacked facility-specific risk management policies, ICT policies, disaster recovery plans, and business continuity plans. Further, some hospital Boards lacked Board Charters, annual work plans, and meeting calendars, while others were irregularly constituted contrary to Section 17(1) of the Facilities Improvement Financing Act, 2023 and the Mwongozo Code of Governance, collectively undermining governance, financial accountability and service delivery.
4. **Failure to Budget for Climate Change and Climate Financing** — The Committee observed that all hospitals failed to make budgetary provisions for climate change mitigation, adaptation, or climate financing activities contrary to the National Climate Change Act, 2016, which obligates public entities to mainstream climate change measures into their operational and development plans.
5. **Incomplete and Unsupported Property, Plant and Equipment** — The Committee observed that all hospitals had unsupported PPE balances without valuation reports, lacked title deeds for land, did not maintain comprehensive fixed asset registers, and assets were not tagged for identification, contrary to IPSAS 1 – Presentation of Financial Statements and Section 149(2)(o) of the Public Finance Management Act, Cap. 412A.

## GENERAL RECOMMENDATIONS FOR THE HOSPITALS

1. **Health Infrastructure and Staffing Plan** — The Governor develops and funds a comprehensive multi-year Health Infrastructure and Staffing Plan with clear milestones, timelines, and budgetary allocations to bring all hospitals into full compliance with the Kenya Quality Model for Health Policy Guidelines and the First Schedule of the Health Act, 2017. The Governor submits a detailed action plan to the Senate within 60 days of adoption of this report and a copy to the Auditor-General to monitor progress in subsequent audit cycles.
2. **Compliance with the Facilities Improvement Financing Act, 2023** — The Governor issues a directive to all hospital accounting officers ensuring that FIF revenues are deposited directly into dedicated facility accounts and that the irregular 3% administrative deduction is stopped in strict compliance with Sections 5 and 20 of the Facilities Improvement Financing Act, 2023. The Embu County Health Services Act, 2024 should be harmonized with the Facilities Improvement Financing Act, 2023 to resolve the legal conflict, and accounting officers who continue to transfer FIF revenues contrary to the Act should face administrative action under Section 199 of the Public Finance Management Act, Cap. 412A.
3. **Risk Management and Governance Frameworks** — The Governor ensures each hospital develops and implements a facility-specific Risk Management Policy, ICT Policy, Disaster Recovery Plan and Business Continuity Plan in compliance with Regulation 158(1) of the Public Finance Management (County Governments) Regulations, 2015 and Treasury Circular No. 3/2009. All Boards of Management should be equipped with formal governance frameworks including Board Charters, annual work plans, and performance evaluations in accordance with the Mwongozo Code of Governance, and future Board appointments must meet the stipulated qualification requirements, within 90 days of adoption of this report.
4. **Climate Change Mainstreaming** — The Governor ensures all hospitals mainstream climate change mitigation and adaptation measures into their annual budgets and operational plans in compliance with the National Climate Change Act, 2016, and develop Climate Change Mainstreaming Strategies integrating environmental considerations into long-term development plans within 90 days of adoption of this report, failure to which the provisions of Section 199 of the Public Finance Management Act, Cap. 412A on penalties for offences shall apply.
5. **Asset Management and Financial Reporting** — The Governor ensures all hospitals maintain comprehensive and up-to-date fixed asset registers in the format prescribed by the Public Sector Accounting Standards Board (PSASB), fast-track the acquisition of title deeds for land, complete asset tagging and

valuation through the Intergovernmental Relations Technical Committee (IGRTC), and submit updated asset registers to the Senate and Auditor-General within 60 days of adoption of this report in compliance with Section 149(2)(o) of the Public Finance Management Act, Cap. 412A, failure to which the provisions of Section 199 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 the consideration of the audit reports. The Committee further wishes to express its appreciation to the able secretariat for their support and services in facilitating the Members and the Committee in its operations.

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

  
SIGNED: .....

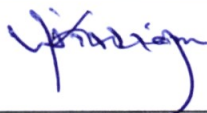

DATE: 23/03/2016 .....

**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 EMBU COUNTY WATER COMPANIES, MUNICIPALITY AND HOSPITALS FOR THE FINANCIAL YEAR 2024/2025 (1<sup>st</sup> JULY, 2024 TO 30<sup>th</sup> JUNE, 2025):**

<b>SECTOR</b>	<b>NO.</b>	<b>ENTITY</b>
<b>WATER COMPANIES</b>	<b>4</b>	<b>NGANDORI WATER AND SANITATION COMPANY</b>
		<b>NYAGAKA WATER AND SANITATION</b>
		<b>EMBE WATER AND SANITATION COMPANY LIMITED</b>
		<b>EMBU WATER AND SANITATION COMPANY</b>
<b>MUNICIPALITY</b>	<b>1</b>	<b>EMBU MUNICIPALITY</b>
<b>HOSPITALS</b>	<b>4</b>	<b>EMBU LEVEL 5 HOSPITAL</b>
		<b>MBEERE SUB COUNTY HOSPITAL</b>
		<b>RUNYENJES SUB COUNTY HOSPITAL</b>
		<b>ISHIARA SUB COUNTY HOSPITAL</b>
<b>FUNDS</b>	<b>5</b>	<b>EMBU COUNTY EDUCATION SUPPORT FUND</b>
		<b>EMBU COUNTY CLIMATE CHANGE FUND</b>
		<b>EMBU COUNTY EXECUTIVE CAR &amp; MORTGAGE FUND</b>
		<b>EMBU COUNTY GOVERNMENT EMERGENCY FUND</b>

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

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

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## CHAPTER ONE: WATER COMPANIES

### 1.1 REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR NGANDORI WATER AND SANITATION COMPANY PLC FOR THE FINANCIAL YEAR 2024/2025.

The Governor of Embu County, Hon. Cecilya Mbarire, EGH, appeared before the Committee on Thursday, 19<sup>th</sup> January, 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Ngandori Water and Sanitation Company PLC for the Financial Year 2024/2025. The Governor was accompanied by the following officers—

- |                      |  |
|----------------------|--|
| 1. Mr. John Mugo     | -CECM Water                              |
| 2. Ms. Grace Murithi | -Chief Officer Water                     |
| 3. Ms. Doris Njiru   | -Head of Finance and Commercial Services |

#### REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified Opinion** on the financial statements of the Ngandori Water and Sanitation Company Plc on the following basis; -

##### 1. Unsupported for Refundable Deposit Balance

The statement of financial position and as disclosed in Note 29 to the financial statements reflects a balance of Kshs. 3,357,030 in respect to refundable deposits and prepayments. Included in this balance is Kshs. 2,812,050 for customer deposits. However, review of the bank statement for the deposit account revealed a balance of Kshs. 157,960 resulting in unsupported variance of Kshs. 2,654,090.

In the circumstances, the accuracy and completeness of customers' deposit balance of Kshs. 2,812,050 could not be confirmed.

##### Management Response

- i. A standing order has been established with the bank to refund the borrowed customers' deposit.
- ii. The management is planning to establish a dedicated pay bill number specifically for customer deposits.

##### Committee Observation

The Committee observed that the water company borrowed Ksh. 2,654,090 from the customer deposits account which was yet to be refunded.

##### Committee Recommendations

**The Committee recommends that—**

- i. the Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, submits to the Committee and the Auditor-General a repayment plan with clear timelines for the repayment of the customer deposits;**
- ii. the Board of Directors should put in place a Customer Deposits Management Policy to guide how the water company can access, utilize and refund the money within specified timelines. Further, the Accounting Officer should ensure that there is full disclosure to the water company's customers on the utilization of the deposits; and**
- iii. the Governor ensures that the Accounting Officer secures all customer deposits in a fixed/call account whose access to the management is limited and where the accrued interests can be used to offset the bank charges. Management to submit evidence of the same to Senate and copy to the Auditor-General within 60 days of the adoption of this report for verification.**

## **2. Long Outstanding Trade Receivable Balance**

The statement of financial position reflects trade and other receivables balance of Kshs. 42,161,294 net of provision for doubtful receivables balance of Kshs. 2,184,884 as disclosed in Note 21 to the financial statements. Included in the balance are net trade receivables balance of Kshs. 41,512,798 as further disclosed in Note 21(a) to the financial statements. However, review of ageing analysis records provided for audit revealed that trade receivables balance amounting to Kshs. 13,983,258 have been outstanding for over one hundred and twenty (120) days and have been overdue for an inordinately long period without recovery. Further, Management did not provide measures and actions instituted to reduce outstanding receivables and recover the amounts owed to the Company.—

In the circumstances, the accuracy, completeness and recoverability of the trade receivables balance totaling Kshs. 42,161,294 could not be confirmed.

### **Management Response**

The management has developed Debt Management Policy highlighting measures to recover long outstanding trade receivables. The management has also engaged the company lawyer to serve all dormant customers with outstanding debts with demand letters and some customers are complying. Debt Management Policy, demand letters, customer commitment forms, receipts provided.

### **Committee Observation**

The Committee observed that-

- i. the Company is carrying a massive debt burden of Kshs. 42,161,294, with Kshs. 13,983,258 (approx. 33%) being overdue for more than 120 days.
- ii. The management has so far collected 6,000,000 out of the queried amount.
- iii. while management has finally developed a Debt Management Policy and engaged legal counsel to issue demand letters, the current provision for doubtful debts of Kshs. 2,184,884 (only 5% of the total debt) appears significantly understated given the age of the receivables.

### **Committee Recommendations**

The Committee recommends that-

- i. the Governor ensures the Accounting Officer, within 60 days of the adoption of this report, submits a debtors' schedule to the Auditor-General for verification and review and update the Committee in the subsequent audit cycle;**
- ii. 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;**
- iii. the Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, puts in place recovery measures for the outstanding amount with clear timelines. The Auditor-General should review the implementation of the measures put in place provide a status update on the matter in the subsequent audit cycle; and**
- iv. the Governor ensures that the Accounting Officer undertakes a detailed ageing analysis of its long outstanding trade receivables and with the Board's approval, write off the irrecoverable debts in line with the Section 130 (2) (d) of the Public Finance Management (County Governments) Regulations, 2015.**

### **3. Undisclosed Water Inventory Held in the Distribution Infrastructure**

The statement of financial position reflects inventories balance of Kshs. 4,091,422 as disclosed in Note 20 to the financial statements. The inventory is in respect of stationery and general stores. However, as previously reported the company did not value, present and disclose the amount of water held in the treatment plants, reservoirs and distribution systems at the end of year in accordance with the International Accounting Standard on Inventories (IAS) 2 which sets out the accounting treatment for inventories, including

the determination of cost, the subsequent recognition of an expense and any write-downs to net realizable value.

In the circumstances, the accuracy and completeness of the inventory balance of Kshs. 4,091,422 could not be confirmed.

### **Management Response**

The company has come up with a formula to value the amount of water held in the distribution infrastructure which will be disclosed in the financial statement going forward. The water inventory analysis provided for the Committee verification.

### **Committee Observation**

The Committee observed that during the period under review, the company did not value, present and disclose the amount of water held in the treatment plants, reservoirs and distribution systems at the end of year in accordance with the International Accounting Standard on Inventories (IAS) 2.

### **Committee Recommendations**

**The Committee recommends that the Governor ensures that the Accounting Officer captures the volume and value of water held in the company's treatment plants, reservoirs and distribution systems, and necessary disclosures are made in the financial statements.**

### **4. Unreconciled Capital Grants**

The statement of financial position reflects deferred income liability of Kshs. 24,064,548 which as disclosed in the Note 7 to the financial statements relates to grant income received by the Company. Review of the grant analysis revealed that the Company recorded grant receipts totaling to Kshs. 8,947,059 from the County Government of Embu. However, County Government's records showed that grants totaling Kshs. 10,903,772 were transferred to the Company, resulting to an unreconciled variance of Kshs. 1,956,713 between the two sets of records.

In the circumstances, the accuracy and completeness of deferred income liability balance of Kshs. 24,064,548 could not be confirmed.

### **Management Response**

The company received 300 PVC PN12.5 160mm pipes from the county government of Embu and valued using the company's prequalified supplier's quotation for the year under review. However, the management has written to the county government department of water and irrigation requesting for the actual cost of pipes supplied in

order to reconcile and align the records. Form S11, Quotation, and letter to county government provided.

#### **Committee Observation**

The Committee observed that the variance of Ksh. 1,956,713 between the grants recorded in the Company's books of Kshs. 8,947,059 and those reported as transferred by the County Government of Embu as transfer to the water company of Kshs. 10,903,772, has not been reconciled and accounted for by the management.

#### **Committee Recommendations**

**The Committee recommends that EACC investigates the regularity of the transfer of Ksh. 10,903,772 from the county government of Embu to the Ngandori Water Company, including verification of the projects undertaken using the funds, and provide a status report to the senate within 60 days of adoption of this report.**

#### **5. Incorrect Classification of Long-Term Receivables**

The statement of profit or loss and other comprehensive income reflects a loss before tax of Kshs. 2,768,586 (2024: a loss of Kshs. 6,786,764) before revaluation gain which brought the Company's accumulated loss to Kshs. 25,731,483 as at 30 June, 2025 (2024: Kshs. 22,962,897). Although the current liabilities balance of Kshs. 45,353,240 did not exceed the current assets of Kshs. 64,338,296, they included incorrectly classified long-term receivables balance of Kshs. 13,983,258 therefore, overstating the current assets by Kshs. 13,983,258.

The financial statements, however, were prepared on a going concern basis on the assumption that the Company will continue to receive financial support from the County Government of Embu and its creditors.

In the circumstances, the sustainability of the Company could not be confirmed.

#### **Management Response**

Considering current assets of Ksh. 64,338,296 less long-term receivables of Kshs. 13,983,258, the current assets will be Ksh 50,355,038 which is more than current liabilities of Kshs. 45,353,240, therefore the company is sustainable. However, going forward, the management will consider classifying the long-term trade receivables as non-current assets.

#### **Committee Observation**

The Committee observed that the management incorrectly classified Kshs. 13,983,258 as current assets, which artificially inflated the Company's liquidity ratio.

#### **Committee Recommendation**

**The Committee recommends that the Governor ensures that the Accounting Officer undertakes the necessary Prior Year Adjustments to correctly reclassify long-term receivables as non-current assets and reconciles the resulting variances in the next audit cycle (FY 2025/2026); and the Auditor-General keeps the matter in view in the subsequent audit cycle to ascertain whether these corrections have accurately reflected the Company's sustainability.**

#### **Emphasis of Matters**

##### **1. Budgetary Controls and Performance**

The statement of comparison of budgets and actual amounts reflects final revenue budget and actual on comparable basis totaling to Kshs. 124,560,954 and Kshs. 130,960,530 respectively resulting into over collection of Kshs. 6,399,576 or 5% of the budget. Similarly, the Company expended Kshs. 107,731,791 against actual receipts of Kshs. 130,960,530 resulting in under-utilization of Kshs. 23,228,611 or 18% of the actual receipts. The under-performance and over utilization of the actual receipts affected the planned activities and impacted negatively on service delivery to the public.

#### **Management Response**

The over collection was due to recovery of the long outstanding trade receivables. The underutilization was as a result of grant income from Water Sector Trust Fund for a project which was not yet implemented. FS Note 21 (a) and budget reconciliation provided.

#### **Committee Observations**

The Committee observed that while the company exceeded its revenue targets by Kshs. 6,399,576 (5%) due to debt recovery efforts, it failed to utilize Kshs. 23,228,611 (18%) of the available funds. Management explained that this under-utilization was primarily due to unspent grant income from the Water Sector Trust Fund for an unimplemented project.

#### **Committee Recommendation**

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

- i. the Board of Directors should institute proper and realistic budget planning as well as measures to enhance its own generated revenue, such as review of**

- tariffs, connection of more customers and automation to address revenue leakages. The Auditor-General to confirm the effectiveness of the mitigating measures put in the water company and report in the subsequent audit cycle; 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 Management Act on penalties for offences shall apply;

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

The statement of financial position reflects trade and other payables of balance Kshs38,123,268 which as disclosed in Note 28 to the financial statements includes trade payables amounting to Kshs. 28,062,290 which have been outstanding since 2023/2024 financial year and earlier years without clearance.

In the circumstances, the accuracy and completeness of trade and other payables balance of Kshs. 38,123,268 could not be confirmed.

### **Management Response**

The management has established standing orders to clear long outstanding payables. Evidence of Standing Orders to WASREB and WRA were provided.

### **Committee Observation**

The Committee observed that the trade payables were to owed to the Water Services Regulatory Board (WASREB) and the Water Resources Authority (WRA). The Committee acknowledges further observed that the water company had, as of 5<sup>th</sup> January, 2026, standing orders to clear these arrears.

### **Committee Recommendation**

The Committee recommends that—

- i. the Governor ensures the water company adheres to the payment plan put in place to clear the outstanding payables to avoid penalties and the potential revocation of operating licenses and the Auditor-General to review the matter in the subsequent audit cycle to ascertain compliance with the payment plan; and
- ii. the Governor through the County Executive Committee Member in charge of water should continuously monitor 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.**

#### **Other Matter**

#### **Prior Year Matter**

##### **1. Irregularities in Borrowing**

In the audit report of the previous year, one issue was raised under Lawfulness and Effectiveness in Use of Public Resources. The statement of financial position reflected borrowings balance of Kshs. 38,774,910 which included an amount of Kshs. 8,500,000 in respect to borrowing during the year under review. However, review of records revealed that the borrowing of Kshs. 8,500,000 was above the set limit of five percent of recent audited revenue of Kshs. 3,962,452 (5% of Kshs. 79,249,044). Further, no evidence of authorization of the loans from the County Assembly were provided for audit.

#### **Management Response**

The borrowing was authorized by the board and the Embu County Government. Shareholder authorization letter provided.

#### **Committee Observation**

The Committee observed that—

- i. The Company borrowed Ksh. 8,500,000, which is more than double the statutory limit of 5% of the most recent audited revenue, Ksh. 79,249,044. (5% of Ksh. 79,249,044 is Ksh. 3,962,452); and
- ii. The borrowing was approved only by the Board of the water company, and the County Executive, but not by the County Assembly, as required by Section 142 of the Public Finance Management Act, 2012.

#### **Committee Recommendation**

**The Committee recommends that-**

- i. **the Governor ensures that the Accounting Officer must ensure that all future borrowings strictly adhere to the 5% revenue threshold as stipulated in the PFM Act and must ensure that no loan is processed without the express prior approval of the County Assembly, as required by Section 142 of the Public Finance Management Act, 2012;**

- ii. **the Board of Directors is directed to regularize the current over-borrowing by presenting a comprehensive debt-restructuring and repayment plan to the County Assembly for retrospective review and approval within 60 days; and**
- iii. **the Auditor-General to provide a status update on the matter during the subsequent audit cycle.**

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

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

### **1. Incorrect Title to Financial Statements**

Review of the heading of the Company's title on the financial statements reflects 'NGANDORI WATER AND SANITATION COMPANY PLC'. However, the Memorandum and Articles of Association show the name as 'NGANDORI WATER AND SANITATION COMPANY LIMITED PLC'. In the circumstances, the title naming as per the financial statements could not be confirmed.

### **Management Response**

The company's title on Financial Statement matches with the certificate of incorporation. The management has commenced the process of amending the memorandum and articles of association to match with the certificate of incorporation. Amendment letter provided.

### **Committee Observation**

There is a discrepancy between the Company's title as used in the Financial Statements (Ngandori Water and Sanitation Company PLC) and the name appearing in the Memorandum and Articles of Association (Ngandori Water and Sanitation Company Limited PLC).

### **Committee Recommendations**

**The Committee recommends that the Governor ensures that the Accounting Officer, in collaboration with the Board of Directors, fast-tracks the amendment of the Memorandum and Articles of Association to align with the Certificate of Incorporation and the requirements of the Companies Act, 2015; and the Auditor-**

**General to provide a status update on the matter during the subsequent audit cycle to ascertain whether the legal alignment has been fully regularized.**

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

The statement of profit or loss and other comprehensive income and as disclosed in Note 10 to the financial statements reflects an amount of Kshs. 51,102,509 in respect to staff costs. However, the Company incurred forty-nine percent (49%) on salaries as a percentage of operation and maintenance cost amount of Kshs. 103,522,432 contrary to Section 3.6 on Performance Analysis and Ranking on Water Services Regulatory Board (WASREB) Impact Report Issue No.15 of 2023 which sets Performance Indicators, Sector Benchmarks and Scoring Regime for Water Service Providers scoring greater than 40% for Personnel Expenditure as Percentage of operations and maintenance Cost.

In the circumstances, Management was in breach of the WASREB Guidelines.

### **Management Response**

- i. Going forward the management will recognize the staff medical expenses under general administrative and operational expenses, hence reducing the wage bill to 44.1%.
- ii. The management will restructure its operations by assigning responsibilities of those who retire or resign to existing employees

### **Committee Observation**

The Company's personnel expenditure stands at 49% of its total operation and maintenance (O&M) costs, significantly exceeding the WASREB benchmark of 40%. While Management proposes to "reduce" this figure to 44.1% by reclassifying staff medical expenses as administrative costs, this is a budgetary reclassification rather than a genuine cost reduction. Furthermore, even at the adjusted 44.1%, the Company remains in breach of the sector benchmark.

### **Committee Recommendation**

**The Committee recommends that the Company adheres with the provisions of regulation 25(1) of the Public Finance management (County Government) Regulations, 2015 which limits the wage bill to thirty -five percent (35%) of the total revenue and establish a lean staff, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply.**

## **3. Failure to Budget for Climate Change and Climate Financing**

Review of the Company's annual budget and financial plans revealed that no provisions for climate change mitigation, adaptation programs, or climate financing initiatives

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

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

#### **Management Response**

The management has considered budget for the climate change mitigation in the current year. Copy of the Budget for FY 2025-2026 provided.

#### **Committee Observation**

The Committee observed that the management did not have a financing provision for climate change initiatives, contrary to the requirements of the Climate Change Act, 2016. However, the management provided a budget statement reflecting a budget line in respect to climate change initiatives for the financial year 2025/2026.

#### **Committee Recommendation**

**The Committee recommends that the Auditor General keeps the matter in check in the subsequent audit cycle, and report to the Senate, on whether the management is compliant to the requirements of section 19 (1) of the Climate Change Act, 2016, CAP 387A, and the principles of the National Climate Change Action Plan, 2023-2027.**

#### **4. Non-Compliance with The Law on Ethnic Composition**

Review of payroll data and staff records provided for audit revealed that the Company had a total of nine (9) staff at the level of Management (Job group 1-3). However, as previously reported, it was noted that all employees were from the same ethnic community, contrary to Section 7(2) of the National Cohesion and Integration Act, 2008 which provides that no public establishment shall have more than one third of its staff from the same ethnic community.

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

#### **Management Response**

The entity started as a community-based organization. However, if opportunities arise in future, the management will consider other ethnic communities.

### **Committee Observation**

The Committee observed that all nine (9) management staff were drawn from the same ethnic community, contrary to Section 7(2) of the National Cohesion and Integration Act 2008, which limits representation from one ethnic community to not more than one-third of the staff.

### **Committee Recommendation**

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

## **5. Non-Revenue Water**

The statement of profit or loss and other comprehensive income reflects operating revenue of Ksh. 97,225,705 and as disclosed in Note 6 to the financial statements in respect to water sales. However, review of the water records revealed that the Company produced water amounting to 2,340,094 cubic meters during the year out of which water amounting to 1,613,477 cubic meters was billed to customers resulting in 726,617 cubic meters as unaccounted for water or 31% of the total water produced which is above the recommended maximum of 25% as per the requirements of WASREB. No verifiable explanation was provided for the high percentage of unaccounted-for water. The amount of Ksh. 41,520,622 in respect to Non-Revenue Water could have improved service delivery to the public. The significant level of Non-Revenue Water may be an indication of inefficiency and ineffectiveness in the use of public and water resources, which may negatively impact on the Company's profitability and its ability to sustain services.

In the circumstances, Management was in breach of the WASREB guidelines.

### **Management Response**

There is notable improvement on NRW from 34% to 29% as a result of measures stipulated in the NRW policy like upgrading of aging pipelines, replacement of faulty fittings like air valve, accurate billing, customer education on water conservation and leaks/bursts reporting. (Annex 1 NRW Policy, NRW performance in previous and current report)

### **Committee Observation**

The Committee observed that while management reports a slight reduction in NRW from 34% to 29%, the current level of 31% cited in the audit report remains well above the WASREB allowable benchmark of 25%. The financial loss of Kshs. 41,520,622 is alarming, representing nearly 43% of the actual water sales revenue.

### **Committee Recommendation**

**The Committee recommends that-**

- i. the Governor should ensure that the Accounting Officer puts in place comprehensive measures to mitigate on the Non-Revenue Water, that is, both physical and commercial losses. The measures to include replacement of old age dilapidated infrastructure, installation of smart meters for accurate billing and the application of Geographical Information System (GIS) to receive real-time data for the detection of bursts and leakages among other measures. The Auditor-General to review the implementation of the measures put in place to mitigate the Non-Revenue Water and provide a status update on the matter in the subsequent audit cycle;**
- ii. the Governor ensures that the Accounting Officer segregates NRW to both Physical or Commercial so that the water company can ascertain and identify specific mitigating measures to effectively address and reduce the NRW levels; and**
- iii. the Governor engages and collaborates with the Ethics and Anti-Corruption Commission so as to put in place pre-emptive measures to reduce cases of theft and illegal connections and the general governance issues are addressed.**

## **1.2 REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR NGAGAKA WATER AND SEWARAGE COMPANY THE FINANCIAL YEAR 2024/2025**

The Governor of Embu County, Hon Cecily Mutitu Mbarire, EGH, appeared before the Committee on Monday 19th January, 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on the Financial Statements for the Ngagaka Water and Sewerage company for the Financial Year 2024/2025. The Governor was accompanied by the following officers—

- |                      |                      |
|----------------------|----------------------|
| 1. Mr. John Mugo     | -CECM Water          |
| 2. Ms. Grace Murithi | -Chief Officer water |
| 3. Mr. Cyrus Mugendi | -Managing Director   |
| 4. Ms. Bancy Ileri   | - Finance Officer.   |

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

The Auditor-General rendered a **qualified opinion** on the financial statements of for Ngagaka Water and Sewerage Company the financial year 2024/2025.

### **BASIS FOR CONCLUSION**

#### **1. Non-Compliance with WASREB Guidelines on Incorporation and Shareholding of the Water Company**

As previously reported, the Company Memorandum and Articles of Association, 2011 indicate that the Company is a private company limited by guarantee. This is contrary to Section 3.1(d) of the Water Services Regulatory Board (WASREB) Corporate Guidelines, 2018, which recommends that Water Service Providers be incorporated as public limited liability companies under the Companies Act, 2015. Section 3.3.1(3) of the WASREB Corporate Guidelines, 2018 further requires that the Memorandum and Articles of Association reflect ownership by the County Government that took over the assets of the defunct local authorities.

Further Related party disclosure in Note 31 to the financial statements indicates that the Company is fully owned by the County Government of Embu. However, the share certificate relating to the paid-up share capital was not provided for audit review.

This is contrary to Section 495 of Part XVIII of the Companies Act, 2015, which provides that a duly executed share certificate is evidence of ownership.

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

#### **Management Response**

The Company has initiated the process of re-incorporation through the County Government of Embu to align with Section 77 of the Water Act, 2016 and the WASREB

Corporate Guidelines, 2024. The process is ongoing and is expected to be completed by the end of the current financial year. Evidence of registration request and a letter of no objection were provided for audit scrutiny.

#### **Committee Observation**

The Committee observed that the query was not resolved due to the following reasons

- i. that the Company was not incorporated in accordance with the Water Act, 2016 and WASREB Guidelines, as it was registered as a private company limited by guarantee.
- ii. although the Company is disclosed as fully owned by the County Government of Embu, the share certificate evidencing such ownership was not provided for audit review.
- iii. the Company's Memorandum and Articles of Association had not been amended to reflect County Government ownership as required by WASREB Corporate Guidelines.

#### **Committee Recommendation**

**The Committee recommends that the Governor ensures, within 60 days of the adoption of this Report, the incorporation and shareholding of the Water Company is compliant to the relevant laws and WASREB Corporate Governance and provide the updated CR12 to the Senate within the same period.**

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

The statement of financial position reflects Trade and other payables disclosed in Note 26 amounted to Kshs. 6,214,126, a decrease of Kshs. 9,133,112 in the previous year. Included in this balance is a debt of Kshs. 750,000 that has remained outstanding for more than two years, exposing the Company to potential litigation. This is contrary to Section 53(8) of the Public Procurement and Asset Disposal Act, 2015 which states that accounting officer shall not commend any procurement proceeding until satisfied that sufficient fund to meet obligation of the resulting contracts are reflected in approved budget estimates. In the circumstances, the Company risks payment of penalties and interest in case and Management was in breach of the law.

#### **Management Response**

The company acknowledged the outstanding debt of kshs.750,000 for more than two years due to financial constraints in previous periods. Management has engaged suppliers and confirmed that settlement has commenced.

The Company is strengthening financial planning and controls to ensure timely settlement of trade payables. Evidence of payment through a bank deposit slip was provided for audit scrutiny.

### **Committee Observations**

The Committee observed that the Entity had long outstanding trade payables of Kshs. 750,000, and Management has commenced partial settlement and strengthened financial controls, but no comprehensive repayment plan with clear timelines has been provided.

### **Committee Recommendations**

**The Committee recommends the Governor to ensure the water company makes budgetary provision to clear the outstanding payables of kshs.750,000 within the FY 2025/2026 and provide a status update to the Senate within 60 days of the adoption of this.**

### **3. Failure to Comply with Fiscal Responsibility Principle on Wages and Benefits**

The statement of profit or loss and other comprehensive income and as disclosed in Note 11 to the financial statements reflects an amount of Kshs. 26,113, 171 in respect to staff costs. The total revenue received in the year under review amounted to Kshs. 52,040,796. However, the wage bill was at 50% which is above the 35% allowed limit contrary to Regulation 25(1)(b) of the Public Finance Management Act (County Government) Regulations, 2015 which states that the wage bill shall not exceed thirty-five (35) percent of the County Government's total revenue.

In the circumstances, Management was in breach of the law

### **Management Response**

Management notes that the wage bill has improved from 53% in the 2023/2024 financial year to 50% in the year under review. The Company continues to optimize staff deployment, enhance operational efficiency, and fill critical positions gradually as revenue improves with the objective of achieving full compliance with the 35% wage bill threshold in line with the PFM Regulations.

### **Committee Observation**

THAT, the WASREB Corporate Governance Guidelines provide that when fixing remuneration of staff, the total expenditure for each financial year must not exceed the benchmarks set for the services sector, so that personnel cost as share of operations and maintenance cost shall be as follows: very large companies <30%; large companies < 35%, medium companies <40%; and for small companies < 50%.

### **Committee Recommendations**

**The Committee recommends that the Company adheres to the WASREB Guidelines on staff remuneration.**

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

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

In the circumstances, Management was in breach of law.

#### **Management Response**

The management acknowledges the observation and confirms that the public procurement capacity building levy of 0.03% was not deducted and remitted as per the circular referenced PPRA/6/5 VOL I (224).

The non-remittance occurred due to delayed internal operationalization of the circular during the transition period.

Management has since fully implemented the provisions of the circular, including the deduction of the 0.03% levy from applicable contract payments, remittance through the e-Citizen platform, and submission of monthly returns to the Public Procurement Regulatory Authority retrospectively.

#### **Committee Observations**

The Committee observed that order 3(1) of the Public Procurement Capacity Building Levy Order, 2023 there shall be paid a levy by a supplier on all procurement contracts signed between the supplier and a procuring entity, at the rate of zero point zero three per centum (0.03%) of the value of the signed contract, exclusive of applicable taxes. Further, order 5(1) and (b) provides that a procuring entity shall deduct the Levy from the contract value at the time of making payments for such contracts; and not later than the 20th day of the following month, remit the funds to the Public Procurement Regulatory Authority or its authorised agent.

The Company was therefore in breach of the Public Procurement Capacity Building Levy Order, 2023. However, Management has now implemented measures and ensured compliance by operationalizing the circular and submitting the outstanding returns.

#### **Committee Recommendation**

**The Committee recommends that the matter be marked as resolved however, the Auditor-General should continue monitoring and report on the status in the subsequent audit cycle.**

## **5. Staff Ethnic Composition**

As previously reported, the statement of profit or loss and other comprehensive income and as disclosed in Note 1 to the financial statements reflects an amount of Kshs. 26,113,171 in respect to staff costs. Review of the payroll documents provided for audit that out of the thirty-six (36) employees in the manual payroll, thirty-five (35) representing 97% of the total employees were from the dominant ethnic community. This was contrary to the provision of Section 7(2) of the National Cohesion and Integration Commission Act, 2008 which provides that no public establishment shall have more than one-third of its staff from the same ethnic group.

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

### **Management Response**

Management notes that a significant number of employees were absorbed from the defunct Water Association during the transition to a limited liability company, which explains the historical imbalance observed.

To address this, the Company has implemented corrective measures to ensure that all future recruitment, for both new and existing vacancies, is conducted through open and competitive processes, including advertisement of vacancies in national newspapers. This is aimed at ensuring compliance with the one-third ethnic diversity rule and promoting inclusivity in line with the National Cohesion and Integration Commission Act, 2008.

### **Committee Observations**

The Committee observed that 97% of the Company's staff were from one dominant ethnic community, in breach of Section 7(2) of the National Cohesion and Integration Commission Act, 2008,

### **Committee Recommendation**

**The Committee recommends that the Governor in collaboration with the Embu County Public Service Board progressively comply with Section 65 of the County Governments Act, 2012 and Section 7(1) and (2) of the National Cohesion and Integration Act, 2008, by filling vacant posts in a manner that promotes ethnic diversity and represents the people of Kenya.**

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

### **Basis for Conclusion**

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

As previously reported, the statement of profit or loss & other comprehensive Income as disclosed in Note 6 to the financial statements reflects an amount of Kshs. 48,977,917 in respect of operating revenue which includes an amount of Kshs. 48,977,917 from water sales. Records provided for review revealed that the Company produced 1,442,361 cubic meters of water. However, only 952,834 cubic meters (m<sup>3</sup>) of water was billed to customers.

The balance of 489,527 cubic meters (m<sup>3</sup>) of water produced with estimated sales revenue of Kshs. 25,162,843 at the rate of Kshs.51 per cubic meter of water (m<sup>3</sup>) representing non-revenue water implied a 34% level which is 9% above the acceptable limit of 25% as per Water Services Regulatory Board Guidelines.

In the circumstances, the non-revenue water level is still high and Management should strategize to reduce it to the acceptable level.

### **Management response**

Management acknowledges the NRW level is high and has continued to prioritize initiatives to reduce it. As of the current financial year, NRW has improved to 33%, down from 33.9% in the previous year.

To address apparent and commercial losses, the company has implemented several measures:

- i. Adoption of a digital platform for meter reading with photographic evidence,
- ii. Community engagement through local administration (chief's office) and water police unit to curb illegal connections,
- iii. Improved turnaround time in responding to pipeline bursts and leakages,
- iv. Replacement of faulty meters that fail to register consumption.
- v. Training and capacity of staff on NRW reduction strategies

Management remains committed to gradually reducing NRW to meet the benchmark set by WASREB. Attached is evidence of involvement of Water Police Unit and customer engagement forums.

### **Committee Observations**

The Committee observed that –

- i. the Company recorded Non-Revenue Water of 489,527 m<sup>3</sup>, equivalent to 34% of water produced, which is 9% above the sector benchmark of 25% prescribed by the WASREB guidelines.

- ii. the Management has implemented measures such as digital meter reading, community engagement, improved response to leaks, meter replacements, and staff training, but NRW remains above the acceptable limit,

### **Committee Recommendations**

**The Committee recommends that—**

- i. **the Governor ensures the Accounting Officer builds on existing measure to further mitigate on the Non-Revenue Water, that is, both physical and commercial losses. The measures to include replacement of old age dilapidated infrastructure, installation of smart meters for accurate billing and the application of Geographical Information System (GIS) to receive real-time data for the detection of bursts and leakages among other measures. The Auditor-General to review the implementation of the measures put in place to mitigate the Non-Revenue Water and provide a status update on the matter in the subsequent audit cycle;**
- ii. **given the impact of Non-Revenue Water on the water company's cashflows, the Governor should ensure Accounting Officer provides a provision for Non-Revenue Water is included in the financial statements. Further, explanatory notes should be provided to detail the contributions of both commercial and physical loss factors to the overall Non-Revenue Water; and**
- iii. **the Governor engages and collaborates with the Ethics and Anti-Corruption Commission so as to put place pre-emptive measures to reduce cases of theft and illegal connections.**

### **2. Un Intergraded Management Information System**

As previously reported, the audit revealed that the Water Company operates three Separate systems—sage, payroll system and sikika which were not integrated. The lack of integration results in manual data entry and transfers between system increases the likelihood of inaccuracies, discrepancies or incomplete records.

In the circumstances, the effectiveness of controls in the management of the system could not be confirmed.

#### **Management response**

Management confirms that the partial integration of the systems is due to financial constraints. The Company has however developed a roadmap to acquire a fully integrated Enterprise Resource Planning (ERP) system aimed at improving efficiency guided by market surveys and benchmarking with other water service providers.

A funding proposal has been submitted to development partners through the Water Sector Trust Fund (WSTF) for consideration. Evidence of bankable funding proposal given for scrutiny.

#### **Committee Observation**

The Committee observed that the Water Company operates three separate systems (Sage, payroll, and Sikika) that are not integrated, requiring manual data entry and transfers, which increases the risk of inaccuracies, discrepancies, and incomplete records.

#### **Committee Recommendation**

**The Committee recommends that the Governor ensures the water company prioritizes the implementation of a fully integrated Enterprise Resource Planning system and, within 90 days of adoption of this report, submits a clear implementation roadmap with defined timelines, funding status (including engagement with the Water Sector Trust Fund), system testing plans, and staff training arrangements to the Auditor-General and Senate for verifications.**

### **3. Failure to Transfer Land Title**

As previously reported, the financial statements reflect a balance of Kshs. 27,401,183 in relation to property, plant and equipment and also as disclosed in Note 16. The balance includes land value amounting to Kshs. 2,000,000. Review of the title deed revealed that title is in the name of Ngagaka Water Consumers Association. Management has never transferred the ownership of the land to Ngagaka water and Sanitation Company.

In the circumstances, the ownership of the land by the company is doubtful.

#### **Management Response**

Management confirms that consent to transfer land has been duly obtained and the valuation completed. The transfer process has therefore reached an advanced stage waiting printing and issuance of the title deed in the name of Ngagaka water company

#### **Committee Observation**

The committee observed that the land valued at Kshs. 2,000,000 is still registered in the name of Ngagaka Water Consumers Association, and legal ownership by Ngagaka Water and Sanitation Company is yet to be formally completed.

#### **Committee Recommendation**

**The Committee recommends that the Governor ensures the Accounting Officer transfers the land from Ngagaka Water Consumers Association to Ngagaka Water and Sanitation Company and finalized within ninety (90) days of adoption of this report, and evidence of the registered title deed be submitted to the Senate and the Auditor-General for verification.**

## **1.2. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR EMBE WATER AND SANITATION COMPANY FOR THE FINANCIAL YEAR 2024/2025.**

The Governor of Embu County, Hon. Cecily Mbarire, EGH, appeared before the Committee on Thursday, 19<sup>th</sup> January, 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Embe Water and Sanitation Company Limited for the Financial Year 2024/2025. The Governor was accompanied by the following officers—

1. Mr. John Mugo -CECM Water
2. CPA Nancy Mwakiri - Manager
3. Ms. Grace Murithi -Chief Officer Water
4. Ms. Doris Njiru -Head of finance and commercial services.

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

The Auditor-General rendered a **Qualified Opinion** on the financial statements of the Embe Water and Sanitation Company on the following basis; -

#### **2.1 Unaccounted for refundable deposit balance**

The statement of financial position and as disclosed in Note 44 to the financial statements reflects refundable deposits and prepayments balance of Kshs.8,205,497 which includes customer deposits balance of Kshs.6,686,890. However, the deposits bank account reflects a balance of Kshs.534,374 leading to unreconciled and unsupported variance of Kshs.6,152,516.

In the circumstances, the accuracy and completeness of customer deposits balance of Kshs.6, 686,890.00 could not be confirmed.

#### **Management response.**

Due to financial constraints, customer deposits were utilized to finance other company expenses in 2020, with appropriate authority sought at the time. To enhance financial controls and transparency, management has since established a dedicated bank account for customer deposits (Account No. 0110089235200) at Cooperative Bank Siakago Branch. Previously, these deposits were held in the company's operational account, which lacked specific controls. Management is committed to refund the utilized deposits in phases when the company stabilizes. Copy of the customer deposit account was provided for scrutiny.

#### **Committee Observations**

The Committee observed that —

- i. the customer deposits bank account reflects a balance of Kshs.534,374 against the recorded customer deposits balance of Kshs.6,686,890, resulting in an unreconciled variance of Kshs.6,152,516 that could not be confirmed; and
- ii. management acknowledged that customer deposits were utilized to finance other company expenses in 2020 and while a dedicated bank account has since been opened, the borrowed amount remains unrefunded with no clear repayment timeline provided.

### **Committee Recommendations**

#### **The Committee recommends that—**

- i. **the Governor should ensure that the Accounting Officer provides a certified bank statement for the designated customer deposit account and a comprehensive individual customer deposit register within 60 days from the adoption of this report to Senate and a copy to the Auditor General. The Auditor General to provide status update to the Senate on the same.**
- ii. **the Governor ensures the Accounting Officer should, within 60 days from the adoption of this report, submit to the Senate and the Auditor-General a repayment plan with clear timelines for the repayment of the customer deposits;**
- iii. **the Governor ensures that the Board of Directors put in place a Customer Deposits Management Policy to guide how the water company can access, utilize and refund the money within specified timelines; and**
- iv. **the Governor ensures the Accounting Officer should ensure that all customer deposits are deposited in a fixed/call account whose access to the management is limited and where the accrued interests can be used to offset the bank charges. Management to submit evidence of the same to the Senate and a copy of the same to the Auditor-General within 60 days from the adoption of this report.**

### **2.1 Long outstanding trade receivables**

As previously reported, the statement of financial position and as disclosed Note 29 to the financial statements reflects a balance of Ksh.32,306,020 in relation to trade and other receivables which resulted from an increase in trade and other receivables balance by Kshs.686,412 from prior year receivables. Review of the debtors ageing analysis revealed that debtors balance amounting to Kshs.28,643,434 or (87%) had been outstanding for more than four months (Over 120 days). The company however, does

not have a Debt Management Policy and did not institute proper and effective revenue collection mechanism during the year under review.

Further, included in the balance of Kshs.32,306,020 is a general provision for bad and doubtful receivable of Kshs.1,694,663 being 5% on trade receivables balance which is deemed inadequate considering that the receivables have been outstanding for a considerably long period of time.

In the circumstances, the accuracy and recoverability of the long outstanding trade receivables balance of Kshs.28,643,434 could not be confirmed.

### **Management response**

The company serves a diverse clientele, including individuals, schools, government institutions at both county and national levels, commercial entities, and multi-dwelling units. Due to the structure of fund disbursement from the exchequer, schools and institutions often face challenges in settling their bills on a monthly basis. As a result, payments are typically made after a 90-day period.

To address these challenges and enhance financial sustainability, the management has employed the following measures for the rest of the clientele:

- I. Debt Management Policy: A comprehensive policy has been established to guide debt control and recovery efforts.
- II. Formation of a Debt Recovery Unit: This specialized unit operates under clearly defined Terms of Reference (TOR), which include:
  - a) Conducting routine service disconnections and disconnections from the mains (DFM) for non-compliant accounts.
  - b) Establishing Memorandum of Understanding (MoUs) with high-debt customers to facilitate installment-based repayments.
  - c) Issuing demand letters to customers with substantial and prolonged outstanding debts.
  - d) Proactively engaging customers to encourage and facilitate debt clearance.
  - e) Collaborating with the Water Police Unit to reinforce and support the debt recovery process. Copy of the Debt Management policies and demand letters were provided for scrutiny.

### **Committee Observations**

The Committee observed that —

- i. the company is carrying a significant debt burden of Kshs.28,643,434 representing 87% of total trade receivables outstanding for over 120 days, with the bad debt provision of only 5% appearing significantly understated;

- ii. while management established a Debt Management Policy and a Debt Recovery Unit in response to the audit query, the effectiveness of the recovery measures could not be confirmed at the time of audit; and
- iii. a significant portion of the outstanding debt is owed by schools and government institutions due to late disbursement of funds from the National Treasury, negatively impacting the Company's revenue collection and liquidity.

#### **Committee recommendations**

**The Committee recommends that —**

- i. **the Governor ensures the Accounting Officer, within 90 days of the adoption of this report, submits a debtors' schedule to the Senate and copies the Auditor-General for verification and the Auditor-General provides a status update in the subsequent audit cycle;**
- ii. **the Governor ensures the full operationalization Debt Management Policy and Recovery Unit, and submits a status report recovery measures put in place to the Senate and copies the Auditor-General for verification within 60 days of the adoption of this report. The Auditor-General to confirm the effectiveness of the measures in the subsequent audit cycle;**
- iii. **the Governor ensures the Accounting Officer puts in place measurable debt recovery targets with clear timelines, and escalates recovery of debts owed by National and County Government institutions through formal inter-governmental mechanisms, with the Auditor-General providing a status update in the subsequent audit cycle;**
- iv. **the Governor ensures the Accounting Officer undertakes a detailed aging analysis of all long outstanding trade receivables and, with Board approval, writes off irrecoverable debts in line with Section 130(2)(d) of the Public Finance Management (County Governments) Regulations, 2015; and**
- v. **the National Treasury ensures timely disbursement of funds to government institutions including schools and counties to enable them to settle their outstanding obligations to water service providers in a timely manner.**

#### **2.1 Long outstanding trade Payables**

The statement of financial position and as disclosed in Note 43 to the financial statements reflects trade and other payables balance totalling Kshs.15,301,893. Included in this amount is Kshs.3,060,378 which has been long outstanding for more than two (2) years as shown in the ageing analysis. It was therefore, not possible to confirm why the company has not met its obligations of settling debt as the first charge. In the circumstances, failure to settle payables as they fall due may result in litigations and penalties.

### **Management response**

Since 2020, the company has been facing financial constraints. In response, it has undertaken strategic restructuring measures aimed at reducing operating expenditures, including a 10% reduction in employee emoluments. To further stabilize its financial position, management is expediting the tariff review process, which is expected to enhance the company's revenue base and improve its ability to meet financial obligations as and when they fall due.

Additionally, the company has entered into phased repayment agreements with its creditors to manage outstanding debts more effectively. Management remains optimistic that both the National Government and the County Government of Embu will settle their overdue water bills, which represent a significant sum that could substantially offset the company's outstanding payables. Evidence of restructuring board minutes and tariff gazette notice was provided for scrutiny.

### **Committee Observation**

The Committee observed that —

- i. the Company has long outstanding trade payables of Kshs.3,060,378 out of total payables of Kshs.15,301,893, which have remained unsettled for more than two (2) years, exposing the Company to litigation and penalties; and
- ii. while management attributed this to financial constraints and indicated that phased repayment agreements have been entered into with creditors and that a tariff review is underway to improve revenue, no formal repayment plan with clear timelines was submitted for audit scrutiny.

### **Committee Recommendations**

**The Committee recommends that the Governor ensures that the Board of Directors and the Accounting Officer of the water company make budget provision the outstanding payables amounting to Kshs.3,060,378 and provide evidence of settlement of the same within 60 days of the adoption of this report.**

### **2.1 Undisclosed share capital**

As previously reported, the statement of financial position reflects Nil Ordinary Share capital balance. Further, the company has not included related party disclosure in Notes to the financial statements which should indicate ownership of the Company. In addition, the share certificate relating to the paid-up share capital was not provided for audit review. This is contrary to Section 495 of part XVIII of the Companies Act, 2015 which states that a certificate duly executed in accordance with section 37 specifying any shares held by a member is, in the absence of proof to the contrary, evidence of the member's title to the shares.

In the circumstances, the accuracy, completeness of Nil ordinary share capital and ownership of the Company could not be confirmed.

**Management response**

Currently, the company is under guarantee but the Memorandum and Articles of Association (MAA) were already amended and the Embu County legal department is working on the Company registration to be by shareholding. Nevertheless, the Company is wholly owned by the County Government of Embu.

**Committee Observations**

The Committee observed that —

- i. the statement of financial position reflects a Nil Ordinary Share Capital balance with no related party disclosures indicating ownership of the Company, contrary to Section 495 of the Companies Act, 2015.
- ii. the Memorandum and Articles of Association have been amended and the Embu County legal department is processing the re-registration by shareholding, the process remains incomplete and the ownership of the Company could not be formally confirmed.

**Committee Recommendations**

The Committee recommends that —

- i. **the Governor ensures that the Accounting Officer, in collaboration with the Board of Directors and the County legal department, fast-tracks the re-registration of the Company as a public limited liability company by shares in compliance with Section 77 of the Water Act, 2016 and WASREB Corporate Guidelines, 2018, within 60 days of the adoption of this report, and submits a duly executed share certificate and CR12 together with related party disclosures reflecting County Government ownership to the Senate and copies the Auditor-General for verification; and**

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- ii. **the Auditor-General provides a status update in the subsequent audit cycle to confirm that share capital has been properly reflected in the financial statements and that a duly executed share certificate has been issued**

#### **Other matter — unresolved other matters**

In the audit report of the previous year, several issues were raised under the Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management has not provided an explanation of how the issues were addressed. Most of the issues have been reiterated as substantial paragraphs since they are recurring.

#### **Management response**

The two recurring issues; Use of Old Water Tariffs and Weaknesses In Internal Controls in Water Connections, have been addressed as on page 8 and 9 of the management responses to the issues of the financial year 2024-2025.

#### **Committee Observations**

The Committee observed that several issues raised in the prior year audit report remains outstanding with management only addressing two recurring issues of Use of Old Water Tariffs and Weaknesses in Internal Controls in Water Connections contrary to 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 all outstanding prior year audit matters as required by Section 149(2)(1) of the Public Finance Management Act, Cap.412A, failure to which the provisions of Section 199 of the Public Finance Management Act on penalties for offences shall apply; and**
- ii. **the Governor ensures that the Accounting Officer submits a comprehensive status report on all mitigation measures taken to resolve all prior year matters, including evidence of resolution of the two recurring issues of Use of Old Water Tariffs and Weaknesses in Internal Controls in Water Connections, to the Senate and copies the Auditor-General for verification within 90 days of the adoption of this report.**

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

### **Basis for Conclusion**

1. **Non-compliance with WASREB guidelines on incorporation and shareholding of the water company**

As previously reported, the background information included in the key entity information section of the financial statements indicates the Company is a public limited company by guarantee. This is contrary to Section 3.1(d) of the Water Service Regulatory Board (WASREB) Corporate Guidelines, 2018 which states that the recommended model for Water Service Providers (WSP) is that they be public limited liability companies established under the Companies Act, 2015 under Section 77(3) and Section 3.3.1(3) of Water Service Regulatory Board (WASREB) Corporate Guidelines, 2018 which states that if their memorandum of objects and articles of association do not already state that they are owned by the county government which has taken up the shares of the defunct local authorities, amendments should be made to reflect this legal reality.

Further, the statement of financial position does not reflect any share capital contrary to Section 3.3.1(7) of Water Service Regulatory Board (WASREB) Corporate Guidelines, 2018 which states that under the direction of Section 77 of the Water Act 2016, these companies should then change their memorandum to public companies limited by shares following the model for the sector, care being taken that real public participation in WSP governance is retained and Section 3.3.1(4) of Water Service Regulatory Board (WASREB) Corporate Guidelines, 2018 which states that the county government shall hold all the shares in trust for the people of the county and the other shareholders who hold the shares in trust and not in their personal capacity are the Office of CECM in charge of Finance, the Office of the CECM in charge of water and the County Secretary who shall hold one share each.

In the circumstances, Management was in breach of the law

### **Management response**

Currently, the company is under guarantee but the Memorandum and Articles of Association (MAA) were already amended and the Embu County legal department is working on the Company registration to be by shareholding. Nevertheless, the Company is wholly owned by the County Government of Embu. Copy of the company registration instruction letter was provided for committee verification.

### **Committee Observations**

The Committee observed that —

- i. the Company remains registered as a public limited company by guarantee contrary to Section 3.1(d) of the WASREB Corporate Guidelines, 2018, with the statement of financial position reflecting no share capital; and
- ii. the Memorandum and Articles of Association do not yet reflect County Government ownership as required by Sections 3.3.1(3), (4) and (7) of the WASREB Corporate Guidelines, 2018, and the process remains incomplete.

## **Committee Recommendations**

**The Committee recommends that —**

- i. the Governor ensures, within ninety (90) days of the adoption of this report, that the Company fast-tracks and completes the re-incorporation process as a public limited liability company by shares in compliance with Section 77 of the Water Act, 2016 and WASREB Corporate Guidelines, 2018, with shares held in trust by the County Government through the CECM in charge of Finance, CECM in charge of Water and the County Secretary as prescribed under Section 3.3.1(4) of the WASREB Corporate Guidelines, 2018; and**
- ii. the Governor ensures the Accounting Officer submits the amended Memorandum and Articles of Association together with a duly executed share certificate and CR12 confirming County Government ownership to the Senate and copies the Auditor-General for verification within sixty (60) days of the adoption of this report.**

### **2. Audit fees**

As previously reported, the statement of financial position reflects a balance of Kshs.35,358,352 in respect to current liabilities which includes provisions of Kshs.11,850,962 as disclosed in Note 41 to the financial statements for the year. This balance further includes a balance of Kshs.350,000 in respect to audit fees payable to the Auditor-General relating to accumulated audit fees which should have been paid in accordance with Section 41(1)(c) of the Public Audit Act, 2015.

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

### **Management response**

The Company is operating on a non-cost recovery tariff which has now been reviewed. The company still remains committed to making good the debts. However, audit fees are included in the company's outstanding payables, which are being settled in phases.

### **Committee Observations**

The Committee observed that the Company had unpaid audit fees of Kshs. 350,000 to the Office of the Auditor-General, which breaches Section 41(1)(c) of the Public Audit Act, 2015.

### **Committee Recommendations**

**The Committee recommends that the Company settle all outstanding audit fees to the Office of the Auditor-General within 60 days from the adoption of this report and ensure that future audit fees are paid promptly in line with Section 41(1)(c) of the Public Audit Act, 2015.**

### **3. Lack of staff ethnic diversity**

As previously reported, the statement of profit or loss and other Comprehensive income reflects staff costs amount of Kshs.17,723,925. Review of payroll records reveal that during the year under review the company had thirty six (36) employees out of which twenty-seven (27) or (75%) of the total number were members of the same ethnic community in the County. This is contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that all public offices shall seek to represent the diversity of the people of Kenya in employment of staff and that no public institution shall have more than one third of its staff establishment from the same ethnic community.

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

#### **Management response**

EMBEWASCO operates predominantly as a rural Water Service Provider (WSP). Any recruitment arising is done by advertising on national dailies, social media, Company's website and MyGov platform to attract a more diverse pool of applicants from across the country. However, most of the applicants particularly in the lower cadres are from the locality. This shall be achieved progressively.

#### **Committee Observation**

The Committee observed that 75% of the employees belonged to the same ethnic community, contrary to Sections 7(1) and (2) of the National Cohesion and Integration Act, 2008.

#### **Committee Recommendations**

**The Committee recommends that the Governor in collaboration with the Embu County Public Service Board ensure the company progressively comply with Section 65 of the County Governments Act, 2012 and Section 7(1) and (2) of the National Cohesion and Integration Act, 2008, by filling vacant posts in a manner that promotes ethnic diversity and represents the people of Kenya. The Auditor-General should monitor progress and keep this matter under review in the subsequent audit cycle.**

### **3. Earnings below the statutory minimum requirement**

Review and analysis of the payroll revealed that the water company had twelve (12) of its employees over-commit their salaries beyond two thirds (2/3) of their basic salaries. This was contrary to Section C.1(3) of the Human Resource Policies and Procedures Manual for the Public Service on Salary and Allowances which states that public

officers shall not over-commit their salaries beyond two thirds (2/3) of their basic salaries and Heads of Human Resource Units should ensure compliance.

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

#### **Management response**

Most of the employees commit their salaries and only retain the bare minimum of a third (1/3) of their basic salary. However, with the introduction of new tax rates and statutory deductions, which have placed an additional burden on the basic salary of the employees, when initially committing their salaries, this had not been foreseen.

To mitigate the issue at hand, management is undertaking capacity building initiatives to educate staff on financial planning and policy compliance. Additionally, management is engaging with lending institutions to ensure that loans and other deductions cover only two-thirds (2/3) of the employees' basic salaries, in alignment with the policy requirements.

#### **Committee Observation**

The Committee observed that 12 employees over-committed more than two-thirds of their basic salaries, violating Section C.1(3) of the Human Resource Policies and Procedures Manual for the Public Service due to new tax rates and statutory deductions.

#### **Committee Recommendation**

**The Committee recommends that the Governor ensures the Company enforces no employee over-commits more than two-thirds of their basic salary, in accordance with Section C.1(3) of the Human Resource Policies and Procedures Manual for the Public Service on Salary and Allowances, by monitoring deductions, educating staff on salary commitment limits, and coordinating with lending institutions to comply with the regulations.**

#### **4. Non-revenue water**

The statement of profit or loss and other comprehensive income reflects operating revenue totaling to Kshs.33,664,945 and as disclosed in Note 6 to the financial statements which includes water sales amount of Kshs.28,206,145. However, review of the water records revealed that the Company produced water amounting to 1,095,384 cubic meters (m<sup>3</sup>) of water during the year out of which 519,911 cubic meters were billed to customers resulting to 575,473 cubic meters as unaccounted for water or 52% of the total water produced which is above the recommended maximum of 25% as per the requirements of Water Service Regulatory Board guidelines. No verifiable explanation was provided for the high percentage of unaccounted-for water. The amount of Kshs.31,220,479 from the Non-Revenue Water could have improved service delivery to the public.

The significant level of Non-Revenue Water is an indication of inefficiency and ineffectiveness in the use of public and water resources, which may negatively impact on the Company's profitability and its ability to sustain services.

#### **Management response**

The company's infrastructures are old and dilapidated having been constructed in the 1970s. Due to financial constraints, replacement of the dilapidated pipeline has remained a big challenge.

As mitigation to reduce NRW, the company has installed ten (10) zonal meters distributed as follows: Six (6) zonal meters installed between the treatment works and the Riandu storage tanks while four (4) zonal meters installed at Ishiara scheme along Kigwambiti, Town, Ciangera and Karangare supply lines alongside two (2) master meters at the treatment works to establish the NRW of the areas, which the management feels are high-risk areas. Findings from the zonal meters reviewed that NRW between Ena Treatment works and Riandu storage tanks which covers a distance of 17km with a pipeline of size 315-200mm is 28%. 14 km of this pipeline transverses people's lands whose 3.5km of 315mm is made of galvanized and cast iron hence due to corrosion it is subjected to a lot of leakages. This coupled with poor access to the area for maintenance purposes has led to the high Non-Revenue Water experienced by the company. The company has done a proposal to the county government of Embu for relocation of at least 4km pipeline to alleviate the alarming NRW.

Alongside this, Tana Water Works Development Agency is currently rehabilitating, using HDPE pipes, 11.5km pipeline from Riandu storage tanks to Siakago storage tanks, which is along road reserve unlike the previous upvc pipeline, which also traversed people's lands. DMAs will be put in place for section control copy of the Award Letter 4.4Kmw was provided.

#### **Committee observation**

The Committee observed that the Company recorded 52% Non-Revenue Water (NRW), significantly above the WASREB recommended maximum of 25%, indicating inefficiency in water management and potential loss of revenue amounting to Kshs. 31,220,479.

#### **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.**

#### **Non-compliance with fiscal responsibility principles on wage bill**

The statement of profit or loss and other comprehensive income and as disclosed in Note 11 to the financial statements reflects amounts of Kshs.17,733,461 in respect to staff costs. However, the Company incurred 49% on salaries as a percentage of operation and maintenance cost of Kshs.35,985,985 contrary to Paragraph 3.2 of the performance report of Kenya's Water Service Sector 2020/2021 from Water Service Regulatory Board (WASREB), issue Number 14/2022 on Performance Analysis and Ranking under economic efficiency which states that the personnel expenditure for any Company ranked as large Company should not exceed 30% as percentage of Operation and Maintenance Cost.

In the circumstances, Management was in breach of the WASREB Guidelines.

#### **Management response**

The company acknowledges the deviation from the recommended personnel expenditure ratio. This variance is primarily attributed to prevailing financial constraints, which have limited the financing of comprehensive operational activities. As a result, the reported O&M costs do not fully reflect the actual operational requirements, thereby distorting the comparative percentage of personnel emoluments. Nonetheless, the management has taken deliberate steps to enhance cost efficiency. These include a significant reduction in casual labor, restructuring of departments, and merging of roles to optimize workforce utilization. Additionally, the company has adopted a policy of non-replacement for employees reaching retirement age, further contributing to long-term cost containment.

The cost recovery tariff will be effected starting February 2026

#### **Committee Observation**

The Committee observed that the Company's personnel expenditure stands at 49% of O&M costs, significantly exceeding the WASREB benchmark of 30%. While Management has taken measures such as reducing casual labor and merging roles, the wage bill still remains above the recommended limit.

**Committee**

**Recommendation**

**The Committee recommends that the Governor ensures the Company adheres to the provisions of Regulation 25(1) of the Public Finance Management (County Government) Regulations, 2015, which limits the wage bill to 35% of total revenue, and establish a lean staff structure. Failure to comply shall attract the provisions of Section 199 of the Public Finance Management Act on penalties for offences.**

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

**Basis for Conclusion**

**1. Use of old water tariffs**

As previously reported, the statement of profit or loss and other comprehensive income and as disclosed in Note 6 to the financial statements reflects operating revenue amount of Kshs.33,664,945. It was noted that the Company applied a tariff structure approved by the Water Services Regulatory Board (WASREB) for the period 2013/2014, 2014/2015, 2015/2016 and 2016/2017. However, although the Management through WASREB has started the process of renewal the new tariff has not yet been Gazetted and therefore, the Company has continued to use the same old tariffs for eight (8) subsequent years without approval leading to deficits and an inability to meet financial obligations.

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

**Management response**

Tariff revision process has been completed and the new Tariff has been gazette by WASREB. This will greatly increase the company's financial position. Copy of the tariff gazette notice was provided for scrutiny.

**Committee Observation**

The Committee observed that the Company used outdated water tariffs for eight years, which was irregular and contributed to financial shortfalls, though the new tariff has now been gazetted.

**Committee Recommendations**

**The Committee recommends that the Governor ensures the Accounting Officer charges customers only on tariffs formally approved and gazetted by WASREB. The Company should establish a system to track tariff approvals and renewals to prevent future delays, ensure compliance with regulatory requirements, and maintain financial sustainability.**

## **2. Weaknesses in internal controls in water connections**

As previously reported, the statement of financial position and as disclosed in Note 29 to the financial statements reflects trade and other receivable balance of Kshs.32,306,020. However, review of the sampled customer statements revealed the status of some customers' accounts were still active and customers still enjoying the water services with huge unpaid balances amounting to Ksh.8,581,721 and still accumulating penalties and no effort was shown to settle the debt since 2022. It was therefore, uncertain why reasonable steps were taken to recover the debt.

In the circumstances, the Company will continue to incur losses on the increasing unpaid bills.

### **Management response**

The active customer accounts belong to the institutions of the National Government and County Government of Embu whose bills have accumulated for a number of years. The management has sent several demand letters and remain hopeful that the National Government as well as the County Government of Embu will make good the bills. However, management has since disconnected accounts in arrears belonging to the County Government of Embu.

### **Committee Observation**

The Committee observed that the Company continued to provide water services to customers with unpaid balances totaling Kshs. 8,581,721, including accounts of National and County Government institutions, since 2022.

### **Committee Recommendation**

**The committee recommends that-**

- i. the Governor ensures the Accounting Officer, within 60 days of the adoption of this report, submits a debtors' schedule to the Senate and copies the Auditor-General for verification, and the Auditor-General provides a status update in the subsequent audit cycle;**
- ii. the Governor ensures the Accounting Officer ensures full operationalization of the Debt Management Policy and the Debt Recovery Unit, and submits a status report on the effectiveness of the recovery measures to the Senate and**

**copies the Auditor-General for verification within 60 days of the adoption of this report. The Auditor-General to confirm the effectiveness of the measures in the subsequent audit cycle; and**

- iii. the Governor ensures the Accounting Officer puts in place measurable debt recovery targets with clear timelines, and escalates recovery of debts owed by National and County Government institutions through formal inter-governmental mechanisms, with the Auditor-General providing a status update in the subsequent audit cycle.**

### **3. Use manual payroll**

During the year under review, it was observed that the water company operated a Manual payroll using Microsoft excel worksheet instead of a payroll system. The use of Manual system requires manual calculation of deductions and net pay and constant monthly or annual updates of the data manually which is prone to error or manipulations. However, Management did not provide a justification for maintaining the manual payroll and did not demonstrate mechanisms put in place to migrate from the manual payroll and what they are doing to protect payroll data integrity. This was contrary to Section 110(1)(2) of the Public Finance Management (County Governments) Regulations, 2015 which states that the Accounting Officer for a County Government entity shall institute appropriate access controls needed to minimize breaches of information confidentiality, data integrity and loss of business continuity.

In the circumstances, Individual Members accounts may easily be manipulated and therefore, the accuracy of the account's balances could not be confirmed.

#### **Management response**

With implementation of the new tariff the management will procure a Payroll Database Management Software that is not prone to human errors and cannot be manipulated.

#### **Committee Observation**

The Committee observed that the Company operated a manual payroll system using Microsoft Excel, which is prone to errors and potential manipulation, making it difficult to verify the accuracy of staff account balances.

#### **Committee Recommendations**

**The Committee recommends that the Governor ensures the Accounting Officer procures and implements a secure Payroll Management Software system to automate payroll processing, minimize human error, prevent data manipulation, and comply with Section 110(1) and (2) of the Public Finance Management (County Governments) Regulations, 2015.**

### **1.3. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR EMBU WATER AND SANITATION COMPANY LIMITED FOR THE FINANCIAL YEAR 2024/2025**

The Governor of Embu County, Hon. Cecily Mbarire, EGH, appeared before the Committee on Monday, 19<sup>th</sup> January 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Embu Water and Sanitation Company Limited for the financial year 2024/2025. The Governor was accompanied by:

1. Mr. John Mugo - CECM- Water and Irrigation
2. Mr. Raymond Kinyua -CECM-Lands
3. Mr. James Njeru -Managing Director EWASCO

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

The Auditor-General rendered a **Qualified opinion** on the Financial Statements of the Embu Water and Sanitation Company Limited for the period under review on the following basis-

##### **1. Long Outstanding trade and Other Receivables**

As previously reported, the statement of financial position reflects trade and other receivables balance of Kshs.317,359,698 which includes trade debtors balance of Kshs.315,063,352 as disclosed in Note 20 to the financial statements. Review of trade debtors ageing analysis reveals that Kshs.256,429,104 had been outstanding for over one hundred and twenty (120) days and was being owed by some of the major debtors who include the Embu County Government. However, Management has not provided plausible explanation on measures being taken to recover the long outstanding debts as their continued non-settlement is affecting the liquidity of the Company.

In the circumstances, the accuracy and recoverability of trade and other receivables balance of Kshs.317,359,698 could not be confirmed.

#### **Management Response**

Management stated that;

The management has adopted various strategies towards recovering the outstanding debts when they fall due. Some of the strategies are:

- (i) The board approved debt collector on 13.09.24. It was budgeted in FY 2025/2026 and the process of procuring a debt collector Services done.
- (ii) Normal Disconnection services to customers with arrears. Total reconnections of 4386 accounts.

- (iii) Disconnection from the main for 856 customers who have been disconnected for over a year and have not paid the amount due.
- (iv) We have sent demand letters customers including embu County Government which has a balance of Ksh. 134,441,453.50 as at June 2025.

### **Committee Observation**

The Committee observed that the water company had receivables amounting to Kshs.256,429,104 that had been outstanding for over one hundred and twenty (120) days with debtors such as the Embu County Government. Further, the water company did not give sufficient explanations on the measures being taken to recover the long outstanding debts.

### **Committee Recommendation**

**The Committee recommends that—**

- i. the Governor ensures the Accounting Officer should, within 60 days of the adoption of this report, submit a debtors' schedule to the Auditor-General for verification;**
- ii. the Governor ensures the Accounting Officer should within 60 days of the adoption of this report, submit an approved copy of the Debt Management Policy to the Auditor general for verification. The Auditor-General to verify the policy and submit a status update on the same in the subsequent audit cycle;**
- iii. the Governor ensures the Accounting Officer should, within 60 days of the adoption of this report, put in place recovery measures for the outstanding amount with clear timelines. The Auditor-General should review the implementation of the measures put in place provide a status update on the matter in the subsequent audit cycle; and**
- iv. the Governor ensures that the Accounting Officer undertakes a detailed analysis of its long outstanding trade receivables and with the Board's approval, write off the irrecoverable debts in line with the Section 130 (2) (d) of the Public Finance Management (County Governments) Regulations, 2015.**

## **2. Unaccounted for Customer Deposits**

As previously reported, the statement of financial position reflects refundable deposits and prepayments balance of Kshs.105,376,940 as disclosed in Note 29 to the financial statements. However, no listing of the persons owed the deposits was provided for audit review. In addition, the customer deposits bank account reflected a balance of Kshs.16,562,498 as at 30 June, 2025 resulting to a variance of Kshs.88,814,442 between the customer deposits balance and the customer deposit bank account statement that

was not reconciled. Although Management has explained that the amount was borrowed to cater for their operational expenses, no documentary evidence has been provided to confirm that the said borrowing had been refunded to the account as of 30 June, 2025. This was contrary to Regulation 53(1) of Public Finance Management (County Governments) Regulations, 2015 that provides that an Accounting Officer of an entity may not authorise payment to be made out of funds earmarked for specific activities for purposes other than those activities.

In the circumstances, the accuracy and completeness of refundable deposits and prepayments balance of Kshs.105,376,940 could not be confirmed.

### **Management Response**

The management is working to ensure all customer deposits are listed in the system. The variance between the customer deposit balance and bank balance of customer deposit is addressed by refunding the borrowed amount through:

- i. Increasing the monthly standing order of Kshs 1,000,000. to 2,000,000 from the main account to the customer deposits account.
- ii. There is also a dedicated Mpesa pay bill no.4167907 for deposit paid via Mpesa.
- iii. All deposits paid to main account were transferred to the Customer deposits account during the period under audit.
- iv. Once the Company manage to collect more from the receivables the borrowed deposit funds will be refunded.

### **Committee Observation**

The Committee observed that—

- i. Management did not submit the listing of the persons owed the deposits at the time of audit.
- ii. There was a variance of Kshs.88,814,442 between the customer deposits balance and the customer deposit bank account statement that was not reconciled.

### **Committee Recommendation**

The Committee recommends that—

- i. **the Governor ensures that the Accounting Officer undertakes prior year adjustments to reconcile the variance of Kshs.88,814,442 in the statement of financial position in the subsequent audit cycle FY 2025/2026. The Auditor-General to keep this in view in the subsequent audit cycle;**

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

### **3. Unsupported Kenya Revenue Authority Refund Claims**

The statement of financial position reflects tax recoverable balance of Kshs.31,519,506 as disclosed in Note 21 to the financial statements. However, the supporting schedule indicated a balance of Kshs.30,739,537 as the net Kenya Revenue Authority refund claim resulting in unreconciled difference of Kshs.779,969. In addition, Management has not indicated as to whether the claim has been acknowledged and when the refund claim will be settled by the Kenya Revenue Authority.

In the Circumstances the accuracy and completeness of tax recoverable balance of Kshs.31,519,506 could not be confirmed.

#### **Management Response**

The report by the consultants established that the VAT refund claimable from KRA was Kshs. 30,739,537 as at June 2020 due to either lapse of time or claims not being applicable. The difference of ksh 779,969 was vat additions of VAT claimed in the ledger for the period July 2020 to June 2021. The Claim has been acknowledged by the tax tribunal and the High Court which ruled that KRA should refund Ewasco the amount claimed.

#### **Committee Observation**

The Committee observed that there was a variance of Kshs.779,969 between tax recoverable balance and the supporting schedule. Further, the water company did not

indicate whether the claim was acknowledged and when settlement with KRA will be done.

### **Committee Recommendation**

**The Committee recommends that—**

- i. the Governor ensures that the Accounting Officer undertakes prior year adjustments to reconcile the variance of Kshs.779,969 in the statement of financial position in the subsequent audit cycle FY 2025/2026. The Auditor-General to keep this in view in the subsequent audit cycle;**
- ii. the Governor ensures that the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- iii. the National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties; and**
- iv. the Governor ensures the Accounting Officer strengthens internal audit controls and ensure proper record keeping in line with section 155 of the Public Finance Management Act, Cap.412A and submit a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply.**

### **Emphasis of Matter**

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

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.526,105,248 and Kshs.526,676,924 respectively resulting to an under-funding of Kshs.571,676. Similarly, the Company spent Kshs.518,211,761 against actual receipts of Kshs.526,676,924 resulting to under-utilization of Kshs.8,465,163 or 16% of the actual receipts.

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

#### **Management Response**

No Management response given.

#### **Committee Observation**

The Committee observed that there was an under-funding of Kshs.571,676 and an under-utilization of Kshs.8,465,163 or 16% of the actual receipts.

#### **Committee Recommendation**

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

#### **Other Matter**

#### **4. Prior Year Audit Matters**

Review of the progress on follow up on prior year auditor's recommendations reveals that, several issues raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance remained 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. The issue has been summarized in Appendix 1 while the issues which recurred have been reiterated as substantial paragraphs in this report.

#### **Management Response**

No Management response given.

#### **Committee Observations**

The Committee observed that the query remains unresolved as the management of the water company did not take action to address the queries raised in the report of the Auditor-General for the financial year 2023/2024.

#### **Committee Recommendations**

**The Committee recommends that—**

- i. The Governor ensure that the Accounting Officer resolves any issues resulting from an audit that remains outstanding as required by section**

**149(2)(l) of the Public Finance Management Act, Cap. 412A, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences may apply; and**

- ii. The Governor should ensure that Accounting Officer submits the status report on the mitigation measures taken to resolve prior year matters.**

## **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-Revenue Water**

As previously reported, the statement of profit or loss and other comprehensive income and as disclosed in Note 6 to the financial statements reflects an amount of Kshs.486,251,910 in respect to operating revenue which includes Kshs.386,691,436 in respect to water sales for the year ended 30 June, 2025. Records provided showed that the Company produced a total of 6,937,041 cubic meters (m<sup>3</sup>) of water at an approximate expected earning of Kshs.86 per cubic meter during the year under review out of which only 4,496,634 cubic meters was billed to customers. The balance of 2,440,407 cubic meters (approximately 35%) of the total water produced, with an approximate expected earning of Kshs.211,711,711 represents Non-Revenue Water (NRW).

However, schedule E of the Water Service Regulatory Board (WASREB) guidelines allows a maximum loss of 25% for every cubic meter of water produced and hence out of the 6,937,041 cubic meters produced by the Company, only 1,734,260 (25%) water loss was allowable while the 706,147 cubic meters (10%) of non-revenue water with an approximate expected earning of Kshs.60,728,620 is not allowable.

### **Management Response**

Non-Revenue Water (NRW) still remains a challenge in our operations contributed by a myriad of factors among them illegal water uses especially for miraa cultivation, aged infrastructure, old customer meters with low accuracy, vandalism, Water meter theft and destruction of pipelines especially during roads construction. The company has adopted several interventions to address this such as:

- i. Use of community policing and water police unit to curb illegal water use and vandalism;
- ii. Collaboration with the roads department (National and County) to minimize pipeline damages which leads to water losses during roads constructions;
- iii. Plans are in place to rehabilitate assorted old pipeline infrastructure and replace old customer meters;
- iv. The company is in the process of creating District Metered Areas (DMAs) to monitor areas with high NRW for quick intervention;
- v. Community engagements to protect the water infrastructure;
- vi. Adoption of plastic fittings and plastic water meters;
- vii. Enhanced line patrols;
- viii. Continuous training staff on NRW management; and
- ix. The company created customer WhatsApp group where customers report on the activities on the ground such as bursts, leaks and illegal connections.

It is worth noting that the company's approved tariff prescribes the maximum NRW at 35% for the year 2024/2025. The company was thus compliant.

#### **Committee Observation**

The Committee observed that the water company had an NRW of 35% which is above the recommended sector benchmark of 25% as prescribed by the Water Services Regulatory Board (WASREB).

#### **Committee Recommendation**

**The Committee recommends that—**

- i. the Governor ensures the Accounting Officer responsible for the water company puts in place comprehensive measures to mitigate the Non-Revenue Water. These measures include the installation of smart meters to ensure accurate billing, the replacement of the old water supply network as well as the introduction of a Geographic Information System (GIS) which will help the company receive real-time data on leaks in pipes and monitor maintenance;**
- ii. the Governor should engage the Ethics and Anti-Corruption Commission (EACC) to facilitate the development of a comprehensive institutional corruption prevention policy for the company;**
- iii. given the impact of Non-Revenue Water on the water company's cashflows, the Governor through the Accounting Officer should ensure that a provision for Non-Revenue Water is included in the financial statements. Further, explanatory notes should be provided to detail the contributions of**

- both commercial and physical loss factors to the overall Non-Revenue Water; and
- iv. the Auditor-General to monitor implementation and effectiveness of the measures put in place to mitigate on the Non-Revenue Water and report in the subsequent audit cycle.

## **2. Non -Compliance with Fiscal Responsibility Principle on Personnel Costs**

As previously reported, the statement of profit or loss and other comprehensive income and as disclosed in Note 10 to the financial statements reflects Kshs.216,922,516 in respect of staff costs for the year ended 30 June, 2025. However, the expenditure represents 43.5% of the total operating expenditure of Kshs.498,109,349 which is higher than the recommended ratio of 35% prescribed by the Water Services Regulatory Board (WASREB) Corporate Governance Guidelines, 2018 Section 3.9(10) which states that, when fixing remuneration of the staff, the total expenditure for each financial year must not exceed the benchmarks set for the services sector nationally, so that personnel cost as share of operations and maintenance cost shall be contained within the 35%.

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

### **Management Response**

The Company will progressively continue increasing revenue through; new connections, reducing Non-Revenue Water (NRW) and improved collection efficiency. The increased revenue to be allocated to development projects instead of recurrent expenditure like staff cost. It is worth noting that the company's approved tariff prescribes the maximum percentage of staff cost as a percentage of O & M at 44% for the year 2024/2025.

### **Committee Observation**

The Committee observed that the water company had an expenditure of Kshs.216,922,516 which is 43.5% of the total operating expenditure. This is above the ratio of 35% prescribed by the Water Services Regulatory Board (WASREB) Corporate Governance Guidelines.

### **Committee Recommendation**

The Committee recommends that the Governor ensure that the water company adheres to Section 3.9(10) of the Water Services Regulatory Board (WASREB) Corporate Governance Guidelines, 2018 and should submit to the Senate measures it is taking to reduce to the ratio to the recommended 35%, within 60 days of the

**adoption of this report. The Auditor General keep the matter in view in the subsequent audit cycle.**

### **3. Non Compliance with Corporate Governance Guidelines of Directors Expense**

As previously reported, the statement of profit or loss and other comprehensive income reflects a balance of Kshs.11,660,105 in respect to board expenses of for the year ended 30 June, 2025 and as disclosed in Note 12 to the financial statements. However, the expenditure is Kshs.1,199,809 higher than the recommended annual limit of 10,460,296 contrary to Paragraph 3.4.6 of the Water Services Regulatory Board (WASREB) Corporate Governance Guidelines for the Water Services Sector, 2024 on board remuneration which caps the expenditure at 2.1% of the Kshs.498,109,349 that the company made as its turnover.

In the circumstances, the excessive director's costs may negatively impact on the Company's profitability and sustainability of services if measures are not put in place to contain the cost within the acceptable level.

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

#### **Management Response**

The Board engaged numerous meetings that involved policies approvals, board self-evaluation and approval of bank facilities for donor funded projects.

The company has progressively reduced the directors' expenditure and has initiated measures to ensure strict compliance with WASREB guidelines on board expenditure.

#### **Committee Observation**

The Committee observed that the water company had an expenditure of Kshs.1,199,809 which is higher than the recommended annual limit of 10,460,296 contrary to Paragraph 3.4.6 of the Water Services Regulatory Board (WASREB) Corporate Governance Guidelines for the Water Services Sector, 2024 on board remuneration.

#### **Committee Recommendation**

**The Committee recommends that the Governor ensure that the water company adheres to Paragraph 3.4.6 of the Water Services Regulatory Board (WASREB) Corporate Governance Guidelines for the Water Services Sector, 2024 on board remuneration. And should submit to the Senate measures it is taking to comply within 60 days of the adoption of this report. The Auditor General keep the matter in view in the subsequent audit cycle.**

#### **4. Non-Adherence to Ethnic Balance**

As previously reported, the statement of profit or loss and other comprehensive income and as disclosed in Note 10 to the financial statements reflects an amount of Kshs.216,922,516 in respect to staff emoluments. However, review of the staff establishment revealed that the Company had one hundred and sixty-three (163) staff members out of which one hundred and three (103) or 64% of staff members were from the dominant ethnic community in the County as shown below;

This is contrary to Section 7(2) of the National Cohesion and Integration Act, 2008 which states that no public establishment shall have more than one third of its staff from the same ethnic community.

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

#### **Management Response**

The company from its inception in 2003 was run by the Embu Municipality which was largely dominated by individuals from Eastern region and more specifically persons from the Embu community. The legal regime in the company's formative years did not make it mandatory for the company to consider ethnic parity. Post 2010 constitution, the company was now mandatorily required by law to ensure ethnic balance. At the point of entry of this requirement, the company was dominated by employees from its local area of operation. In a means to comply with the dictates of law, the company resolved to entrench affirmative action to benefit nonlocal communities in employment processes. The company remains steadfast in this pursuit as the ethnic balance requirement can only be achieved through progressive realization.

#### **Committee Observation**

The Committee observed that the water company had one hundred and sixty-three (163) staff members out of which one hundred and three (103) or 64% of staff members were from the dominant ethnic community in the County.

#### **Committee Recommendation**

**The Committee recommends that the Governor in collaboration with the Embu County Public Service Board ensure the water company progressively complies with Section 65 of the County Governments Act, 2012 and Section 7(1) and (2) of the National Cohesion and Integration Act, 2008, by filling vacant posts in a manner that promotes ethnic diversity and represents the people of Kenya. The**

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

#### **5. Non -Collection and Non-Remittance of Capacity Building**

During the year under review, the Company did not deduct and remit the capacity building levy at the rate of 0.03% for every procurement done during the year contrary to PPRA Circular No. 01/2024 Ref: PPRA/6/5 VOL. II (224) dated 30th August, 2024 that required procuring entities to collect the levy at the rate of 0.03% of the contract sum from suppliers on all procurement contracts signed between the supplier and a procuring entity and remit to the Authority through the eCitizen platform. The procuring entities were further required to file monthly returns to the Authority on all levy amounts deducted and remitted to the Authority by the 20th day of the subsequent month.

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

#### **Management Response**

Some framework contracts were already active before the circular hence no collections were payable then.

The management is committed to ensure compliance with all the applicable laws. However, the company will effect both collection and remittance of capacity building levy going forward.

#### **Committee Observation**

The Committee observed that the water company did not did not deduct and remit the capacity building levy at the rate of 0.03% for every procurement done during the year contrary to PPRA Circular No. 01/2024 Ref: PPRA/6/5 VOL. II (224).

#### **Committee Recommendation**

**The Committee recommends that the Governor ensures that the board of directors continuously collect the levy at the rate of 0.03% of the contract sum from suppliers on all procurement contracts as prescribed in the Public Procurement Regulatory Authority Circular No. 01/2024 Ref: PPRA/6/5 VOL. II (224).**

**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. Long Outstanding Trade and Other Payables**

As previously reported, the statement of financial position and as disclosed in Note 28 to the financial statements reflects trade and other payables balance of Kshs.222,123,328 which includes trade payables balance of Kshs.178,098,571 which further includes Kshs.157,127,188 that has been outstanding for over 180 days. Management has not provided explanation on why the long outstanding trade payables have not been settled in the year to which the expenses were incurred or subsequent financial years.

In the circumstances, failure to settle obligations as and when they fall due exposes the Company to possible legal actions and increased costs due to interests and penalties.

#### **Management Response**

The management had been addressing the paying of long outstanding debts based on the cashflow and there is a remarkable improvement from the previous year. The management is committed to clear all the outstanding balances. However, the outstanding balances include some historical balances outlined below.

The outstanding balance of Kshs 157,127,188 comprises of Kshs 2,393,072.00 and Kshs 11,300,000 due to Runji and Partners; and Benisa Limited respectively relates to the OBA project for the construction of the new sewerage plant funded by the world bank. The amount is in a fixed account with Family bank. The vendor will be paid once we receive and certify the final certificate of the works done.

#### **Committee Observation**

The Committee observed that the water company had trade payables amounting to Kshs.157,127,188 that had been outstanding for over 180 days. Further, the Committee observed that the water company did not provide any measures it was taking to settle all the debt obligations.

#### **Committee Recommendation**

**The Committee recommends—**

- i. the Governor ensures that the water company formulates a repayment plan to fully repay its outstanding debt obligation amounting to Kshs.157,127,188 Further, the Governor ensures that the water company submits a status update to the Senate within 60 days of the adoption of this report; and**

- ii. **the Auditor-General keeps the matter in view in the subsequent audit cycle.**

## **CHAPTER TWO: MUNICIPALITY**

### **2.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS MUNICIPALITY OF EMBU FOR THE FINANCIAL YEAR 2024/2025**

The Governor of Embu County, Hon. Cecily Mbarire, EGH, appeared before the Committee on Thursday, 19th January, 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on the Financial Statements for the Municipality of Embu for financial year 2024/2025. The Governor was accompanied by –

1. Mr. John Mugo - CECM, Finance
2. Ms. Catherine Nyaga - Municipal Manager
3. Ms. Doris Njiru - Head of Finance and commercial service.

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

The Auditor-General rendered **Unmodified Opinion** on the financial statements of the Embu Municipality on the following basis; -

##### **1. Failure to Implement Programs Under ADP 2024-2025**

A review of the Municipality's operations for the year ended 2024/2025 revealed that set objectives under the Annual Development Plan (ADP) totaling Kshs 136,000,000 were not achieved. Management did not provide justification for this non-implementation of the planned programs.

In the circumstances, the failure to implement the projects in the Annual Development Plan negatively affected the public.

### **Management Response**

The Municipality anticipated receiving KUSP II funds during the development of the ADP. However, these funds were delayed, causing the Municipality to fail in achieving the set programs.

### **Committee Observations**

The Committee observed that the query remains unresolved as critical planned programs totaling Kshs 136,000,000 were not implemented, thereby denying the public intended services.

### **Committee Recommendations**

**The Committee recommends that –**

- i) The Governor ensures the Accounting Officer implements the Annual Development Plan and is based on realistic funding projections to avoid total non-implementation of programs; and**
- ii) the County Executive should engage with the relevant state departments to fast-track the release of KUSP II funds to ensure projects are back on track.**

### **2. Non-Collection of Own Source Revenue by the Municipality**

The statement of financial performance reflects transfers from the County Government totaling Kshs 42,280,886. Audit review established that Embu Municipality did not collect own source revenue to sustain its operations, relying solely on Donor and County Government funding. This is contrary to Section 9 (3) (c) and (d) of the Urban Areas and Cities Act, 2011, and Section 172 of the Public Finance Management Act, 2012.

### **Management Response**

Management responded as follows –

The Embu County Government legislated the Embu County Revenue Authority Act, 2017, which, under Section 27, authorizes the Authority as the sole collector of revenue. The issue of Municipalities collecting their own revenue was discussed in the last Senate sitting, and the Senate is yet to give direction.

### **Committee Observations**

There is a conflict between local legislation and the national Urban Areas and Cities Act regarding revenue collection, which hinders the Municipality's financial sustainability and autonomy.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures the Municipality is fully operationalized and resourced adequately so that it undertakes its delegated functions as gazette by the county government in accordance with the Urban Areas and Cities Act and section 172 of the Public Finance Management Act, 2012.**

## **CHAPTER THREE: HOSPITALS**

### **3.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR EMBU LEVEL 5 COUNTY HOSPITAL FOR THE FINANCIAL YEAR 2024/2025.**

The Governor of Embu County, Hon. Cecily Mbarire, EGH appeared before the Committee on Monday, 9<sup>th</sup> March, 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Embu level 5 County Hospital for the Financial Year 2024/2025. The Governor was accompanied by the following officers—

1. Mr. Jamal Runyenje - CECM Health
2. Mr. Amy Ruria - County Secretary
3. Ms. Eliza Kathure - County Director, Medical Services.

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

The Auditor-General rendered a **Qualified Opinion** on the financial statements of the Embu Level 5 County Hospital on the following basis; -

##### **Unsupported land**

The statement of financial position reflects property, plant and equipment net book value of Kshs.949,362,608 as disclosed in Note 30 to the financial statements which includes land valued at Kshs.387,000,000. Review of the Hospital records indicated that the hospital owns 10.45 hectares of land. However, the hospital has not secured a title deed for the land and no valuation reports were provided for audit purposes. Included in this balance is land estimated at a value of Kshs.3,870,000 whose physical verification conducted in October, 2025 revealed that the parcel of land housing the MCH unit, located opposite the hospital, is not fenced and has been encroached. Illegal structures, including a salon, car wash, and stalls, have been erected, and outsiders are carrying out farming activities on the land. The Hospital Management has not taken any action to reclaim or secure the encroached property.

In the circumstances, the accuracy and completeness of the land valued at Kshs.387,000,000 could not be confirmed.

##### **Management Response**

The hospital has beaconed the entire parcel of land including the MCH unit and has obtained the land survey map. The County Executive Committee Member for Lands has taken up the matter and the processing of the land title deed will be completed in due course. It is true that the MCH section is not fenced due to budgetary constraints. However, the illegal structures pointed out by the auditor are erected on the road

reserve. The farming activities are carried out by the land caretaker. Copy of hospital land survey plan was provided for scrutiny.

### **Committee Observations**

The Committee observed that the hospital has not secured a title deed for land valued at Kshs.387,000,000 and no valuation report was provided for audit verification. Further, the MCH unit land parcel remains unfenced due to budgetary constraints.

### **Committee Recommendations**

**The Committee recommends that-**

- i. the Governor ensures that the land occupied by the Hospital is properly surveyed, valued, and that valid ownership documents or lease agreements are secured within 90 days of the adoption of this report. The relevant County Department should regularize and transfer the ownership documentation to the Hospital and submit copies to the Auditor-General for verification in the subsequent audit cycle compliance with Section 162(2)(c)(i) of the Public Finance Management Act, 2012; and**
- ii. the Governor ensures the Accounting Officer makes budgetary provision for the fencing of the MCH land parcel in the FY 2025/2026 supplementary budget and ensures the fencing is completed within the financial year, with evidence of completion submitted to the Senate and copy to Auditor-General for verification, 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**

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

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.546,441,667 and Kshs.1,195,621,059 respectively resulting in overperformance of Kshs.649,179,392 or 119% of the budget. However, the hospital spent Kshs.1,110,977,654 and the actual receipts of Kshs.1,195,621,059 leading to under-utilization of Kshs.84,643,405 or 7% of the actual receipts.

The over performance casts doubt to the credibility of the budget documents approved.

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

Further, the over expenditure was not supported.

### **Management Response**

The budget execution over-performance of Kshs 649,179,392 represent components not budgeted for, namely personnel emoluments of Kshs. 549,226,64, donations of Kshs. 63,438,589 and over collection of medical service income of Kshs. 77,996,923 which includes accounts receivables from SHA.

PE expense is budgeted for under the department of health.

On the query of underutilization, Section 49(9) of the Embu County Health Services Act, 2024 provide that the expenditure incurred by the health facilities shall be on the basis of, and limited to, the available finances in the respective bank accounts and the authority to incur expenditure; hence reason for under-utilization.

Regulation 43(2) of the PFM Act 2012 (County Governments) stipulates that County Government entities shall execute their approved budgets based on the annual appropriation legislation, and the approved annual cash flow plan with the exception of unforeseen and unavoidable spending dealt with through the County Emergency Fund, or supplementary estimates.

### **Committee Observation**

The hospital recorded an overperformance of Kshs.649,179,392 representing 119% of the approved budget due to unbudgeted personnel emoluments, donations, and over-collection of medical service income including SHA receivables. Further, the hospital under-utilized Kshs.84,643,405 representing 7% of actual receipts, negatively affecting planned service delivery.

### **Committee Recommendations**

**The Committee recommends that—**

- i. the Governor ensures the Accounting Officer prepares realistic and comprehensive budgets that incorporate all anticipated revenue streams including personnel emoluments paid on behalf of the facility, donations, and SHA receivables in compliance with Regulation 29(1) of the Public Finance Management (County Governments) Regulations, 2015; and**
- ii. the Governor ensures the Accounting Officer complies with Regulation 42(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 on exerting budgetary control measures to improve absorption of available funds, failure to which the provisions of Section 199**

**of the Public Finance Management Act on penalties for offences shall apply; and**  
**iii. the National Treasury ensures timely disbursement of funds to counties in accordance with the disbursement schedule passed by the Senate.**

#### **Other Matter**

##### **Unresolved Other Matters**

In the prior years' audit reports, three issues were raised under the Report on Lawfulness and Effectiveness in Use of Public Resources. Review of the status during audit of the Embu Level 5 Hospital's in 2024/2025 revealed that several matters remained unresolved and have been reiterated as substantial paragraphs since they are recurring. Copy of the summarized issues was provided for scrutiny.

##### **Management Response**

The process of resolving those matters has commenced as summarized in the auditor's appendix.

##### **Committee Observations**

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

##### **Committee Recommendations**

**The Committee recommends that; -**

- i. The Governor ensures the Accounting Officer resolves any issues resulting from an audit that remains outstanding as required by section 149(2)(l) of the Public Finance Management Act, Cap. 412A, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences may apply; and**
- ii. the Auditor-General provides a status update on the progress made on the matter in the subsequent audit cycle upon review of the progress**

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

### **Basis for Conclusion**

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

The statement of financial position and as disclosed in Note 33 to the financial statements reflects trade and other payables balance of Kshs.197,536,768 which includes a balance of Kshs.192,987,674 in respect to trade payables. However, review of the ageing analysis provided showed that a total balance of Kshs.80,121,947 had been outstanding for a period exceeding one years. Management did not provide an explanation for failing to settle the long-standing creditors contrary to Section 53 (8) of the Public Procurement and Asset Disposal Act, 2015 which states that ‘an Accounting Officer shall not commence any procurement proceedings until satisfied that sufficient funds to meet the obligations of the resulting contracts are reflected in approved budget estimates.

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

### **Management response**

In the current financial year, 2025/2026 the hospital has paid pending bills amounting to Kshs. 67,412,124 and the County Executive has paid bills amounting to Kshs. 23,704,297 for the hospital, totaling to Kshs. 91,116,421.

The balance of Kshs. 106,420,347 will be cleared in financial year 2026/2027. Copy of the Date of Payment and Transaction Reference number for the paid bills were provided for committee verification.

### **Committee Observations**

The Committee observed that trade payables of Kshs.80,121,947 had been outstanding for over one year without explanation, contrary to Section 53(8) of the Public Procurement and Asset Disposal Act, 2015. Although Kshs.91,116,421 was paid in FY 2025/2026, a balance of Kshs.106,420,347 remains outstanding.

### **Committee Recommendations**

**The Committee recommends that—**

- i. the Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, submits a creditors schedule identifying all creditors owed the outstanding payables of Kshs.106,420,347 together with the nature and age of each obligation, to the Senate and copies the Auditor-General for verification;**
- ii. the Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, engages all relevant creditors to agree on a structured repayment plan with clear timelines for the full settlement of the outstanding payables of Kshs.106,420,347 and submits evidence of the**

**agreed plan to the Senate and copies the Auditor-General for verification; and**

- iii. the Governor ensures budget provision is made to clear all outstanding payables before the end of Financial Year 2026/2027, treating debt service payments as a first charge on revenue in compliance with Regulation 41(2) of the Public Finance Management (County Governments) Regulations, 2015, failure to which the provisions of Section 199 of the Public Finance Management Act on penalties for offences shall apply.**

## **2. Expired Serviceability Contract**

As previously reported, the audit review on the Managed Equipment Services (MES) showed that at the time of audit in the month of September, 2025, the contracts between maintenance service providers and the Ministry had expired. Therefore, some equipment including Leoni Mobil CPAP ventilator, blood gas analyzer, MX500 monitor, ventilator, nebulizer, electric bed, suction pump, syringe, pump and infusion pump were not serviced at the time of audit posing the following risks:

- Increased infection risk through outdated sterilization equipment might not effectively eliminate pathogens, increasing the risk of healthcare associated infections.
- Regulatory and Legal consequences through operating with expired equipment can lead to violations of health regulations, resulting in fines, loss of accreditation or legal liability in the event of adverse outcomes.

In the circumstances, maximum benefits from the equipment could not be confirmed.

### **Management Response**

The equipment identified by the auditor are in ICU and have since being serviced by the hospital and are helping in service delivery. Copy of Local Service Order and Technician technical report was provided for committee verification.

### **Committee Observations**

The Committee observed that equipment identified has since been serviced and are helping in service delivery.

### **Committee Recommendations**

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

### **3. Failure to Deduct and Remit Public Procurement Capacity Building Levy**

Review of records revealed that the Hospital entered into contracts but no documentary evidence has been provided to confirm that the County Executive complied with paragraph 3(1) of the Public Procurement Capacity Building Levy, Order 2023 which states that there shall be paid a levy by a supplier on all procurement contracts signed between the supplier and a procuring entity, at the rate of zero point zero three per centum (0.03%) of the value of the signed contract, exclusive of applicable taxes. In addition, Public Procurement Regulatory Authority (PPRA) circular No. 01/2024 dated 30 August which requires procurement entities to remit the levy to the Authority through the e-Citizen payment platform by the 20<sup>th</sup> day of the subsequent month and also file monthly returns.

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

#### **Management response**

The hospital has been relying on framework contracts entered between the County Executive and Suppliers of goods and services to supply goods and services for a period of 2 years ending September 2026. The contracts did not provide for the deduction of the procurement levy. However, all new contracts have the procurement levy clause and shall be deducted and remitted as provided for in law.

#### **Committee Observations**

The Committee observed that the hospital did not deduct the Public Procurement Capacity Building Levy at the rate of 0.03% on applicable contracts, contrary to paragraph 3(1) of the Public Procurement Capacity Building Levy Order, 2023 due to the use of old framework contracts entered into before the 2023 Order came into effect, which did not include the levy clause.

#### **Committee Recommendations**

**The Committee recommends that—**

- i. the Governor ensures the Procurement and Finance departments conduct a joint reconciliation of all contracts signed since the 2023 Order to determine the total outstanding levy owed to PPRA and initiate a payment plan within 60 days of the adoption of this report, and submit evidence of the same to the Senate and copies the Auditor-General for verification;**
- ii. the Governor ensures all future contracts including framework contracts incorporate the procurement levy clause and that monthly returns are filed through the e-Citizen platform without fail, failure to which the provisions**

- of Section 177 of the Public Procurement and Asset Disposal Act, Cap. 412C shall apply; and
- iii. **the Auditor-General to confirm full remittance and monitor compliance in the subsequent audit cycle.**

#### **4. Failure to Budget for Climate Change and Climate Financing**

Review of the Hospital's annual budget and financial plans revealed that the Hospital did not make any provisions for climate change mitigation or adaptation programs, nor for climate financing initiatives. There was no evidence of planned allocation of funds for projects or activities aimed at addressing climate risks, such as water source protection, energy-efficient operations, waste management improvements, or climate resilience measures. This was contrary to The National Climate Change Act, 2016, obligates public entities to mainstream climate change measures into their operational and development plans and to allocate adequate resources to address climate resilience and adaptation.

In the circumstances Management was in breach of the law.

#### **Management response**

While we concur with the auditor's observation, the hospital management endeavor to ensure adequate budgetary provision for climate change and climate financing is provided for in 2025/2026 supplementary budget which is in process.

#### **Committee Observations**

The Committee observed that the hospital did not make any budgetary provision for climate change mitigation, adaptation, or climate financing activities contrary to the National Climate Change Act, 2016

#### **Committee Recommendations**

**The Committee recommends that—**

- i. **the Governor ensures the Accounting Officer mainstreams climate change mitigation and adaptation measures into the hospital's annual budgets and operational plans in compliance with the National Climate Change Act, 2016, failure to which the provisions of Section 199 of the**

**Public Finance Management Act, Cap. 412A on penalties for offences shall apply; and**

- ii. the Governor ensures the hospital develops Climate Change Mainstreaming Strategy integrating environmental considerations into its long-term development plans and daily operations within 90 days from the adoption of this report and submits a copy to Senate and copy to the Auditor-General for verification; and**

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

Review of hospital records, interviews, and verification of services, equipment, and medical specialists in the Hospital at the time of audit revealed that the Hospital did not meet the requirements set out in the Kenya Quality Model for Health Policy Guidelines as shown below;

<b>Staff Requirements</b>	<b>Level 5 Standard</b>	<b>Number in Hospital</b>	<b>Variance</b>	<b>Percentage %</b>
Medical officers	50	17	33	66%
Anesthesiologists	6	2	4	66.7%
General surgeons	4	3	1	25%
Gynecologists	3	2	1	25%
Pediatricians	4	2	2	50%
Radiologists	4	2	2	50%
Kenya Registered Community Health Nurses	260	131	129	49.6%
Medical Laboratory	50	24	26	52%

Dental Officers	10	2	8	80%
BSN Nurses	12	23	-11	191.7%
Clinical Pharmacists	4	1	3	75%
Clinical Officers in Anesthetics	15	8	7	46.7%
Critical Care Nursing	20	17	3	15%
Dental Technologist	10	1	9	90%
General clinical officers (Diploma)	44	24	20	45.5%
Kenya enrolled the community health nurses	250	6	244	97.6%
Nutrition & Diabetes officers	20	2	18	90%
Oncology nurses	10	4	6	60%
Pediatric Nurses	10	1	9	90%
Psychiatrist nurses	20	9	11	55%
Accountant	6	2	4	66.7%
<b>Total</b>	<b>812</b>	<b>283</b>	<b>529</b>	<b>65.3%</b>

In addition, the hospital lacked the necessary equipment and machines outlined in the Health Policy Guidelines as detailed below;

Service	Level 5 Hospital Standard	Actuals in the Hospital	Variance	Percentage %
Beds	500	618	118	123.6%
Newborn unit incubators	10	3	7	30%

ICUs	12	6	6	50%
High Dependency Unit (HDUs)	12	3	9	50%
Operational theatres	7	7	0	0%
Maternity department ward for six delivery coaches.	6	3	3	50%
New Born Unit with ten (10) incubators	10	3	7	30%
New Born Unit with six HDU cots	6	0	6	0%

Further, review of the hospital operations reveals the following weakness.

#### **Management Response**

The deficiency in staffing in Embu Level 5 Hospital is being addressed through recruitment of health personnel bearing in mind that the Embu County Wage bill is above 35% threshold as required under Section 25. (1) (b) of the Public Finance Management Act (County Governments) Regulations, 2015. Copy of the recruitment was provided for scrutiny.

The equipment' gap identified by the auditor is been addressed as follows: -

- i. The hospital has expanded the ICU capacity to 8 operational beds. We are awaiting the officials of KMPDC to visit the hospital for verification and update in the SHA portal.
- ii. We have installed 10 beds in HDU, 8 for adults and 2 newborn cots. We are awaiting assessment and update in the SHA portal by KMPDC.
- iii. Our hospital bed capacity has been assessed by KMPDC and expanded to 670 beds that are currently operational.

#### **i. Mortuary Management**

The hospital has four (4) cold rooms, of which only three (3) are operational with a combined storage capacity of 18 bodies. However, an inspection conducted in October 2025 revealed that the mortuary was holding 70 bodies, far exceeding its designed capacity.

#### **ii. Non-Functional MRI Machine**

The hospital lacks a functional MRI machine despite its designation as a referral.

### **iii. Faulty Medical Equipment**

Inspection of medical equipment revealed widespread malfunctioning: out of 10 dialysis machines, only 5 were operational; 5 out of 6 anesthesia machines were functional; 2 out of 3 ambulances were working; 6 out of 10 ICU machines were faulty; the CT scan machine had been recently installed but not yet operationalized; and with only one X-ray machine in use.

### **Management response**

- (i) Two new cold rooms are being installed in the financial year 2025/2026 which will raise the body capacity to 24. Most of the bodies cited by the auditor have active legal cases.  
The Hospital is in the process of expanding the facility due to increased demand.
- (ii) The hospital is in line to receive a new MRI machine under NESP program
- (iii) 8 dialysis machines are currently functional. The technicians are sourcing for spare parts for the remaining two. 6 Anesthesia machines have been serviced and are functional.
- (iv) 8 ventilators were repaired and are functional. However, the hospital plans to phase them out in due course due to advancement in technology and difficulty in obtaining spare parts.
- (v) The CT scan supplied under NESP program is fully functional

### **Committee Observation**

The Committee observed that while the hospital has taken progressive measures to address staffing and equipment gaps, the hospital did not meet the minimum staffing and equipment requirements prescribed by the Kenya Quality Model for Health Policy Guidelines and the Human Resources for Health Norms and Standard Guidelines for Level 5 hospitals.

### **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 specific measures being taken to address the hospital's staffing shortages, including both short-term and long-term solutions focusing on optimizing existing**

- resources, improving employee welfare, and ensuring sustainable staffing levels;
- ii. within ninety (90) days of the adoption of this report, the Governor ensures the hospital develops and implements a comprehensive plan with appropriate budgetary allocations to acquire and operationalize the required facilities and equipment to provide all services required for a Level 5 hospital; and
  - iii. the Auditor-General to monitor progress and keep this matter under review in the subsequent audit cycle.

#### **6. Non-Compliance with the Staff Ethnic Composition**

Review of human resource records revealed that in the year under review the Hospital had a total of four hundred and forty-six (446) employees out of which, timelyseventy-one (71) employees were classified as job group M and above. Out of the seventy-one (71) employees, thirty (30) employees or forty-two (42) percent were drawn from one ethnic community. This is contrary to Section 7(2) of the National Cohesion and Integration Act, 2008 which stipulates that no public establishment shall have more than one third of its staff from the same ethnic community.

In the circumstances, Management was in breach of the law

#### **Management response**

Most of these devolved healthcare workers were from National Government who were retained by the County Government after devolution. However, in the ongoing recruitment process, we expect the Embu County Public Service Board is considering the ethnic composition of the candidates.

#### **Committee Observation**

The Committee observed that out of 71 employees in Job Group M and above, 30 representing 42% were drawn from a single ethnic community, exceeding the one-third threshold prescribed under Section 7(2) of the National Cohesion and Integration Act, 2008.

#### **Committee Recommendation**

**The Committee recommends that the Governor in collaboration with the County Public Service Board ensure the hospital progressively complies with Section 65 of the County Governments Act, 2012 and Section 7(1) and (2) of the National Cohesion and Integration Act, 2008, by filling vacant posts in a manner that promotes ethnic diversity and represents the people of Kenya. The Auditor-**

**General should monitor progress and keep this matter under review in the subsequent audit cycle.**

## **7. Lack of a Health Plan**

During the year under review the hospital was fully operational. However, the hospital has no health plan, including the human resource strategy, performance management, and development, strategies in place towards communicable and non-communicable diseases and conditions, and on the implementation of National Policies at the County level. This was contrary to Section 28 (1) of the Embu County Health Services Act, 2024 which states that, The Department shall in accordance with provisions of the County Governments Act, 2012, prepare a ten-year health plan which shall provide, among others, (a) Investment in physical infrastructure in the County Health Facilities, (b) human resource strategy, performance management, and development, including recruitment of contracted health personnel in case of a deficit in the staff establishment, (c) strategies for controlling key risk factors, including tobacco use and alcohol and drug substance abuse, and gender-based violence (d) specific and targeted strategies for controlling and mitigating the impact of communicable and non-communicable diseases and conditions, as well as injuries prevention; Implementation of national policies at the county level; strategies for Primary Health care as under section 25; strategies for community engagement and action; and any other matter that may be deemed necessary.

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

### **Management response**

The process of developing these policies is ongoing and is intended to be concluded before the end of Quarter 3 of financial year 2025/ 2026.

### **Committee Observations**

The Committee observed that the hospital does not have an approved ten-year health plan contrary to Section 28(1) of the Embu County Health Services Act, 2024.

### **Committee Recommendations**

**The Committee recommends that the Governor ensures the hospital develops and adopts a comprehensive ten-year health plan in full compliance with Section 28(1) of the Embu County Health Services Act, 2024 and submits a copy to the Senate and the Auditor-General within 90 days of the adoption of this report, failure to**

**which the provisions of Section 199 of the Public Finance Management Act, Cap. 412A on penalties for offences shall apply.**

#### **8. Officers on Acting Capacity Without Proper Procedures**

During the financial year under review, Embu Level 5 had thirty-two (32) officers heading various departments within the hospital. However, verification of their personal files revealed that the officers were heading the various departments without any proper appointment letters for the positions. Further, there was no evidence provided in support of their appointment or the recommendation report submitted to the Public Service Commission in support of the intention to appoint the said officers to be in charge of the respective departments. In these circumstances, we could not confirm the authenticity of the various appointments within the hospital's head of Department. This was contrary to Section B3 (4) of the Human Resource Policies Manual, 2016 which states that Recommendations for filling vacancies in Job Group 'M' and above in an acting capacity shall be submitted to the Public Service Commission. Such recommendations should be accompanied by a draft indent and a seniority list of officers, including an account of their performance. Further, Section C14 (9) States that in all cases, an officer must be appointed to act in writing by the Authorized Officer or such other officer to whom the Authorized Officer may delegate such responsibility.

In the circumstances, Management was in breach of the Human Resource Policies Manual.

#### **Management Response**

The hospital CEO has since been confirmed. The accounting officer has initiated the process of forwarding recommendation reports to CPSB in support of intention to appoint the said officers to various capacities within the hospital as required under Section B3 (4) of the HR Policies manual, 2016.

#### **Committee Observations**

The Committee observed that thirty-two (32) officers were heading hospital departments without formal written appointment letters or recommendation reports submitted to the County Public Service Board, contrary to Sections B3(4) and C14(9) of the Human Resource Policies Manual, 2016.

#### **Committee Recommendation**

**The Committee recommends that—**

- i. Governor ensures the Accounting Officer formalizes all acting appointments in writing and submits recommendation reports for Job Group M and above to the County Public Service Board within 60 days of**

**the adoption of this report in compliance with Sections B3(4) and C14(9) of the Human Resource Policies Manual, 2016, failure to which the provisions of Section 199 of the Public Finance Management Act, Cap. 412A on penalties for offences shall apply; and**

- ii. the Auditor-General to monitor compliance with proper acting appointment procedures and provide a status update in the subsequent audit cycle.**

#### **9. Non-compliance with the data protection act**

The Hospital, being a Public Health Institution that processes large volumes of sensitive personal data, including patient health records, and operates as both a referral and training facility, falls within the threshold for mandatory registration as a data controller and a data processor as prescribed under Section 18 of the Data Protection Act, 2019. However, at the time of the audit, Embu Level 5 hospital had not registered with the Office of the Data Protection Commissioner, contrary to the legal requirement under Section 18(1) of the Act which states that Subject to sub-section (2), no person shall act as a data controller or data processor unless registered with the Data Commissioner. In the circumstances, Management was in breach of the law.

#### **Management response**

The process of registration with the Data Commissioner has been initiated by the hospital board.

#### **Committee Observations**

The Committee observed that the hospital has not registered with the Office of the Data Protection Commissioner as a data controller and data processor contrary to Section 18(1) of the Data Protection Act, 2019.

#### **Committee Recommendation**

**The Committee recommends that the Governor ensures the Accounting Officer registers the hospital with the Office of the Data Protection Commissioner as a data controller and data processor within 60 days of the adoption of this report in compliance with Section 18(1) of the Data Protection Act, 2019, and submits evidence of registration to the Senate and copy to the Auditor-General.**

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

#### **Basis for Conclusion**

#### **1. Management of Property, Plant and Equipment**

Audit of the hospital's payment records revealed that the Management procured furniture, office tables, and office equipment's. However, review of the hospital's asset records showed no comprehensive and up-to-date fixed asset register. Critical details such as Asset descriptions, Serial numbers, Acquisition dates, Locations, and Current operational status were not disclosed or documented, undermining the hospital's ability to track, manage, and safeguard its fixed assets.

Physical verification carried out in June, 2025 on a sample of office desks, chairs, and desktops revealed that the items lacked location identifiers and asset tags. As a result, it was not possible to verify whether these assets were owned by the County hospital This contravenes Regulation 136 of the Public Finance Management (County Governments) Regulations, 2015, which requires County Governments to maintain an up-to-date asset register that accurately records all fixed and movable assets.

The biomedical department had obsolete equipment. However, the Hospital Management has not consulted a disposal committee to initiate an asset disposal process of the obsolete equipment.

In the circumstances, the controls on safeguard of assets could not be confirmed.

### **Management response**

The hospital has a comprehensive asset inventory record from which the asset register is derived from. However, even though the asset register is updated with current year's acquisitions the register remains incomplete owing to incomplete transfer of the assets from the County Executive that was reporting the assets on cash basis. We expect to complete the process of transfer, identification and valuation before the expiry of 3 years grace period.

We are in the process of consulting and requesting the department of Public Works and Infrastructure to institute a disposal committee as per the Public Procurement and Asset Disposal Act, 2015. A copy of the updated asset inventory with descriptions of new acquisitions was provided for committee verifications.

### **Committee Observations**

The Committee observed that –

- i. The hospital does not maintain a comprehensive and up-to-date fixed asset register with required details contrary to Regulation 170(1) of the Public Procurement and Asset Disposal Regulations, 2020.
- ii. assets lacked tags and location identifiers and obsolete equipment in the biomedical department has not been disposed of through the required disposal process.

## **Committee Recommendations**

**The Committee recommends that—**

- i. the Governor ensures the Accounting Officer prepares an updated asset register within 60 days of the adoption of this report 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) and Regulation 170(1) of the Public Procurement and Asset Disposal Regulations, 2020, and submits a copy to the Senate and the Auditor-General for verification, failure to which the provisions of Section 199 of the Public Finance Management Act, Cap. 412A on penalties for offences shall apply; and.**
- ii. the Governor ensures the Accounting Officer initiates the disposal of all obsolete equipment through a properly constituted disposal committee in accordance with the Public Procurement and Asset Disposal Act, 2015.**

## **2. Governance Gaps in the Hospital Board of Management**

Audit review of governance documentation for the Financial Year under review confirmed that a new Hospital Board was appointed on 18 March, 2025, with all the required positions filled as per Section 10(2) of the Act. However, several governance and documentation gaps were noted such as lack of governance instruments and records such as Board Charter in breach of Mwongozo clause 1.11; annual Board Work Plan as required by Mwongozo clause 1.9, Board calendar to guide the Board's meeting schedule, attendance registers for the meetings held.

In the circumstances, the governance and operational oversight of the Hospital Board during the financial year under review was not fully aligned with statutory and best practice requirements, thereby weakening transparency, accountability, and institutional continuity.

## **Management Report**

The auditor has rightly stated the board was appointed in March 18, 2025. The process of Board induction and appointment of Board sub-committee took time hence the reason

the Board had not completed the preparation of the governance instruments by closure of the financial year 2024/2025.

However, in the financial year 2025/2026 the Board has prepared an Annual Board Work plan as required by Mwongozo clause 1.9 and is in the process of preparing a board charter. Copy of Consolidated Board Work Plan for FY. 2025/ 2026 was provided for scrutiny.

### **Committee Observations**

The Committee observed that although a new Hospital Board was appointed, the Board lacked a Board Charter, annual work plan, meeting calendar, and attendance registers contrary to Mwongozo clauses 1.9 and 1.11.

### **Committee Recommendations**

**The Committee recommends that—**

- i. the Governor ensures the Board finalizes and adopts a Board Charter, annual work plan, and meeting calendar and establishes proper attendance registers in compliance with the Mwongozo Code of Governance within 60 days of the adoption of this report and submits copies to the Senate and the Auditor-General for verification; and**
- ii. the Governor ensures the Board conducts annual performance evaluations and that the affairs of the Board are run in accordance with the Mwongozo Code and relevant circulars issued from time to time.**

## **2. Lack of Risk Management Policy Documents**

Review of documents and records of the Hospital revealed that Management had no established risk management policies, and risk management strategies, which include fraud prevention mechanisms and a system of risk management and disaster recovery plans.

Further, review of information, documents, and discussions held with Management and staff of Departments revealed that the following documents were not in place; ICT policy, assets management policy, operational manuals, strategic plan, disaster recovery plan, and business continuity plan.

This is contrary to the Treasury Circular No. 3/2009 mandating every institution to establish a Risk Management Framework, develop an institutional Risk Management Policy Framework, and implement systems to manage identified risks in alignment with legal, policy, and public expectations.

In the circumstances, safeguards on loss of data and other assets could not be confirmed.

### **Management Response.**

The hospital had adopted Embu County Government policy documents. The policy guidelines outlined there, guide the hospital in fraud prevention, system risk management and system data recovery in the event of data loss.

The hospital is regularly audited by the County internal audit department.

However, the Hospital has taken note on the need to develop its own policies specific to the hospital's unique requirements.

The BOM has initiated this process with June 30, 2026 as the deadline to have all policy documents in place.

### **Committee Observations**

The Committee observed that the hospital has no established risk management policy, ICT policy, assets management policy, disaster recovery plan, or business continuity plan contrary to Treasury Circular No. 3/2009 and Regulation 158(1) of the Public Finance Management (County Governments) Regulations, 2015.

### **Committee Recommendation**

**The Committee recommends that—**

- i. the Governor ensures the Accounting Officer develops and implements a hospital-specific risk management policy, ICT policy, assets management policy, disaster recovery plan, and business continuity plan by 30 June 2026 in compliance with Regulation 158(1) of the Public Finance Management (County Governments) Regulations, 2015 and Treasury Circular No. 3/2009, failure to which the provisions of Section 199 of the Public Finance Management Act, Cap. 412A on penalties for offences shall apply; and**
- ii. the Auditor-General to monitor development and implementation of the risk management framework and provide a status update in the subsequent audit cycle.**

### **4. Lack of a Strategic Plan**

Review of records provided for audit revealed that the Hospital does not have an approved strategic plan contrary to Regulation 163(1) of the Public Finance Management (County Governments) Regulations, 2015 which provides that internal audit planning shall be carried out based on risk assessment and shall be set out in a

three-year (3) strategic plan, on the basis of which an annual internal audit activity plan shall be developed.

In the circumstances, the Hospital lacks strategic direction and benchmarks against which achievements would be measured.

#### **Management response**

A team to develop the hospital strategic plan has been appointed and has commenced the process with a timeline of 31<sup>st</sup> March 2026 as the deadline to submit the draft report to the board.

#### **Committee Observations**

The Committee observed that the hospital does not have an approved strategic plan contrary to Section 149(1) and (2) (g-h) of the Public Finance Management Act, 2012, leaving the facility without strategic direction and measurable performance benchmark.

#### **Committee Recommendations**

**The Committee recommends that the Governor ensures the Accounting Officer finalizes and adopts a comprehensive hospital strategic plan by 31 March 2026 and submits a copy to the Senate and the Auditor-General, failure to which the provisions of Section 199 of the Public Finance Management Act, Cap. 412A on penalties for offences shall apply.**

### **5. Lack of Formal Policies on Medical Students' Placement**

Review of records revealed that the hospital hosts three hundred and eighty-six (386) medical interns, students on attachment, and those on clinical rotation from fourteen (14) academic and training institutions without any formal policy. Further, the hospital was billed a total of Kshs.1,255,000 for medical students' services by various institutions.

Even though, no formal policy on such medical services was presented for audit verification to outline terms of engagement, responsibilities, supervision, resource contribution, or liability provisions. No impact assessment or cost-benefit analysis was conducted to evaluate how the presence of students affects hospital operations or whether their engagement contributes positively to service delivery. The hospital incurs resource costs (staff supervision, consumables, security, utilities, and learning support) which remain unaccounted for, with no evidence of compensation or reimbursement mechanisms in place.

In the circumstances, controls and cost benefit analysis on formal framework or policy guiding student engagement and institutional partnerships could not be confirmed.

### **Management response**

Medical interns posted by the Ministry of Health are paid their stipends by the Government.

The academic and training institutions have a contractual engagement with the hospital that outline the number of students on attachment and clinical rotation per session, period of stay and fees payable to the hospital for their training. The students have a personal insurance cover that takes care of any damages to hospital equipment.

The hospital acknowledges the need to have a formal policy document that will guide the conduct of the students as pointed out by the auditor. Copy of Revenue generated from medical students' placement was provided for scrutiny.

### **Committee Observation**

The Committee observed that—

- i. Despite hosting 386 medical interns, students on attachment and clinical rotation from 14 academic and training institutions and collecting Kshs. 1,255,000 in placement fees, the hospital operated without a formal policy to guide student engagement and institutional partnerships.
- ii. The hospital incurred unaccounted resource costs including staff supervision, consumables, security, and utilities with no compensation or reimbursement mechanisms in place to recover such costs from the respective academic and training institutions.

### **Committee Recommendation**

The Committee recommends that—

- i. Within 60 days of adoption of this report, the Governor ensures that Management develops a formal policy document outlining terms of engagement, responsibilities, supervision, resource contribution, and liability provisions governing student engagement and institutional partnerships and submits a copy to the Senate and the Auditor-General for verification; and
- ii. the Governor ensures that a cost-benefit analysis is conducted to establish the actual costs of hosting students and that the fees charged to academic and training institutions are enough to cover all costs incurred by the hospital, and a copy of the findings submitted to the Senate and the Auditor-General.

### 3.2. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR MBEERE COUNTY HOSPITAL FOR THE FINANCIAL YEAR 2024/2025.

The Governor of Embu County, Hon. Cecily Mbarire, EGH appeared before the Committee on Monday, 9<sup>th</sup> March, 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Mbeere County Hospital for the Financial Year 2024/2025. The Governor was accompanied by the following officers—

- |                       |                          |
|-----------------------|--------------------------|
| 1. Mr. Jamal Runyenje | - CECM Finance           |
| 2. Mr. Amy Ruria      | - County Secretary       |
| 3. Dr. Rajab Amwoka   | -Medical superintendent  |
| 4. Ms. Faith Muriuki  | - Hospital Administrator |

#### REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified Opinion** on the financial statements of the Mbeere County Hospital on the following basis; -

##### **Unsupported Property, Plant and Equipment**

The statement of financial position reflects property, plant and equipment net book value of Kshs.36,860,612 which as disclosed in Note 32 to the financial statements includes Kshs. 16,000,000, Kshs. 7,840,000, Kshs. 1,370,425, Kshs. 11,713,187 in respect to land, building and civil works, furniture, fittings and office equipment, and plant and medical equipment respectively. However, asset register and valuation reports for these assets were not provided for audit review.

In addition, the land occupied by the Hospital building and structures had no ownership documents, was not adequately secured, and a portion was allegedly grabbed. However, the Hospital Management has not taken meaningful steps to secure the land, reclaim the encroached area, or obtain a title deed.

Further, the assets were not tagged for ease of identification resulting in difficulty in tracking and hence exposing them to possible loss and misuse.

In the circumstances, the accuracy and completeness of property, plant and equipment net book value of Kshs. 36,860,612 could not be confirmed.

##### **Management Response**

The hospital has a comprehensive asset inventory record from which the asset register is derived from. However, even though the asset register is updated with current year's acquisitions, the register remains incomplete as the hospital awaits Intergovernmental Relations Technical Committee (IGRTC) to complete the process of valuation and handing over of the assets acquired before devolution to the county government.

We are waiting for the Intergovernmental Relations Technical Committee (IGRTC) to complete the process of asset valuation and hand over to the county government.

The hospital has written a follow up letter dated 10<sup>th</sup> December, 2025 requesting the survey process to be initiated to ascertain the right acreage and further assist in processing of the land ownership documents.

The process of asset tagging is ongoing under supervision of hospital Biomedical Engineer of all equipment and other assets. Copy of Asset inventory and Letter requesting for land survey was provided for committee verification.

#### **Committee Observations**

The Committee observed that—

- i. The hospital did not provide an asset register and valuation reports to support the property, plant and equipment net book value of Kshs. 36,860,612, and the land occupied by the hospital had no ownership documents, with a portion allegedly grabbed without meaningful steps taken to reclaim it; and
- ii. Assets were not tagged for ease of identification, exposing them to possible loss and misuse.

#### **Committee Recommendations**

The Committee recommends that—

- i. **Within 60 days of adoption of this report, the Governor ensures the hospital completes the ongoing asset tagging and valuation exercise and maintains an up-to-date asset register in the format prescribed by the Public Sector Accounting Standards Board and submit evidence of the same to Senate and the Auditor-General for verification; and**
- ii. **the Governor fast-tracks the land survey process already initiated and takes all necessary steps to secure ownership documents for the land, submitting a status update to the Senate and the Auditor-General within 60 days from the adoption of this report.**

## 2.0 Inaccuracy of the Financial Statements

### 2.1 Variances Between Financial Statements and the Supporting Records

The statement of financial performance reflects rendering of services -medical services income amount of Kshs. 14,169,741 as disclosed in Note 11 to the financial statements. However, the amount is at variance with the related revenue reports generated from the Medboss Hospital Management System, which reflected an amount of Kshs,6,240,321. The resulting variance of kshs.7,929,420 has not been reconciled

In the circumstances, the accuracy and completeness of the rendering of services amount of Kshs. 14,169,741 could not be confirmed.

#### Management Response

The Medical services income amounting to Kshs. 14,169,741 includes income generated through PHC claims Kshs 590,780, SHIF Kshs 4,329,412, NHIF Kshs 1,890,016, SHA receivables of kshs. 1,115,548 and Kshs,6,240,321 from Mpesa. The resulting variance of Ksh 3,664 represents an amount that was paid by patients who did not receive medical service. Copy of Revenue Ledger was provided for scrutiny.

#### Committee Observation

The Committee observed that there was a variance of Kshs. 7,929,420 between the medical services income in the statement of financial performance and the amount generated from the Medboss Hospital Management System, which was due to additional revenue streams including PHC claims, SHIF, NHIF, and SHA receivables not captured in the system.

#### Committee Recommendations

The Committee recommends that—

- i. The Governor ensures the Accounting Officer undertakes prior year adjustments to reconcile the variance of Kshs. 7,929,420 in the statement of financial performance in the subsequent audit cycle FY 2025/2026, and the Auditor-General keeps this matter in view;
- ii. The Governor ensures the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap. 412A and section 47(2) of the 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;

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- iii. **The National Treasury enhances awareness and training on changes made to accounting standards to all public officers handling financial matters in counties; and**
- iv. **The Governor ensures the Accounting Officer strengthens internal audit controls and ensures proper record keeping in line with section 155 of the Public Finance Management Act, Cap. 412A and submits a quarterly report to the CECM Finance and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap. 412A.**

## **2.2 Inaccuracy of Statement of Cash Flow**

The statement of cash flows reflects rendering of services-medical service income of Kshs. 14,169,741 which agrees with the corresponding amount reflected in the statement of financial performance, meaning that all revenue invoiced/accrued during the year under review were collected/received. However, the statement of financial position reflects a receivable balance of Kshs.4,910,878 which represents accrued revenue during the year, an indication that the amount of Kshs. 14,169,741 reported in the statement of cash flows includes accrued revenue.

In addition, the statement reflects purchase of property, plant and equipment (PPE) totaling Kshs.38,880,700 which is at variance with the nil balance reflected in the PPE movement schedule disclosed in Note 32 to the financial statement. The resulting variance of Kshs.38,880,700 has not been reconciled.

Further, the net cash flows from operating activities totaling Kshs.8,305,240 was at variance with a negative amount of Kshs. 1,442,032 reflected under supporting Note 43 to the financial statements. The resulting variance of Kshs.9,747,272 has not been reconciled.

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

### **Management Response**

The cashflow statement was prepared using the indirect method that included the receivable balance of Kshs.4,910,878. The variance of kshs 38,880,700 was as a result of introducing the new assets and grants that appears as a consequence of using indirect method. The difference of Kshs.9,747,272 was as a result of applying the indirect method of cashflow

### **Committee Observation**

The Committee observed that the variances of Kshs. 4,910,878, Kshs. 38,880,700 and Kshs. 9,747,272 in the cash flow statement could not be confirmed as the figures reflected did not agree with the supporting schedules and notes to the financial statements.

### **Committee Recommendations**

**The Committee recommended that—**

- i. The Governor ensures that the Accounting Officer reconciles the variances of Kshs. 4,910,878, Kshs. 38,880,700 and Kshs. 9,747,272 in the cash flow statement with the supporting schedules and notes to the financial statements and makes the necessary adjustments in the FY 2025/2026 financial statements, with the Auditor-General keeping this in view in the subsequent audit cycle;**
- ii. the Governor ensures that the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of the Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- iii. the 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 submits a quarterly report to the CECM Finance and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply; and**
- iv. The National Treasury enhances awareness and training on changes made to accounting standards to all public officers handling financial matters in counties; and iv.**

### **2.3. Unreconciled Budget Surplus**

The statement of comparison of budget and actual amount reflects budget surplus of Kshs.6,285,152 which is at variance with the closing cash and cash equivalent amount of Kshs.5,744,974. The resulting variance of Kshs.540,178 has not been reconciled.

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

### **Management Response**

The above figure of Kshs.540,178 represents earned revenue not yet received. The budget is prepared on cash basis and not on accrued basis.

### **Committee Observation**

The Committee observed that there was a variance of Kshs. 540,178 between the budget surplus and the closing cash and cash equivalent balance which could not be confirmed.

### **Committee Recommendations**

The Committee recommended that—

- i. **The Governor ensures that the Accounting Officer reconciles the variance of Kshs. 540,178 between the budget surplus and the closing cash and cash equivalent balance and makes the necessary adjustments in the FY 2025/2026 financial statements, with the Auditor-General keeping this in view in the subsequent audit cycle;**
- ii. **the Governor ensures that the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of the 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. **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 submits 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.**

### **3.0 Unsupported Financial Statement Amounts and Balances**

Review of the financial statements revealed that four components in the statement of financial performance totaling Kshs. 185,360,368 and three components in the statement of position totaling Kshs.55, 814,978 were not supported by schedules and their related supporting documents.

In the circumstances, the financial statements may not reflect a true and fair view of the financial position and of its performance.

### **Management Response**

The figure of Kshs. 185,360,368 is erroneous as it includes repetition of Employee cost (ksh. 80,975,136 x2), grants and subsidy (ksh.11,223,042 x2) and general expenses of ksh. 964,012. The correct figure should be Ksh. 93,162,190.

The figure of Kshs.55, 814,978 includes receivables from exchange transactions (ksh 4,910,878), inventories (4,836,394), and capital/development grants (ksh. 46,067,706). Copy of Employee cost ledger, Donations ledger, Payment vouchers, Receivables ledger and Inventories ledger were provided for verification.

### **Committee observation**

The Committee observed that amounts of **Kshs. 185,360,368** and **Kshs. 55,814,978** reflected in the statement of financial performance and statement of financial position respectively lacked supporting schedules and documents, casting doubt on the accuracy of the financial statements, and that management admitted to errors of repetition which reduced the correct figure in the statement of financial performance to **Kshs. 93,162,190**.

### **Committee Recommendations**

The Committee recommended that—

- i. The Governor ensures that the Accounting Officer corrects the erroneous and repeated figures in the statement of financial performance and provides adequate supporting schedules and documents for all components in both the statement of financial performance and statement of financial position in the FY 2025/2026 financial statements, with the Auditor-General keeping this in view in the subsequent audit cycle;
- ii. the Governor ensures that the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of the 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. 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 submits 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.

#### **4.0 Unsupported and Unreconciled Cash and Cash Equivalents**

The statement of financial position reflects cash and cash equivalents balance of Kshs.5,744,974 which as disclosed in Note 27 to financial statements includes a balance of Kshs.5,084,168 in respect to County FIF account. However, bank reconciliation statements, bank statement, cash book and bank certificates in support of the latter balance were not provided for audit verification.

The accuracy and completeness of cash and cash equivalent balance of Kshs.5,744,974 could not be confirmed.

#### **Management Response**

Bank reconciliation statements, bank statement, cash book and bank certificates are were provided for committee verification.

#### **Committee observation**

The Committee observed that the bank reconciliation statements, bank statements, cash book and bank certificates in support of the cash and cash equivalent balance of Kshs. 5,744,974 were availed verified.

#### **Committee Recommendations**

The Committee recommended that—

- i. the Governor ensures the Accounting Officer makes timely submission of supporting 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 investigation and prosecution in accordance with section 62(2) of the Public Audit Act in the subsequent audit cycle;
- i. the Governor ensures that the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of the 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

- ii. 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 submits a quarterly report to the CECM Finance 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.

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

### Basis for Conclusion

#### 1.0 Deficiencies in Implementation of Universal Health Coverage (UHC) Inadequate Resourcing

Review of Hospital records, interviews, and verification of services, equipment, and medical specialists in the Hospital at the time of audit revealed that the Hospital did not meet the requirements set out in the Kenya Quality Model for Health Policy Guidelines as detailed below.

Staffing of Health workers	Level 4 standard	Observation	Variance	Percentage %
Medical officers	16	2	14	88
Anesthesiologists	2	0	2	100
General surgeons	2	0	2	100
Gynecologists	2	0	2	100
Pediatrics	2	0	2	100
Radiologists	2	0	2	100

In addition, the Hospital lacked the necessary equipment and machines outlined in the Health Policy Guidelines as detailed below,

Equipment	Level 4 standard	Observation	Variance	Percentage %
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New Born Unit - Incubators and five (5) cots	5	3	2	40
New Born Unit cots	5	3	2	40
Functional intensive care unit – Beds	6	0	6	100
Renal unit with at least 5 dialysis machines	5	0	5	100
Two functional operating theaters Maternity and general	2	1	1	50

Further, the Hospital did not offer essential services including; renal dialysis service, radiology, surgical services and advanced life support services in accordance to the Kenya Quality Model Health Checklist for Level 4 hospitals on recommended services to be offered.

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

#### **Management Response**

The hospital management has requested for additional staff and department of health is currently engaged in consultation with the county executive to address the shortfalls that have been identified with the aim of ensuring that the hospital operates at optimal human and capital efficiency standards as outlined in the first schedule of the Health Act, 2017.

The County Government in collaboration with the Department of Health is in the process of improving hospital infrastructure. The hospital is further mapped for equipping with more theatre equipment and Xray equipment from the National Equipment Service Program (NESP). Copy of Request for additional staff and theatre equipment were provided for scrutiny.

#### **Committee Observations**

The Committee observed that-

- i. the Hospital's staffing levels did not meet the specifications outlined in the Kenya Quality Model for Health Policy Guidelines for a Level 4 facility, though management had initiated steps to address the shortfalls.
- ii. the Hospital was not providing all key services required of a Level 4 facility, with equipment, bed capacity, and digital health system requirements falling below the minimum standards prescribed under the Health Act, 2017 and Article 43(1) of the Constitution of Kenya, 2010.

### **Committee Recommendations**

**The Committee recommends that —**

- i. **Governor fast-tracks the ongoing consultations between the Department of Health and the County Executive on staffing shortages, and within sixty (60) days of the adoption of this report, submits to the Senate a progress report on the measures being taken, including both short-term and long-term solutions, focusing on optimizing existing resources, improving employee welfare, and ensuring sustainable staffing levels moving forward;**
- ii. **the Governor expedites the ongoing hospital infrastructure improvement initiatives and ensures the National Equipment Service Program (NESP) equipment mapping is actualized within ninety (90) days of the adoption of this report, with appropriate budgetary allocations to operationalize all required equipment, facilities, and services to the standard prescribed for a Level 4 facility; and**
- iii. **the Auditor-General to keeps this matter under review in the subsequent audit cycle.**

### **2.0 Failure to Deduct and Remit Public Procurement Capacity Building Levy**

Review of records revealed that the Hospital entered into contracts but no documentary evidence has been provided to confirm that the County Executive complied with paragraph 3(1) of the Public Procurement Capacity Building Levy, Order 2023 which states that there shall be paid a levy by a supplier on all procurement contracts signed between the supplier and a procuring entity, at the rate of zero point zero three per centum (0.03%) of the value of the signed contract, exclusive of applicable taxes. In addition, Public Procurement Regulatory Authority (PPRA) circular No. 01/2024 dated 30 August, 2024 which requires procurement entities to remit the levy to the Authority through the e-Citizen payment platform by the 20th day of the subsequent month and also file monthly returns.

In the circumstances, Management was in breach of law.

### **Management Response**

The hospital relies on framework contracts which did not include the 0.03% procurement levy.

### **Committee Observation**

The Committee observed that the Hospital failed to deduct and remit the Public Procurement Capacity Building Levy at the prescribed rate of 0.03% contrary to the Public Procurement Capacity Building Levy Order, 2023 and PPRA Circular No. 01/2024, primarily because the framework contracts relied upon did not include the levy provision.

### **Committee Recommendations**

The Committee recommends that —

- i. the Governor ensures that the County Executive complies with paragraph 3(1) of the Public Procurement Capacity Building Levy Order, 2023 by incorporating the 0.03% procurement levy in all existing and future framework contracts and procurement agreements;
- ii. the Governor ensures the Procurement and Finance departments conduct a joint reconciliation of all contracts signed since the 2023 Order to determine the total outstanding levy owed to the PPRA, and initiate a payment plan to remit the outstanding amounts through the e-Citizen payment platform, while ensuring monthly returns are filed as required under PPRA Circular No. 01/2024; and
- iii. the Auditor-General monitors compliance and keeps this matter under review in the subsequent audit cycle

### **3.0 Failure to Budget for Climate Change and Climate Financing**

Review of the Hospital's annual budget and financial plans revealed that Management did not make any provisions for climate change mitigation or adaptation programs, nor for climate financing initiatives. There was no evidence of planned allocation of funds for projects or activities aimed at addressing climate risks, such as water source protection, energy-efficient operations, waste management improvements, or climate resilience measures. This contrary to The National Climate Change Act, 2016, which obligates public entities to mainstream climate change measures into their operational and development plans and to allocate adequate resources to address climate resilience and adaptation.

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

### **Management Response**

Going forward, the management will allocate funds to support activities that alleviate potential environmental and operational risks posed to the hospital.

### **Committee Observations**

The Committee observed that the hospital did not make any budgetary provision for climate change mitigation, adaptation, or climate financing activities contrary to the National Climate Change Act, 2016

### **Committee Recommendations**

**The Committee recommends that—**

- iii. **the Governor ensures the Accounting Officer mainstreams climate change mitigation and adaptation measures into the hospital's annual budgets and operational plans in compliance with the National Climate Change Act, 2016, failure to which the provisions of Section 199 of the Public Finance Management Act, Cap. 412A on penalties for offences shall apply; and**
- iv. **the Governor ensures the hospital develops Climate Change Mainstreaming Strategy integrating environmental considerations into its long-term development plans and daily operations within 90 days from the adoption of this report and submits a copy to Senate and copy to the Auditor-General for verification.**

### **4.0 Irregular Engagement of Casual Workers Without Formal Appointment Letters**

Review of human resources documents revealed that the Hospital engaged eleven (11) casual workers to perform various duties within the facility. However, it was noted that the workers had no formal appointment or engagement letters from either the County Public Service Board and officers have served for cumulatively more than six (6) years without formal appointment. This is contrary to section 67 of the County Governments Act, 2012 which require that no appointment or assignment of a duty in a county public service shall be valid unless it is evidenced in writing.

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

### **Management Response**

All the casuals who were working at Mbeere Sub-County Hospital were absorbed by the County Public Service Board and as such we do not have any casual worker in the hospital.

### **Committee Observation**

The Committee observed that the Hospital engaged eleven (11) casual workers without formal appointment letters in breach of Section 67 of the County Governments Act, 2012, and no documentary evidence was provided to prove that the workers were formally absorbed by the County Public Service Board.

### **Committee Recommendations**

The Governor ensures the Accounting Officer makes timely submission of supporting 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 investigation and prosecution in accordance with section 62(2) of the Public Audit Act in the subsequent audit cycle;

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

### **Basis for Conclusion**

#### **1.0 Weak Controls in Management of Drugs**

The statement of financial position reflects Inventories balance of Kshs.4,836,394 as disclosed in Note 31 to the financial statements. Review of records revealed that the facility uses both manual records and electronic system to maintain and issue drugs. However, the system has no provision for detailing the receipt and expiry dates of drugs and two hundred and forty-two (242) drugs of various types and quantities had expired.

In the circumstances, the effectiveness of controls designed to ensure the efficient, economical, and transparent issuance of medical drugs, as well as maintenance of optimal stock levels, could not be confirmed.

#### **Management Response**

The hospital has migrated to Tiberbu HMIS provided by Ministry of Health which details the receipt and expiries of drugs and the two hundred and fortytwo expired drugs as listed in the FO58 had already been disposed accordingly. Copy of Minutes of the disposal committee dated 19<sup>th</sup> May, 2025 and Screenshot of Tiberbu showing expiry of drugs.

### **Committee Observation**

The Committee observed that the Hospital has now put in place the Tiberbu HMIS system provided by the Ministry of Health, which details the receipt and expiry dates of drugs, and that the two hundred and forty-two (242) expired drugs had been disposed of by a disposal committee.

### **Committee Recommendation**

**Noting the mitigating measures taken by management, the Committee recommends the matter be marked as resolved.**

### **2.0 Lack of Risk Management Policy Framework**

During the year under review, it was observed that the Hospital did not have a risk management policy, disaster recovery plan and business continuity plan.

In the circumstances, the adequacy and effectiveness of the risk management strategy and controls put in place could not be confirmed.

### **Management Response**

The management shall integrate the National public sector and health specific policy on risk management into the hospital's annual work plans.

### **Committee Observation**

The Committee observed that the Hospital did not have a risk management policy, disaster recovery plan and business continuity plan.

### **Committee Recommendations**

**The Committee recommends that —**

- i. within sixty (60) days of the adoption of this report, the Governor ensures the Hospital develops and adopts a risk management policy framework, disaster recovery plan, and business continuity plan, in line with the National Public Sector risk management guidelines; and**
- ii. the Auditor-General monitors compliance and keeps this matter under review in the subsequent audit cycle.**

### **3.0 Lack of ICT Policy and a Disaster Recovery Plan**

Review of the Hospital's ICT environment revealed lack of ICT Policy which is required to provide guidance on Information Technology governance, security management program change management, physical access controls, environmental controls, IT service continuity and logical access control. Further, there was no Data Security Policy and Disaster Recovery Plans.

In the circumstances, the Hospital did not have tools to minimize risk of errors, fraud and the loss of data, confidentiality and integrity.

### **Management Response**

The hospital is in the process of coming up with the policy in collaboration with the department of health.

**Committee Observation**

The Committee observed that the Hospital lacked an ICT Policy, Data Security Policy, and Disaster Recovery Plan and was relying instead on the Department of Information and Communication Technology of Embu County Government for policies and support.

**Committee Recommendation**

**The Committee recommends that within sixty (60) days of the adoption of this report, the Governor ensures the Board of Management (BOM) develops a tailored ICT Policy, Data Security Policy, and Disaster Recovery Plan specific to the health facility in compliance with Section 149(2)(c) of the Public Finance Management Act, 2012, and submits copies to the Senate and the Auditor-General as evidence of compliance, failure to which the Committee shall recommend investigation and prosecution in accordance with Section 62(2) of the Public Audit Act in the subsequent audit cycle.**

### **3.3. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR FOR THE RUNYENJES SUB COUNTY HOSPITAL FOR THE FINANCIAL YEAR 2024/2025.**

The Governor of Embu County, Hon. Cecily Mbarire, EGH, appeared before the Committee on Monday, 9<sup>th</sup> March, 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Runyenjes Sub County Hospital for the Financial Year 2024/2025. The Governor was accompanied by the following officers—

- |                       |                          |
|-----------------------|--------------------------|
| 1. Mr. Jamal Runyenje | - CECM Finance           |
| 2. Mr. Amy Ruria      | - County Secretary       |
| 3. Dr. Rahab Muthoki  | -Medical superintendent  |
| 4. Mr. Dickson Njagi  | - Hospital Administrator |

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

The Auditor-General rendered a **Qualified Opinion** on the financial statements of the Runyenjes County Hospital on the following basis; -

##### **Basis for Qualified Opinion**

###### **1. Non-Disclosure of Revenue from Rental Facilities**

The statement of financial performance reflects Nil revenue from rent of facilities. However, physical inspection during the month of October 2025 revealed that staff members were occupying 17 units of the Hospital's rental houses, which were fully boarded, with annual revenue of Kshs.609,600. However, the management did not disclose the rental income in the financial statements for the year under review.

In addition, the management did not provide for audit review institutional housing committee's minutes on allocation, current occupants, identified damages, approved rates used to bill tenants and payment of utilities for the houses.

In the circumstances, the accuracy and completeness of Nil revenue from rent of facilities could not be confirmed.

##### **Management Response**

The seventeen (17) staff houses in question are under the management of the Department of Housing. Rent deductions for the occupants are affected through a check-off system directly from their payroll, as guided by the said department. Consequently, the facility does not collect, receive, or manage this income, and therefore it was neither included nor disclosed as part of the hospital's rental income.

In addition, the hospital has a Housing Committee and maintains a dedicated file containing all relevant records and information relating to the staff houses. Extracts of these records have been provided for scrutiny.

#### **Committee Observation**

##### **The Committee observed that-**

- i. rental income of Kshs. 609,600 was not disclosed in the financial statements contrary to Section 9(b) of the Facilities Improvement Financing Act, 2023, despite the income being generated from hospital assets managed by the Department of Housing
- ii. supporting documents including Housing Committee minutes, occupancy list, rent rates and payment vouchers were not provided at the time of audit.

#### **Committee Recommendation**

##### **The Committee recommends that –**

- i. **the Governor directs the County Executive Committee Member for Health to ensure that all rental income derived from hospital staff houses is disclosed in the financial statements as required by Section 9(b) of the Facilities Improvement Financing Act, 2023;**
- ii. **The Governor should further direct the County CECM Finance to establish a clear reporting framework between the Department of Housing and health facilities to ensure such inter-departmental revenue is captured, reconciled and reflected in official financial reports;**
- iii. **The Committee recommends that Governor ensures the Accounting Officer makes timely submission of documents during the audit process in line with Section 9(1)(e) of the Public Audit Act, Cap.412B, failure to which the 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. Inaccurate Property, Plant and Equipment Balances**

The statement of financial position reflects property, plant and equipment net book value of Kshs.114,795,896 which includes land, Buildings and civil works, plant and Medical Equipment, furniture fittings, and office equipment, and ICT equipment as disclosed in Note 32 to the financial statements. However, documentary evidence on cost or valuation / revaluation of assets were not provided for audit. Further, ownership

documents for the land on which the Hospital is built and evidence of effort by Management to acquire the title deed for the land were also not provided for audit review. The statement further, reflects nil biological assets. However, physical inspection conducted in October, 2025 revealed various assets which qualify as biological assets but were not disclosed in the financial statements,

In addition, the management did not maintain fixed asset register for proper control of its assets.

In the circumstances, the accuracy, completeness and ownership of property, plant and equipment balance of Kshs.111,611,692 and Nil biological assets could not be confirmed.

### **Management Response**

All historical Property Plant and Equipment were inherited from County and National Government and we are awaiting a report from the Intergovernmental Relations Technical Committee that is tasked to carry out valuation of all asset and hand over to the County Government

various assets which qualify as biological assets were not disclosed in financial statement because their value was not material. Copy of Request for Valuation of Property, Land ownership details and Asset Inventory Record were provided for committee verification.

### **Committee Observation**

#### **Committee Observations**

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

- i. Documentary evidence of cost, valuation or revaluation of assets was not provided at the time of audit.
- ii. Ownership documents for the land on which the hospital is built and a fixed asset register were not maintained, contrary to IPSAS 1 – Presentation of Financial Statements:-
- iii. Biological assets identified during physical inspection in October 2025 were not disclosed in the financial statements, with management justifying this on grounds of materiality without providing any materiality assessment to support that position.

### **Committee Recommendations**

**The Committee recommends that —**

- i. **The Governor ensures that the Accounting Officer expedites the ongoing valuation of all assets of Hospital through the Intergovernmental**

**Relations Technical Committee and submits the valuation report to the Auditor-General within 90 days of adoption of this report.**

- ii. **The Governor ensures the hospital maintains an up-to-date fixed 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.**
- iii. **The Governor directs the Accounting Officer to expedite the acquisition of a title deed for the land on which the hospital is built and submit evidence of progress to the Senate within 90 days of adoption of this report.**
- iv. **The Governor ensures that the Accounting Officer makes timely submission of documents during the audit process in line with Section 9(1)(e) of the Public Audit Act, Cap.412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with Section 62(2) of the Public Audit Act in the subsequent audit cycle.**

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

The statement of financial position reflects trade and other payables balance of Kshs 867,628 which includes trade payables balance of Kshs 671,090 as disclosed in note 36 to the financial statements. Review of records provided for audit revealed that included in the payables balance is long outstanding trade payables balance of Kshs.54,000 in respect to water bills which had not been paid since the year 2020. The management did not provide any plausible explanation as to why the amount had taken too long to settle. Further, the management did not provide relevant documents for balances brought forward from previous years, putting validity of trade payables into doubt.

In the circumstances, the accuracy and completeness of trade and other payables balance of Kshs 54000 could not be confirmed.

#### **Management Response**

The outstanding trade payables relate to goods supplied and services rendered at Runyenjes Sub-County Hospital. The delayed settlement resulted from administrative follow-up processes. The said bills have since been fully settled, and supporting payment documentation is available for audit verification. Copy of the Payment Vouchers for the trade payables were provided.

#### **Committee observation**

The committee observed that the payment have been fully settled.

**Committee Recommendation**

**The committee recommends that the matter be marked as resolved.**

**Emphasis of Matter**

**Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.17,322,419 and Kshs.132,492,561 respectively resulting to an over-funding of Kshs.115,170,142 or 665% of the budget. Similarly, the County Executive spent Kshs.122,359,201 against actual receipts of Kshs.132,492,561 resulting to an under-utilization of Kshs.10,133,360 or 8% of the actual receipts.

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

**Management Response**

The reported expenditure appears under-utilized because the financial statements are prepared under IPSAS 33 on an accrual basis, whereby accounts receivable are recognized as revenue for the year under review. In contrast, budget execution is undertaken in accordance with Regulation 43(2) of the Public Finance Management (PFM) Act, 2012 (County Governments), which requires County Government entities to execute approved budgets based on the annual appropriation legislation and the approved annual cash flow plan, except for unforeseen and unavoidable expenditures addressed through the County Emergency Fund or supplementary estimates.

**Committee Observation**

The Committee observed that the hospital was over-funded by Kshs. 115,170,142 or 665% of the budget and under-utilized funds by Kshs. 10,133,360 or 8% of actual receipts. Management attributed this to the difference between IPSAS 33 accrual basis of preparing financial statements and Regulation 43(2) of the PFM Act which requires budget execution on a cash basis.

**Committee Recommendation**

**The committee recommends that-**

- i. The Governor ensures the Accounting Officer strictly complies 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, failure to which the provisions of Section 199 of the Public Finance Management Act on penalties for offences shall apply;**

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<b>CLERK AT THE TABLE</b>	

- ii. **The Governor ensures the Accounting Officer complies with Regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures, failure to which the provisions of Section 199 of the Public Finance Management Act on penalties for offences shall apply; and**
- iii. **The Governor ensures the Hospital Management Board institutes proper and realistic budget planning as well as measures to enhance own generated revenue, such as review of service tariffs and addressing revenue leakages. The Auditor-General Hospital and report in the subsequent audit cycle.**

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

### **Basis for Conclusion**

**1. Non – Compliance with the Public Procurement Capacity Building Levy Order**  
Management did not provide evidence to confirm that the Hospital Management complied with paragraph 3(1) of the Public Procurement Capacity Building Levy, Order 2023 which states that there shall be paid a levy by a supplier on all procurement contracts signed between the supplier and a procuring entity, at the rate of zero point zero three per centum (0.03%) of the value of the signed contract, exclusive of applicable taxes. In addition, Public Procurement Regulatory Authority (PPRA) circular No. 01/2024 dated 30 August which requires procurement entities to remit the levy to the Authority through the e-Citizen payment platform by the 20th day of the subsequent month and also file monthly returns.

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

### **Management Response**

The hospital primarily procures goods and services through framework contracts, which did not explicitly provide for the remittance of the Public Procurement Capacity Building Levy at the time the contracts were executed.

However, Management has since taken note of the requirements of the Public Procurement Capacity Building Levy Order, 2023, and PPRA Circular No. 01/2024 dated 30th August 2024. Going forward, the hospital will ensure that all procurement contracts, including framework contracts, provide for the applicable levy, and that remittances and monthly returns are effected through the e-Citizen platform within the prescribed timelines, in compliance with the law.

### **Committee Observation**

The Committee observed that the hospital was in breach of Paragraph 3(1) of the Public Procurement Capacity Building Levy Order, 2023 and PPRA Circular No. 01/2024 by failing to remit the 0.03% levy on procurement contracts and file monthly returns through the e-Citizen platform.

### **Committee Recommendations**

**The Committee recommends that —**

- i. The Governor ensures the Accounting Officer immediately remits all outstanding 0.03% Public Procurement Capacity Building Levy on all procurement contracts executed during the year under review through the e-Citizen platform and files the required monthly returns to PPRA within 60 days of adoption of this report; and**
- ii. The Governor ensures the Accounting Officer ensures that all future procurement contracts, including framework contracts, explicitly provide for the Public Procurement Capacity Building Levy in compliance with Paragraph 3(1) of the Public Procurement Capacity Building Levy Order, 2023 and PPRA Circular No. 01/2024, failure to which the provisions of Section 199 of the Public Finance Management Act Cap 412A on penalties for offences shall apply.**

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

Review of Hospital records and interviews with management on verification of services offered, equipment used and medical specialists in the Hospital at the time of audit revealed that the Hospital did not meet the requirements of Kenya Quality Model for Health Policy Guidelines due to staff deficits by 64 staff requirements or 63% of the 101 authorized establishment as shown below;

<b>Staff Requirements</b>	<b>Level Standard</b>	<b>Number in Hospital</b>	<b>Variance</b>	<b>Percentage (%)</b>
Medical Officers	16	2	14	88
Anaesthesiologists'	2	0	2	100
General Surgeons	2	0	2	100

Staff Requirements	Level Standard	Number in Hospital	Variance	Percentage (%)
Gynaecologists	2	1	1	50
Paediatrics	2	0	2	100
Radiologists	2	0	2	100
Kenya Registered Community Health Nurses	75	34	41	55
<b>Total</b>	<b>101</b>	<b>37</b>	<b>64</b>	<b>63</b>

In addition, the Hospital lacked the necessary equipment and machines outlined in the Health Policy Guidelines as detailed below;

Service	Level Hospital Standard	Actuals in the Hospital	Variance	Percentage (%)
Beds	150	36	114	76
Resuscitaire (2 in Labour & 1 in Theatre)	3	0	3	100
New Born Unit Incubators	5	2	3	60
New Born Unit Cots	5	2	3	60
Functional ICU Beds	6	0	6	100
High Dependency Unit (HDU) Beds	6	0	6	100
Renal Unit with at least 5 Dialysis Machines	5	0	5	100

Service	Level Hospital Standard	4	Actuals in the Hospital	Variance	Percentage (%)
Two Functional Operational Theatres-Maternity & General	2		1	1	0

These deficiencies contravene the First Schedule of Health Act, 2017 and imply that accessing the highest attainable standard of health, which includes the right to health care services, including reproductive health care as required by Article 43(1) of the Constitution of Kenya, 2010 may not be achieved. In the circumstances, the Hospital is likely to fail in its quest to deliver on its mandate.

#### **Management Response**

The hospital had formally requested for additional staffing through the Office of the Chief Officer, Medical Services, and the matter is currently being addressed by the said office. Evidence of this request is attached as Annex B2 – Letter to the Chief Officer, Medical Services requesting additional staff.

Further, the hospital has strengthened service delivery capacity through the receipt of various medical equipment under the National Equipment Service Programme (NESP). The equipment received includes a new X-ray machine, an Ultrasound machine, and a Biochemistry Analyzer.

In addition, the hospital is scheduled to receive theatre equipment under the NESP programme to operationalize the second theatre, which will significantly enhance access to specialized and reproductive health services.

These interventions are expected to address the identified gaps and support the hospital in fulfilling its mandate in line with the First Schedule of Health Act, 2017 and Article 43(1) of the Constitution of Kenya, 2010.

#### **Committee Observations**

The Committee observed that the hospital was not offering key services required in a level 4 hospital, and the staffing requirements did not meet a number of key specifications as prescribed by the Kenya Quality Model for health policy guidelines.

#### **Committee Recommendation**

**The Committee recommends that—**

- i. **within sixty (90) days of the adoption of this report, the Governor submits to the Senate a comprehensive plan outlining the specific measures being**

- taken to address the hospital's staffing shortages. The measures should include both short-term and long-term solutions, focusing on optimizing existing resources, improving employee welfare, and ensuring sustainable staffing levels moving forward; and
- ii. Within ninety (90) days of the adoption of this report, the Committee recommends that the Governor ensures the hospital develops and implements a comprehensive plan, with appropriate budgetary allocations, to acquire and operationalize the required facilities and equipment to provide all services required for a Level 5 hospital. The Auditor-General should monitor progress and keep this matter under review in the subsequent cycle.

### **3. Non-Adherence to Data Protection Requirements**

Interviews conducted revealed that the hospital has not registered with the Data Commissioner which poses a risk on the protection of sensitive information. The Company is therefore in breach of Section 18(1) the Data Protection Act, 2019 which states that Subject to sub-section (2) no person shall act as a data controller processor unless registered with Data Commissioner.

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

#### **Management response**

The hospital was previously not an independent entity, and as such, compliance with Data Protection registration requirements was managed centrally at the Department level.

Following the hospital's establishment as an independent entity, Management has taken note of the registration requirement under Section 18(1) of the Data Protection Act, 2019 and is in the process of ensuring that the hospital registers with the Data Commissioner to ensure full compliance and safeguard sensitive information.

#### **Committee Observation**

The Committee observed that the hospital failed to register with the Data Commissioner, contrary to Section 18(1) of the Data Protection Act, 2019.

#### **Committee Recommendations**

The Committee recommends that —

- i. The Governor ensures the Accounting Officer expedites the registration of Runyenjes Sub-County Hospital with the Data Commissioner in compliance with Section 18(1) of the Data Protection Act, 2019 and submits proof of registration to the Senate and the Auditor-General within 60 days of adoption of this report.

- ii. **The Governor ensures the Accounting Officer puts in place a Data Protection Policy to safeguard sensitive patient and staff information, failure to which the provisions of the Data Protection Act, 2019 on penalties shall apply.**

#### **4. Irregular Deduction and Retention of Facility Improvement Fund by the County Government.**

The statement of financial performance reflects general expenses amount of Kshs.2,060,698 which includes 3% FIF administrative expense amount of Kshs 712,972 as disclosed under note 21 to the financial statements. This expense represents Kshs.516,434 in respect to realized 3% Administrative charges deducted at the County Health directorate with an outstanding amount of Kshs.196,538 for the financial year under review. However, the three percent (3%) of the Facility Improvement Fund (FIF) collections charged as administrative expenses by the county government is contrary to Section 5 (1) of the Facilities Improvement Financing Act, 2023 states that there shall be retention of all monies raised or received by or on behalf of all public health facilities. In the circumstances, Management was in breach of the law.

##### **Management Response**

The hospital's operations are guided by the Embu County Health Services Act, 2024, which provides in Section 48(7) for the deduction and retention of 3% of Facility Improvement Fund (FIF) collections for administrative purposes. Copy of Embu County Health Services Act, 2024 was provided for committee verification.

##### **Committee Observation**

The Committee observed that the County Government irregularly deducted Kshs. 712,972 representing 3% of FIF collections as administrative expenses, with Kshs. 196,538 still outstanding, and that despite management tabling the Embu County Health Services Act, 2024 to justify the deduction, this remains contrary to Section 5(1) of the Facilities Improvement Financing Act, 2023.

##### **Committee Recommendation**

**The Committee recommends that —**

- i. **The Governor ensures that the outstanding Kshs. 196,538 in illegally deducted FIF funds is immediately refunded to the hospital's facility improvement financing account within 60 days of adoption of this report and proof of refund submitted to the Senate and the Auditor-General for verification;**
- ii. **The Governor immediately stops the deduction of 3% administrative charges from hospital FIF collections in compliance with Section 5(1) of**

**the Facilities Improvement Financing Act, 2023, which takes precedence over the Embu County Health Services Act, 2024, failure to which the provisions of Section 199 of the Public Finance Management Act Cap 412A on penalties for offences shall apply; and**

- iii. The Governor ensures that the Embu County Health Services Act, 2024 is harmonized with Section 5(1) of the Facilities Improvement Financing Act, 2023 to resolve the legal conflict between the two pieces of legislation and submits a report on the harmonization to the Senate within 90 days of adoption of this report.**

### **5. Lack of Facility Improvement Financing Account**

The statement of financial position reflects cash and cash equivalent balance of Kshs.592,874 as disclosed under Note 27 to the financial statements. However, review of bank account records revealed that the hospital does not have a facility improvement financing account contrary to Section 5(2) of the Facility Improvement Financing Act, 2023 which states that there shall be opened a facility improvement financing account for each public health facility into which shall be paid all monies received by or on behalf of the respective public health facility. In addition, audit revealed that the Management of the Hospital does not have any control over the Embu County Health Facility Improvement Fund Account held at Equity Bank Ltd into which all monies raised or received by or on behalf of the hospital is illegally transferred contrary to Section 5(1) of The Facility Improvement Financing Act, 2023 which stipulates that there shall be retention of all monies raised or received by or on behalf of all public health facilities. In the circumstances, the management was in violation of Section 20(2) of The Facility Improvement Financing Act, 2023 directs that the mandatory signatories to the bank accounts shall be the medical superintendent and the hospital administrator. In the circumstances, Management was in breach of the law.

#### **Management Response**

The hospital maintains a Revenue Collection Bank Account at Co-operative Bank of Kenya, Embu branch into which all revenues are deposited. The signatories to this account include the Medical Superintendent and the Hospital Administrator. These signatories issued instructions to the bank to automatically swipe the relevant funds to the Embu County Health Facility Improvement Fund Account, ensuring that the transfers are lawful and not done illegally.

Furthermore, the provisions of the Facility Improvement Financing Act, 2023 were domesticated through the Embu County Health Services Act, 2024, which governs the operations of health facilities in Embu County. Relevant provisions include Sections 44(1), 44(2a & b), 44(4), 48(7), and 49(1).

#### **Committee Observation**

The Committee observed that the hospital does not have a dedicated Facility Improvement Financing Account and that all monies are automatically swept to the Embu County Health Facility Improvement Fund Account.

**Committee Recommendation**

**The Committee recommends that the Governor ensures that the Hospital opens a dedicated Facility Improvement Financing Account with the mandatory signatories being the Medical Superintendent and Hospital Administrator in compliance with Sections 5(2) and 20(2) of the Facilities Improvement Financing Act, 2023 and submits proof of opening to the Senate and Auditor-General within 60 days of adoption of this report.**

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

**Basis for Conclusion**

**1. Lack of a Strategic plan & Operational Plan**

The facility does not have an approved strategic plan to guide its operations, resource allocation, and performance monitoring. As a result, activities are being implemented without a structured framework for achieving long-term institutional goals.

In the circumstances, the effectiveness and efficiency of implementation of programmes could not be confirmed.

**Management Response**

The Hospital strategic plan and operational plan is currently under development and is in its initial stages. Once finalized it will guide Hospital long-term institutional objectives and enhance the effectiveness and efficiency of program implementation.

**Committee Observation**

The Committee observed that the hospital operates without an approved strategic plan and operational plan to guide its operations, resource allocation and performance monitoring.

**Committee Recommendations**

**The Committee recommends that the Governor ensures the Accounting Officer expedites the development and approval of the hospital's strategic plan and operational plan and submits the finalized documents to the Senate and Auditor-General within 90 days of adoption of this report.**

**2. Non-Functional Procurement Unit**

Review of procurement documents revealed that the hospital does not have an independent procurement unit. All procurement of goods works and services are done centrally at the county headquarters contrary to Section 13(a) of the Facilities Improvement Financing Act, 2023 states that each Sub-County Health Management Team shall, in relation to facility improvement financing support health facility management teams in preparing annual and quarterly operational plans, including their respective budgets and procurement plans.

In the circumstance, the processes could take longer time and efficiency of service delivery affected

#### **Management Response**

The hospital has a qualified Supply Chain Management Officer, licensed by KISM (License No. K6346/2025), and is recognized as a procuring entity. The hospital's procurement processes utilize framework contracts that were advertised to cover the entire county for a period of two years.

While the County Director of Procurement coordinates all procurement processes centrally, the hospital's procurement officer ensures compliance with procurement regulations and oversees the implementation of procurement activities at the facility level.

#### **Committee Observation**

The Committee observed that the hospital does not have an independent procurement unit with all procurement done centrally at the county headquarters and Supply Chain Management Officer is not empowered to independently manage procurement processes at the facility level.

#### **Committee Recommendations**

**The Committee recommends that —**

- i. The Governor ensures that the Hospital establishes an independent procurement unit to handle all procurement of goods, works and services at the facility level in compliance with Section 13(a) of the Facilities Improvement Financing Act, 2023 and submits proof of establishment to the Senate and Auditor-General within 60 days of adoption of this report.**
- ii. The Governor ensures that the hospital's Supply Chain Management Officer is empowered to independently manage all procurement processes at the facility level without central coordination from the County Director of Procurement, failure to which the provisions of Section 199 of the Public Finance Management Act Cap 412A on penalties for offences shall apply.**

### **3. Lack of Audit Committee**

Review of Hospital's internal control systems revealed that the Hospital did not have an audit committee contrary to Regulation 167(1) of the Public Finance Management (County Government) regulations 2015 which states that Subject to paragraph (2) of this regulation, each county government entity shall establish an audit committee.

In the circumstance, the Hospital did not benefit from the oversight role and advice from the Audit Committee and the internal audit function.

#### **Management Response.**

The hospital has functional Audit Committee established under the Hospital Management Board. The committee provides oversight and advisory support on internal controls, financial management, and risk management. Management is committed to ensuring that the Audit Committee operates effectively in line with Regulation 167(1) of the Public Finance Management (County Governments) Regulations, 2015, to strengthen governance and enhance the internal audit function.

#### **Committee Observation**

The Committee observed that the hospital's audit committee lacks independence and effectiveness as it was established under the Hospital Management Board and not as an independent committee contrary to Regulation 167(1) of the Public Finance Management (County Government) Regulations, 2015.

#### **Committee Recommendation**

**The Committee recommends that the Governor ensures the hospital establishes an independent Audit Committee in compliance with Regulation 167(1) of the Public Finance Management (County Government) Regulations, 2015 and submits proof of establishment to the Senate and Auditor-General within 60 days of adoption of this report.**

### **4. Lack of Risk Management Policy, Information Communication Technology Policy and Disaster Recovery Plan**

Review of records and interview with key management revealed that the Hospital did not have in place, a risk management policy and did not perform formal risk assessments on all key financial risk areas such as revenue, expenditure and fraud review. Further, the Hospital did not have a disaster recovery plan and information communication technology policy in place to guide continuity of services in case of disruptions.

In the circumstances, existence of risk management strategies, internal controls in fraud prevention and services continuity could not be confirmed.

#### **Management Response**

The Hospital has established an Infection Prevention Committee that conducts risk assessments related to infection control, oversees hygiene, sterilization, and waste management, and provides regular reports to management to enhance patient and staff safety. Guidelines for disaster recovery are provided by the hospital management team as needed.

Regarding ICT, the hospital does not have an independent ICT department and therefore relies on policies and support from the Department of Information and Communication Technology at the Embu County Government. Management is committed to strengthening risk management, internal controls, and service continuity measures in line with applicable standards.

#### **Committee Observation**

The Committee observed that the hospital did not have a risk management policy, ICT policy and disaster recovery plan in place.

#### **Committee Recommendation**

**The Committee recommends that the Governor ensures the Accounting Officer develops and implements a Risk Management Policy, ICT Policy and Disaster Recovery Plan at the facility level and submits the finalized documents to the Senate and Auditor-General within 60 days of adoption of this report, failure to which the provisions of Section 199 of the Public Finance Management Act Cap 412A on penalties for offences shall apply.**

#### **5. Lack of Approved Staff Establishment, Financial Management Policies & Procedures and Human Resource Manual**

Review of the staff records showed the Hospital had a total sixty-four (64) members of staff (permanent), eleven (11) members of staff (Contractual) and eighteen (18) members of staff (Casual). However, the hospital did not have a staff establishment approved by the hospital management committee. The audit also revealed that the Institution did not have an updated and approved Human resource manual in place.

In the circumstances, Management may not know the optimal staffing level required to deliver on the Hospital's mandate and wage bill.

#### **Management Response**

The hospital does not have an independent Human Resource function; this function is managed centrally by the Department of Health Headquarters, which provides the approved staff establishment policy and Human Resource manual. For financial management, the hospital operates in accordance with the provisions of the Embu County Health Services Act, 2024, which guides budget implementation, resource allocation, and financial controls. Management is committed to ensuring that staffing

levels and human resource practices align with county guidelines to support the effective delivery of hospital services. Copy of staff establishment and the health act was provided for committee verification.

#### **Committee Observation**

The Committee observed that the hospital did not have an approved staff establishment and updated Human Resource manual at the facility level, and the hospital relied on the Department of Health Headquarters for HR functions.

#### **Committee Recommendation**

**The Committee recommends that the Governor ensures the Accounting Officer develops and obtains approval of a facility-specific staff establishment and Human Resource manual from the Hospital Management Committee and submits the documents to the Senate and copy to the Auditor-General within 90 days of adoption of this report.**

### **6. Incomplete Data on Payroll Management**

A review of the Staff bio data revealed that necessary information including Ethnicity, Gender, Disability, was not captured in the payroll. In view of this we could not establish compliance with law on ethnicity, gender, inclusivity of people living with disability and National Cohesion and Integration Act. Also, the data had only captured gross salary of the employees hence could not ascertain compliance with a third basic pay rule.

In the circumstances, Incomplete payroll data may lead to losses through over payments, non-compliance with laws on payroll management and misstatements in the financial statements.

#### **Management Response**

The hospital's payroll is managed centrally by the County Government. The data provided to the auditors was an extract from the master payroll maintained at the County level, specifically by Payroll Section. Management notes the importance of capturing complete staff information, including ethnicity, gender, and disability, and will continue to work with the County Human Resource Department to ensure compliance with the National Cohesion and Integration Act and other relevant laws governing payroll management.

#### **Committee Observation**

The Committee observed that the hospital's payroll lacked critical staff information including ethnicity, gender and disability, making it impossible to confirm compliance with the National Cohesion and Integration Act, and that only gross salary was captured making it impossible to confirm compliance with the one-third basic pay rule.

### **Committee Recommendation**

The Committee recommends that the Governor ensures the Accounting Officer works with the County Human Resource Department to update the payroll to capture all required staff information including ethnicity, gender, disability and salary details in compliance with the National Cohesion and Integration Act and all relevant payroll management laws, and submits proof of compliance to the Senate and Auditor-General within 60 days of adoption of this report.

### **7. Irregular composition of Board Members**

Review of Bords's records revealed that none of the board members is a financial expert contrary to Chapter 1 paragraph 1.1.6 of Mwongozo code of Conduct under Governance principles which states that at least one Board member should be a financial expert with necessary qualifications and expertise in financial management or accounting and is a bona-fide member of a professional body regulating the Accountancy profession, and in compliance with the requirements thereof.

In addition, none of the members of the board was nominated to represent a joint forum of faith-based organizations or two representatives representing the interest of the vulnerable and marginalized communities, one of whom shall be a person with disability contrary to Section 17(1) of the Facilities Improvement Financing Act, 2023.

Further, the Hospital has six Board Members contrary to Section 17(1) of the Facilities Improvement Financing Act, 2023 which states that the Health Facility Management Committee shall consist of not less than seven and not more than nine members.

In the circumstances, oversight role of the Board of Management may not be effective.

### **Management Response**

The hospital Board was appointed in accordance with Section 10(3)(e) of the Embu County Health Services Act, 2024. In addition, the hospital's accountant, who is a qualified and registered member of ICPAK, serves on the Board and provides the required financial expertise. Section 10(3)(d). Copy of the appointment letter and the health act was provided.

### **Committee observation**

The Committee observed that the hospital's Board is irregularly constituted with only six members against the required minimum of seven, lacks an independent financial expert, representation from faith-based organizations and a person with disability, contrary to Chapter 1 paragraph 1.1.6 of the Mwongozo Code of Conduct and Section 17(1) of the Facilities Improvement Financing Act, 2023.

### **Committee Recommendation**

**The Committee recommends that the Governor immediately reconstitutes the hospital's Board to comply with Section 17(1) of the Facilities Improvement Financing Act, 2023 by ensuring a minimum of seven members including an independent financial expert, a representative from faith-based organizations and a person with disability, and submits proof of reconstitution to the Senate and Auditor-General within 60 days of adoption of this report.**

#### **8. Lack of Segregation of Duties in Financial Transactions**

Review of the payments processing system revealed that the same officer was responsible for initiating, authorizing, recording and executing payments.

In the circumstances, internal control system over processing of payments is weak due to lack of internal check and could lead to misappropriation of assets and misstatements in the financial statements.

#### **Management Response**

The hospital follows the payment procedure as stipulated in Embu County Health Services Act, 2024 Section 49 (1-5). Payment vouchers are prepared by the hospital accountant, reviewed by the accountant stationed at the Department of Health Headquarters, and approved by the Head Accountant for Health Facilities. This process provides oversight and mitigates the risk of errors or misappropriation.

#### **Committee Observation**

The Committee observed that although payment vouchers are reviewed and approved by different accountants, the segregation of duties occurs outside the facility at the County headquarters level rather than within the facility.

#### **Committee Recommendation**

**The Committee recommends that the Governor ensures the Accounting Officer strengthens internal controls at the facility level by ensuring that the functions of initiating, authorizing, recording and executing payments are performed by different officers within the hospital and not rely solely on external oversight from County headquarters.**

**3.4. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR FOR THE ISHIARA SUB COUNTY HOSPITAL FOR THE FINANCIAL YEAR 2024/2025.**

The Governor of Embu County, Hon. Cecily Mbarire, EGH, appeared before the Committee on Monday, 9<sup>th</sup> March, 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Ishiara Sub County Hospital for the Financial Year 2024/2025. The Governor was accompanied by the following officers—

- |                       |                         |
|-----------------------|-------------------------|
| 1. Mr. Jamal Runyenje | - CECM Finance          |
| 2. Mr. Amy Ruria      | - County Secretary      |
| 3. Dr. Anthony Nduva  | -Medical superintendent |
| 4. Ms. Rose Njeru     | - Accountant            |

**REPORT ON THE FINANCIAL STATEMENTS**

The Auditor-General rendered a **Qualified Opinion** on the financial statements of the Ishiara Sub County Hospital on the following basis; -

**1. Unconfirmed Ownership for Property Plant and Equipment**

The statement of financial position reflects property, plant and equipment net book value of Kshs.530,250 as disclosed in Note 32 to the financial statements. However, ownership of the land on which the Hospital was built, were not provided for audit. In addition, ownership documents for the Hospital ambulance were also not provided for audit. Further, assets within the facility have not been tagged or assigned asset identification numbers.

In addition, review of the fixed asset register provided for audit revealed that the fixed asset register had not been updated to reflect recent acquisitions, or condition changes for certain assets. Recent purchases of an ultra sound UPS machine and office furniture acquired in the financial year 2024/2025 and donation of cancer machine, Radiology department machines were not entered into the assets register and Oxygen Cylinders and Machines including the entire plant was not registered in the assets register.

In the circumstances, the accuracy and completeness of property, plant and equipment net book value of Kshs.530,250 could not be confirmed.

### **Management Response**

The Hospital management has initiated the process of acquiring land ownership documents by requesting Chief Officer Lands Ref No: ISCH/Vol.11/25 Dated 21/06/2025 to facilitate ownership of assets.

The hospital ambulance registration number GKA 751N is owned by the Ministry of Health and the log book is at the Ministry Headquarters in Nairobi. Tagging of assets in the hospital has commenced through the guidance of hospital bio-medical engineer. At the time of the audit, the Hospital maintained a comprehensive asset inventory record, however fixed asset register was opened after the time of audit. Further even though the Fixed assets register is updated to include both inherited and newly acquired property plant and equipment the register remains incomplete as the hospital awaits Inter-Governmental Relations Technical Committee (IGRTC) to complete the process of valuation and handing over of the assets inherited from both governments. Copy of the Request for assistance to acquire land ownership Documents and Excerpt from Fixed Asset Register for newly acquired property plant and equipment were provided for scrutiny.

### **Committee Observation**

The Committee observed that the Hospital did not have ownership documents for the land, the ambulance log book was held at the Ministry of Health headquarters, and the fixed asset register remained incomplete as inherited assets were yet to be registered pending IGRTC valuation and handover.

### **Committee Recommendations**

**The Committee recommends that —**

- i. the Governor ensures the Hospital fast-tracks the IGRTC valuation and handover of inherited assets and submits the valuation report to the Auditor-General for verification during the subsequent audit cycle;**
- ii. the Governor ensures the Accounting Officer prepares a complete and updated asset register, incorporating all inherited and newly acquired assets, within 60 days of the adoption of this report and submits a copy to the Senate and the Auditor-General for verification, in accordance with Section 149(2)(o) of the Public Finance Management Act, Cap. 412A; and**
- iii. the Governor ensures the outstanding ownership documents for the land and the ambulance log book are obtained and submitted to the Senate and the Auditor-General within 90 days of the adoption of this report, failure to which the provisions of Section 199 of the Public Finance Management Act, Cap. 412A on penalties for offences shall apply.**

### **Emphasis of Matter**

### **Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.142,635,381 and Kshs.151,284,384 respectively resulting to an over-funding of Kshs.8,649,003 or 6% of the budget. Similarly, the Fund spent Kshs.139,470,195 against actual receipts of Kshs.151,284,384 resulting in an under-utilization of Kshs.11,794,189 or 8% of the actual receipts.

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

### **Management Response.**

The expenditure reported was underutilized owing to the fact that the report is under IPSAS 33, accrual basis of accounting where by accounts receivable form part of revenue for the year under review whereas budget execution is per Regulation 43(2) of the PFM Act 2012 (County Governments) which stipulates that County Government entities shall execute their approved budgets based on the annual appropriation legislation, and the approved annual cash flow plan with the exception of unforeseen and unavoidable spending dealt with through the County Emergency Fund, or supplementary estimates.

### **Committee Observation**

The Committee observed that the Hospital recorded an over-funding of Kshs. 8,649,003 or 6% above the approved budget, and noted that the reported under-utilization of Kshs. 11,794,189 or 8% of actual receipts was attributed to the difference between IPSAS 33 accrual basis of accounting and cash-based budget execution under Regulation 43(2) of the PFM Act, 2012.

### **Committee Recommendation**

The Committee recommends that —

- i. the Governor ensures the Accounting Officer complies with Regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures to address the over-funding of Kshs. 8,649,003, failure to which the provisions of Section 199 of the Public Finance Management Act on penalties for offences shall apply; and
- ii. the Auditor-General monitors compliance and keeps this matter under review in the subsequent audit cycle.

### **Key Audit Matters**

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

### **1. Challenges in Implementation of Universal Health Coverage (UHC)**

Review of the Hospital's facilities revealed that it may have difficulties in achieving the Universal Health Coverage, 2012 (County Government) goals which may be attributed to the following reasons;

- i. There are no renal services offered at the hospital due to lack of dialysis machine.
- ii. The X-ray machine is not operational due to lack of battery since January 2024.
- iii. Non-operational oxygen plant
- iv. A number of hospital buildings including the staff quarters are old and require a major facelift.
- v. Staff quarters have asbestos rooftops

In addition, physical verification in October, 2025 revealed that the Oxygen plant and X-ray machine were not functional. Management attributed this to non-working batteries in the Uninterruptible Power Supply (UPS) systems. No procurement or maintenance plan was provided to address the minor issue preventing functionality. The equipment has remained idle, resulting in patients being referred to other facilities for oxygen supply and imaging services.

In the circumstances, the Hospital may not be able to deliver UHC to the public.

#### **Management Response**

- (i) The hospital management is currently in an exploratory phase in the process of introducing renal services. A needs assessment has already been conducted by the hospital alongside the NESP team from the Ministry of Health in Nairobi and the hospital is now awaiting the recommendation report to initiate dialysis services.
- (ii): X-Ray services have been restored after digital X-Ray machine was installed under the National Equipment Service Program (NESP). The existing machine is going to be repaired and relocated to another health facility within Embu County.
- (iii): The Hospital management wish to confirm that part payment amounting to Ksh.6,500,000 to Kenya Power and lighting company for enhancement of electrical power to support the operational functionality of the oxygen plant has been paid.

(iv): Face-lifting of the hospital has been factored in Embu County development budget FYR 2025/2026 and Hospital project facelift scope report submitted to chief officer medical services Ref No: ISCH/VOL.2/25 dated 31/08/2025

(v): The removal of asbestos roofing and re-roofing of staff quarters initiative is slated to commence in the fiscal year 2025/2026 as part of the face-lifting of the hospital. Evidence of the above matters were provided for committee verification.

### **Committee Observation**

The Committee observed that despite management putting in place some mitigating measures, the Hospital was still not providing all key services required of a Level 4 facility, which may hinder the achievement of Universal Health Coverage goals.

### **Committee Recommendation**

**The Committee recommends that —**

- i. The Governor fast-tracks the ongoing measures to make all Hospital assets functional and ensure delivery of Universal Health Coverage in compliance with Regulations 42(d) and 132(2) of the Public Finance Management (County Governments) Regulations, 2015, and submits a progress report to the Senate and the Auditor-General within sixty (60) days of the adoption of this report; and**
- ii. the Auditor-General monitors progress and keeps this matter under review in the subsequent audit cycle.**

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

Verification of services offered, equipment used and staff at the hospital revealed that during the year under review, the hospital did not meet the requirements of Kenya Quality Model for Health Policy Guidelines due to staff deficits as detailed below;

Personnel	Level 4 Standard	Actual Numbers	Deficit
Medical Officers	16	1	15
Anesthesiologists	2	0	2
General Surgeons	2	1	1
Gynecologists	2	1	1
Paediatrics	2	0	2
Radiologists	2	0	2
Kenya Registered Community Health Nurses	75	30	45
<b>Total</b>	<b>101</b>	<b>33</b>	<b>68</b>

Further, the Hospital had deficits in services and equipment as indicated in the table below:

Services	Required	In-Post	Deficit
Incubators (New born)	5	1	4
Cots	5	5	0
Resuscitaire in theatre	1	1	0
Resuscitaire in labour ward	2	1	1
Functional ICU beds	6	0	6
HDU beds	6	0	6
Renal Unit with dialysis machine	5	0	5
Functional operating theaters maternity and general surgeries	2	1	1
Total	32	8	24

These deficiencies contravened the of First Schedule of Health Act, 2017 and implied that accessing the Highest attainable standard of health, which includes the right to health care services, including reproductive health care as required by Article 43(1) of the constitution of Kenya,2010 could not be achieved.

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

#### **Management Response**

The hospital management had requested for additional staff and Department of Health management is currently engaged in consultations with the county executive to address the shortfalls that have been identified, with the aim of ensuring that the hospital operates at optimal human and capital efficiency standards as delineated in the First Schedule of the Health Act, 2017.

#### **Committee Observation**

The Committee observed that the Hospital did not meet the minimum staffing, equipment, bed capacity, and service provision requirements as prescribed by the Kenya Quality Model for Health Policy Guidelines for a Level 4 facility, in contravention of the First Schedule of the Health Act, 2017 and Article 43(1) of the Constitution of Kenya, 2010.

#### **Committee Recommendation**

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 specific measures being taken to address the hospital's staffing shortages, including 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 Governor ensures the hospital develops and implements a comprehensive plan, with appropriate budgetary allocations, to acquire and operationalize the required equipment and facilities to provide all services required of a Level 4 facility.

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

#### **Basis for Conclusion**

##### **Manual Billing and Revenue Recording for Inpatient Services**

The statement of financial performance and as disclosed in Note 11 to the financial statement reflects Kshs.23,621,590 in respect to rendering of services medical service Income which further includes Kshs.1,802,910 in respect to Inpatient, Kshs.7,250,423 in respect to NHIF and Kshs.8,341,356 in respect to SHIF. Review of records revealed that those inpatient services are being billed manually instead of using the hospital's automated billing system, Manual bills are not sequentially controlled or reconciled with system records Some manual bills were not captured in the financial system, making it difficult to verify completeness of inpatient revenue.

Due to inherent weaknesses, manual billing exposes the Hospital to risk of misappropriation of assets and misstatements in the financial statements.

#### **Management Response**

Inpatient bills are raised from source documents since MEDBOS HIMS does not have inpatient billing module hence billing for inpatient was done manually. The billed revenue is posted in the system and proper records maintained to ensure they are fully accounted for. The annual billed inpatient revenue received for other non-classified inpatient medical revenue streams amounted to Kshs.1,802,910 and automated system for outpatient has been actively implemented following the transition to Tiberbu-HIMS which commenced on August 27, 2025. However Inpatient module is yet to be rolled out to cover 100% automated process.

#### **Committee Observation**

The Committee observed that although the Hospital had automated outpatient billing through Tiberbu-HIMS, inpatient services were still being billed manually due to the absence of an inpatient billing module in breach of Regulation 63(1) of the Public Finance Management (County Governments) Regulations, 2015.

#### **Committee Recommendation**

**The Committee recommends that —**

- i. the Governor engages the Ministry of Health to fast-track the rollout of the Tiberbu-HIMS inpatient billing module to the Hospital to achieve 100% automated billing, and submits evidence of progress to the Senate and the Auditor-General within sixty (60) days of the adoption of this report; and**
- ii. the Governor directs the Accounting Officer ensures all manual inpatient bills are sequentially controlled, reconciled with system records, and fully captured in the financial system to safeguard revenue completeness in compliance with Regulation 63(1) of the Public Finance Management (County Governments) Regulations, 2015; and**
- iii. the Auditor-General monitors progress and keeps this matter under review in the subsequent audit cycle.**

## **CHAPTER FOUR: FUNDS**

### **4.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR EMBU FUNDS FOR THE FINANCIAL YEAR 2024/2025.**

In accordance with Article 229(4) of the Constitution as read together with section 7(1) of the Public Audit Act, Cap. 412B, during the period under review, the Auditor-General audited the financial statements of various **funds in Embu County**.

Consequently, and in accordance with Article 229(7) of the Constitution as read together with section 32(1) of the Act submitted the following reports to the Senate-

1. Embu County Executive Car & Mortgage Fund
2. Embu County Government Emergency Fund
3. Embu County Climate Change Fund
4. Embu County Education Support Fund
5. Embu County Youth Trust Fund

#### **Committee Observations**

The Committee takes note of the queries raised by the Auditor-General in these reports.

### Committee Recommendations

The Committee recommends that-

- i. the Governor through the respective accounting officers ensures that appropriate remedial actions are taken to address the issues raised in the Auditor-General's report on the financial statements for the Embu funds for the Financial Year 2024/2025 and submit a report to the Senate within 30 days of the adoption of this report and a copy to the Auditor-General; and
- ii. the Auditor-General to keep the matter in view in the subsequent audit cycle.

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DATE	26/3/2026
TABLED BY	sen. Cherancy
COMMITTEE	CP & SF
CLERK AT THE TABLE	Belinda

# ANNEXTURES

Minutes

PAPERS LAID	
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COMMITTEE	CPI & S.H
CLERK AT THE TABLE	Behndal



**13<sup>TH</sup> PARLIAMENT 5<sup>TH</sup> SESSION**

**MINUTES OF THE FIFTY FIRST SITTING OF THE COUNTY PUBLIC INVESTMENTS AND SPECIAL FUNDS COMMITTEE HELD ON TUESDAY, 24<sup>TH</sup> MARCH 2026 IN COMMITTEE ROOM 10, BUNGE TOWER AT 3.00 P.M.**

**PRESENT**

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

**ABSENT WITH APOLOGY**

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

**SECRETARIAT**

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

**A. OFFICE OF THE AUDITOR GENERAL**

Mr. Mark Gachanja                      Liasion

**B. ETHICS AND ANTI CORRUPTION COMMISSION**

Mr. Patrick Kinoti                      -Liaison Officer

**MIN. NO. SEN/CPICSF/377/2026              PRAYER**

The meeting was called to order by the Chairperson at ten minutes past three O'clock in the afternoon followed by a word of prayer.

**MIN. NO. SEN/CPICSF/378/2026      ADOPTION OF THE AGENDA**

The agenda of the meeting was adopted having been proposed by Sen. Agnes Kavindu Muthama, MP and seconded by Sen. George Mungai Mbugua, MP as follows –

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

**MIN. NO. SEN/CPICSF/379/2026      CONSIDERATION AND ADOPTION OF REPORTS**

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

1. Embu Report

Sector	No.	Entity
Water Companies	4	Ngandori water and sanitation company
		Nyagaka water and sanitation
		Embe water and sanitation company limited
		Embu water and sanitation company
Municipality	1	Embu municipality
Hospitals	4	Embu level 5 hospital
		Mbeere sub county hospital
		Runyenjes sub county hospital
		Ishiara sub county hospital
Funds	5	Embu county education support fund
		Embu county climate change fund
		Embu county executive car & mortgage fund
		Embu county government emergency fund

## 2. Kirinyaga Report

Sector	No.	Entity
Water Companies	2	Kirinyaga County Water and Sanitation plc(KICOWASCO)
		Rukanga Makutano Water and Sanitation plc. (RUMAWASCO)
Municipalities	1	Kerugoya -kutus municipal
Hospitals	3	Sagana sub - county level 4 hospital
		Kianyaga sub county level 4 hospital
		Kimbimbi sub county level 4 hospital
Funds	6	Kirinyaga county executive emergency fund
		County Government of Kirinyaga Executive Mortgage Fund
		Kirinyaga executive car loan & mortgage fund
		Kirinyaga county alcoholic drinks control fund
		Kirinyaga county climate change fund
		Kirinyaga county executive bursary fund

## 3. Lamu

Sector	No	Entity
Water company	1	Lamu water and sewerage company limited.
Municipality	1	Lamu municipality
Hospitals	3	Lamu county referral hospital
		Faza sub-county hospital
		Mpeketoni sub-county hospital
Funds	4	Lamu county bursary and scholarship fund

		Lamu county climate change fund
		Lamu county emergency fund
		Lamu county executive staff housing fund.

#### 4. Mandera Report

Sector	No.	Entity
Water companies	2	Mandera water and sewerage company (MANDWASCO)
		Elwak water and sanitation company
Municipalities	2	Elwak municipality
		Mandera municipality
Hospital	7	Banisa Sub-County Hospital Kotulo Sub-County Referral Hospital Lafey Sub-County Hospital Mandera Central Sub- County Hospital Mandera County Referral Hospital Mandera North Sub- County Hospital Mandera West Sub-County Hospital
Funds	2	Mandera county climate change fund
		Mandera county education bursary fund

#### 5. Mombasa Report

Sector	No.	Entity
Water company	1	Mombasa water supply and sanitation company
Hospitals	5	Likoni sub-county level 4 hospital
		Tudor sub-county level 4 hospital
		Mrima sub-county level 4 hospital

		Portreitz Sub-County level 4 hospital
		Coast General Teaching & Referral Hospital
Funds	2	Mombasa Alcohol Drinks Control Fund
		Mombasa County Elimu Scheme

#### 6. Murang'a Report

Sector	No.	Entity
Water companies	5	Gatamathi water and sanitation company Gatanga water and sanitation plc Kahuti (Murang'a west) water and sanitation company limited Murang'a south water and sanitation company (MUSWASCO) Murang'a water and sanitation company (MUWASCO) limited
Municipalities	3	Kangari Municipality Kenol Municipality Murang'a Municipality
Hospitals	4	Kandara Sub-County Hospital Kigumo level 4 hospital Maragua Sub- County level 4 hospital Murang'a level 5 hospital
Funds	4	Murang'a county government education and scholarship fund Murang'a county agricultural farm inputs subsidy & incentive fund (afis fund) Murang'a county climate change fund Murang'a county youth fund

### 7. Nyamira Report

sector	no.	entity
Municipality	1	Nyamira municipality
Hospitals	4	Esani level 4 hospital
		Manga level 4 hospital
		Masaba level 4 sub-county hospital
		Nyamira county referral hospital
Funds	4	Nyamira county education support fund
		Nyamira county emergency fund
		Nyamira county mortgage & car loan (executive) fund
		Nyamira county climate change fund

### 8. Tana River Report

Sector	No.	Entity
Water company	1	Tana River Water and Sanitation Company Limited
Municipality	1	Hola municipality
Funds	3	Tana river county climate change fund
		Tana river county disaster risk management fund
		Tana river county ward bursary fund

### 9. Tharaka Nithi Report

Sector	No.	Entity
Water company	1	Nithi water and sanitation company limited
Municipalities	2	Chuka municipality
		Kathwana municipality
Hospitals	3	Chuka referral hospital

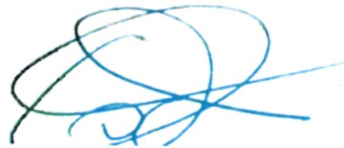
4. Iten County Referral Hospital
5. Tambach Sub-County Hospital
6. Elgeyo Marakwet County Assembly Catering Services Revolving Fund
7. Elgeyo Marakwet Alcoholic Drinks and Control Fund-Executive
8. Elgeyo Marakwet Car and Mortgage Revolving Fund-Executive
9. Elgeyo Marakwet County Climate Change Fund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

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

There was no any other business.

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

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



**SIGNED: ..... DATE: 24/3/2026**

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