

17

REPUBLIC OF KENYA



PAPERS LAID

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THE SENATE

THIRTEENTH PARLIAMENT – FIFTH SESSION

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

| SECTOR         | NO. | ENTITY  |
|----------------|-----|---|
| WATER COMPANY  | 1   | KWALE WATER AND SEWERAGE COMPANY LIMITED                              |
| MUNICIPALITIES | 4   | DIANI MUNICIPALITY  |
|                |     | LUNGALUNGA MUNICIPALITY   |
|                |     | KWALE MUNICIPALITY  |
|                |     | KINANGO MUNICIPALITY  |
| HOSPITALS      | 4   | KWALE SUB-COUNTY HOSPITAL   |
|                |     | MSAMBWENI COUNTY REFERRAL HOSPITAL                                    |
|                |     | LUNGALUNGA SUB-COUNTY LEVEL 4 HOSPITAL                                |
|                |     | KINANGO LEVEL 5 HOSPITAL  |
| FUNDS          | 5   | KWALE COUNTY BURSARY AND SCHOLARSHIP FUND                             |
|                |     | KWALE COUNTY EMERGENCY FUND   |
|                |     | KWALE COUNTY YOUTH, WOMEN AND PERSON WITH DISABILITIES REVOLVING FUND |
|                |     | KWALE COUNTY TRADE REVOLVING FUND                                     |
|                |     | KWALE COUNTY CLIMATE CHANGE FUND                                      |

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

1

MARCH 2026

APPROVED  
BY THE SENATE  
CLERK

**FI**

**TABLE OF CONTENTS**

ACRONYMS/ABBREVIATION ..... 4

DEFINITION OF TERMS ..... 5

PREFACE ..... 6

COMMITTEE MEMBERSHIP ..... 7

ESTABLISHMENT OF THE COMMITTEE ..... 8

EXECUTIVE SUMMARY ..... 9

REPORT STRUCTURE..... 10

    GENERAL OBSERVATIONS FOR THE WATER COMPANY ..... 11

    GENERAL RECOMMENDATIONS FOR THE WATER COMPANY ..... 11

    GENERAL OBSERVATIONS FOR MUNICIPALITIES ..... 13

    GENERAL RECOMMENDATIONS FOR MUNICIPALITIES ..... 13

    GENERAL OBSERVATIONS FOR HOSPITALS ..... 15

    GENERAL RECOMMENDATIONS FOR HOSPITALS ..... 15

    GENERAL OBSERVATIONS FOR COUNTY FUNDS ..... 17

    GENERAL RECOMMENDATIONS FOR COUNTY FUNDS ..... 17

ACKNOWLEDGEMENTS ..... 19

CHAPTER ONE: WATER COMPANY ..... 22

    1.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS OF KWALE WATER AND SEWERAGE COMPANY LIMITED FOR THE FINANCIAL YEAR 2024/2025 ..... 22

CHAPTER TWO: MUNICIPALITIES ..... 40

    2.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS MUNICIPALITY OF DIANI FOR THE FINANCIAL YEAR 2024/2025. .... 40

    2.2. REPORT ON THE AUDITED FINANCIAL STATEMENTS MUNICIPALITY OF LUNGALUNGA FOR THE FINANCIAL YEAR 2024/2025. .... 47

    2.3. REPORT ON THE AUDITED FINANCIAL STATEMENTS MUNICIPALITY OF KWALE FOR THE FINANCIAL YEAR 2024/2025. .... 53

    2.4. REPORT ON THE AUDITED FINANCIAL STATEMENTS MUNICIPALITY OF KINANGO FOR THE FINANCIAL YEAR 2024/2025. .... 63

CHAPTER THREE: HOSPITALS..... 72

    3.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS OF KWALE SUB-COUNTY HOSPITAL FOR THE FINANCIAL YEAR 2024/2025. .... 72

    3.2. REPORT ON THE AUDITED FINANCIAL STATEMENTS OF MSAMBWENI COUNTY REFERRAL HOSPITAL FOR THE FINANCIAL YEAR 2024/2025. .... 79

    3.3. REPORT ON THE AUDITED FINANCIAL STATEMENTS OF LUNGALUNGA SUB-COUNTY HOSPITAL FOR THE FINANCIAL YEAR 2024/2025. .... 95

    3.4. REPORT ON THE AUDITED FINANCIAL STATEMENTS OF KINANGO SUB-COUNTY REFERRAL HOSPITAL FOR THE FINANCIAL YEAR 2024/2025 ..... 103

CHAPTER FOUR: FUNDS ..... 112

    4.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS OF KWALE COUNTY BURSARY AND SCHOLARSHIP FUND FOR THE FINANCIAL YEAR 2024/2025. .... 112

    4.2. REPORT ON THE AUDITED FINANCIAL STATEMENTS OF KWALE COUNTY EMERGENCY FUND FOR THE FINANCIAL YEAR 2024/2025. .... 116

|   |            |
|---|------------|
| <b>4.3. REPORT ON THE AUDITED FINANCIAL STATEMENTS OF KWALE COUNTY, YOUTH, WOMEN AND PERSONS WITH DISABILITIES REVOLVING FUND FOR THE FINANCIAL YEAR 2024/2025.....</b> | <b>118</b> |
| <b>4.4. REPORT ON THE AUDITED FINANCIAL STATEMENTS OF KWALE COUNTY TRADE EVOLVING FUND FOR THE FINANCIAL YEAR 2024/2025 .....</b>                                       | <b>124</b> |

## **ACRONYMS/ABBREVIATION**

|                 |  |
|-----------------|--|
| <b>CEC</b>      | County Executive Committee                         |
| <b>CECM</b>     | County Executive Committee Member                  |
| <b>COB</b>      | Controller of Budget                               |
| <b>DMA</b>      | District Metered Area                              |
| <b>DPP</b>      | Director of Public Prosecution                     |
| <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>CWWDA</b>    | Coast Water Works Development Agency               |
| <b>MEMOARTS</b> | Memorandum and Articles of Association             |
| <b>IMS</b>      | Inventory Management System                        |
| <b>KEMSA</b>    | Kenya Medical Supplies Authority                   |
| <b>KRA</b>      | Kenya Revenue Authority                            |
| <b>SHA</b>      | Social Health Authority                            |
| <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>UHC</b>      | Universal Health Coverage                          |

## DEFINITION OF TERMS

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

## **PREFACE**

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

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

Pursuant to the provisions of Article 229(4) of the Constitution of Kenya, 2010, the Auditor-General is required to audit and report on the accounts of all national and county government entities, including water companies, municipalities, hospitals, and 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 financial statements of Kwale County water company, Municipalities, Hospitals and Funds for the Financial Year 2024/2025. The entities covered are: one water company (Kwale Water and Sewerage Company Limited); four municipalities (Diani, Lunga lunga, Kwale, and Kinango); four hospitals (Kwale Sub-County Hospital, Msambweni County Referral Hospital, Lungalunga Sub-County Level 4 Hospital, and Kinango Level 4 Hospital); and five funds (Kwale County Bursary and Scholarship Fund, Kwale County Emergency Fund, Kwale County Youth, Women and Persons with Disabilities Revolving Fund, Kwale County Trade Revolving Fund, and Kwale County Climate Change Fund).

The Governor of Kwale 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 Ososi           | - Research Officer I      |
| 8. Ms. Linet Aseka           | - Research Officer III    |
| 9. Ms. Raisa Mwithi          | - Research Officer III    |
| 10. Mr. Martin Mulandi       | - Research Officer III    |
| 11. Mr. Peter Katana Kahindi | - Research Officer III    |
| 12. Ms. Janice Lekuton       | - Research Officer III    |
| 13. Ms. Hamun Abdille        | - Research Officer III    |
| 14. Mr. David Munene         | - Research Officer III    |
| 15. Mr. Josephat Ng'enh      | - Media Relations officer |
| 16. Mr. Victor Kimani        | - Audio officer           |
| 17. 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.

## **EXECUTIVE SUMMARY**

In the execution of its mandate, the Committee relied on the reports of the Auditor-General on audited Accounts of the water company, municipalities, hospital and funds 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 company, Municipalities ,Hospitals and Funds for the Financial Year 2024/2025.

This report presents the findings and recommendations of the Select Committee on County Public Investments and Special Funds following its consideration of the Auditor-General's reports on Fourteen (14) entities in Kwale County for the Financial Year 2024/2025. The entities covered are: one water company (Kwale Water and Sewerage Company Limited); four municipalities (Diani, Lungalunga, Kwale, and Kinango); four hospitals (Kwale Sub-County Hospital, Msambweni County Referral Hospital, Lungalunga Sub-County Level 4 Hospital, and Kinango Level 4 Hospital); and five funds (Kwale County Bursary and Scholarship Fund, Kwale County Emergency Fund, Kwale County Youth, Women and Persons with Disabilities Revolving Fund, Kwale County Trade Revolving Fund, and Kwale County Climate Change Fund).

The audit reveals systemic weaknesses in financial management, governance, and service delivery across Kwale County's water company, municipalities, hospitals, and funds. Key issues include massive liabilities and high Non-Revenue Water at the water company, a lack of operational autonomy in municipalities, and critical staffing and equipment shortages in hospitals contrary to health standards. Furthermore, county funds are plagued by inaccurate financial statements, weak governance, and doubtful recoverability of receivables, with widespread non-compliance with laws such as the Facilities Improvement Financing Act and the Public Finance Management Act.

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 Kwale water and Sewerage 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 Diani Municipality, Kwale Municipality, Lungalunga Municipality and Kinango 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 Kwale County Referral Hospital, Msambweni County Hospital, Lungalunga sub-county level 4 hospital, Kinango Level 4 hospital for the Financial Year 2024/2025 and observations and recommendations of the Committee on each audit query.

**CHAPTER FOUR** is a record of the audit queries raised in the report of the Auditor-General for Kwale bursary and scholarship fund, Kwale County Youth, Women and Persons with disability Revolving Fund, Kwale County Disaster Management Fund, Kwale County Trade Revolving Fund and Kwale County Climate Change Fund for the Financial Year 2024/2025 and observations and recommendations of the Committee on each audit query.

## GENERAL OBSERVATIONS FOR THE WATER COMPANY

- 1. Material Uncertainty Related to Going Concern**-The Committee observed that the Company had total liabilities of Kshs. 695,295,800, largely owed to Coast Water Works Development Agency for bulk water supply, including Kshs. 302,793,011 incurred before devolution, whose waiver remains uncertain. Reliance on a single major creditor and future mitigation measures (such as infrastructure upgrades and the Ukunda Water Supply Improvement Project) created uncertainty regarding the company's ability to meet short-term financial obligations and continue as a going concern.
- 2. Non-Revenue Water (NRW)** – The Committee observed that the Water Company had very high levels of Non-Revenue Water, way above the recommended sector benchmark of 25% as prescribed by the Water Services Regulatory Board (WASREB). This was mostly attributed to dilapidated infrastructure (physical losses) and inaccurate meter reading and billing, and illegal connections (commercial losses),
- 3. Bookkeeping, Preparation & Accuracy of the Financial Statements** - The Committee observed that there were inaccuracies and errors in regards to the preparation and presentation of financial statements company. Further, the Accountant, and the Managing Director faced challenges in submitting supporting documents to the auditors on time contrary to section 62 of the Public Audit Act, Cap.412B making he accountability and audit process difficult.

## GENERAL RECOMMENDATIONS FOR THE WATER COMPANY

- 1. Financial Oversight and Liability Management** - The Governor should ensure that the County Executive Committee Member responsible for water monitors the financial performance of the Company and submits regular quarterly reports to the CECM for Finance on its financial and non-financial status in line with the Public Finance Management Act, Cap. 412A. Efforts should be made to seek a waiver of the pre-devolution liabilities owed to CWWDA.
- 2. Infrastructure Development and Asset Management** - The Governor ensures the Management completes the handover of Tiwi boreholes and operationalize the Ukunda Water Supply Improvement Project to improve water supply and revenue generation. Infrastructure upgrades, including replacement of dilapidated lines, should continue to reduce losses. The company should maintain an updated asset register reflecting its true financial position and assess the commercial viability of its assets in accordance with PSASB requirements.
- 3. Reduction of Non-Revenue Water (NRW)** - The Governor should ensure that the Board and Accounting Officer implement measures to reduce NRW by addressing

both physical and commercial losses. Smart meters should be installed, faulty customer meters replaced, and the 14 km HDPE pipeline activated to replace old AC lines. GIS technology should be applied to detect leaks in real time, and anti-illegal-connection policies strictly enforced. Management should report the proportion of physical and commercial losses in their financial statements.

4. **Record-Keeping, Financial Reporting, and Internal Controls** - The Governor should ensure that the Accounting Officer enforces proper record-keeping and timely submission of all supporting documents to the Auditor-General, as required under section 62 of the Public Audit Act and the Accountants Act. Continuous capacity building should be provided to finance officers to improve competency in financial management. Compliance with the National Treasury financial reporting template must be ensured. The Board should strengthen internal controls to improve the accuracy and reliability of financial statements.

## **GENERAL OBSERVATIONS FOR MUNICIPALITIES**

- 1. Lack of Operational Autonomy** – The Committee observed that the municipalities lacked independence in management, functions, and finances. Decisions on staffing, operations, and finances were largely controlled by the County Executive, contravening sections 12 (management), 20 (functional), 45 and 46 (financial) of the Urban Areas and Cities Act, 2011. This limited municipalities' ability to make timely operational decisions.
- 2. Inaccurate Financial Statements** – The Committee observed recurring errors in financial statements across the municipalities, including unsupported prior year adjustments, misstatements of receivables, payables, and opening balances. These inaccuracies indicated weak bookkeeping, limited capacity of finance officers, and challenges in applying IPSAS for proper financial reporting.
- 3. Weak Budgetary Control and Performance** – The Committee observed that municipalities either under-utilized or over-utilized appropriated funds. Budget execution was inconsistent with approved ceilings, and revenue targets were often under-realized due to delayed or inadequate disbursement of funds from the National Treasury, negatively affecting service delivery.
- 4. Delayed Submission of Audit Documents** – The Committee observed that municipalities frequently submitted supporting documents for audits late, impeding the audit process and accountability. This contravened Section 62 of the Public Audit Act, Cap. 412B, and reduced the reliability of financial reporting.

## **GENERAL RECOMMENDATIONS FOR MUNICIPALITIES**

- 1. Operational Autonomy and Adequate Funding** - The Governor ensures that the operation of municipalities is undertaken according to the functions delegated as gazetted by the County Government. Further, the Governor should ensure that municipalities are adequately funded in accordance with section 172 of the Public Finance Management Act, 2012, to enhance their operational independence and enable effective service delivery. The Governor should further ensure that all municipalities in the county are operationalized to undertake their delegated functions in line with law by the commencement of the Financial Year 2026/2027.
- 2. Accurate Financial Reporting and Capacity Building** - The Governor ensures the Accounting Officers makes accurate preparation of financial statements, provide timely supporting documents to auditors, and strengthen capacity in IPSAS compliance. Continuous training should be provided to finance officers to improve competence, and internal controls should be enhanced to ensure reliable reporting.

3. **Budgetary Control and Timely Disbursement** - The Governor ensures Accounting Officers s enforce strict budgetary control measures, ensuring that appropriated funds are used within approved ceilings and that under- or over-expenditure is avoided. The National Treasury should ensure timely disbursement of funds in accordance with the Senate-approved cash flow schedule.
4. **Record Keeping and Timely Submission of Audit Documents** - The Governor ensures the Accounting Officers maintains proper records and submit all supporting documents to the Auditor-General promptly, as required under Section 62 of the Public Audit Act and the Accountants Act, to facilitate accountability and improve the audit process.

## GENERAL OBSERVATIONS FOR HOSPITALS

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. These deficiencies directly compromise 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 all four hospitals transferred Facilities Improvement Financing (FIF) revenues to the County Revenue Fund instead of retaining them in designated facility accounts, contrary to Sections 5 and 20–25 of the Facilities Improvement Financing Act, 2023. Although some funds were subsequently reimbursed, the practice of routing facility revenues through the County Revenue Fund is unlawful and deprives facilities of timely operational funding.
3. **Persistent Unresolved Prior Year Audit Issues**-The Committee observed that all four hospitals carried forward unresolved audit issues from the Financial Year 2023/2024, ranging from four (4) to seven (7) matters per facility. The recurring nature of these unresolved matters indicates a lack of seriousness by accounting officers in addressing audit findings, contrary to Section 149(2)(1) of the Public Finance Management Act, Cap. 412A.
4. **Weak Internal Controls, Risk Management, and Governance**- The Committee observed that no hospital had a facility-specific risk management policy, Boards of Management lacked charters, work plans, and performance evaluation mechanisms, and some Board members held inadequate qualifications for effective oversight. These deficiencies collectively undermine governance, financial accountability, and service delivery across all facilities, contrary to Regulation 158(1) of the Public Finance Management (County Governments) Regulations, 2015.

## GENERAL RECOMMENDATIONS FOR 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 Section 25 of the Health Act, 2017. Further, the governor should submit a detailed action plan

- to Senate within sixty (60) days of the 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 designated facility accounts in strict compliance with Sections 5 and 20–25 of the Facilities Improvement Financing Act, 2023. The CECM for Finance should establish a monitoring mechanism to prevent future misallocation, 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. **Resolution of Prior Year Audit Issues** - The Governor ensures all accounting officers resolve all outstanding prior year audit issues within ninety (90) days of the adoption of this report and submit status reports to the Auditor-General as required under Section 149(2)(1) of the Public Finance Management Act, Cap. 412A, failure to which the penalties under Section 199 of the same Act shall apply.
  4. **Risk Management and Governance Frameworks** - The Governor ensures each hospital develops and implements a facility-specific risk management policy in compliance with Regulation 158(1) of the Public Finance Management (County Governments) Regulations, 2015. 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.

## GENERAL OBSERVATIONS FOR COUNTY FUNDS

1. **Inaccurate and Unsupported Financial Statements** -The Committee observed recurring material misstatements across all the funds, including unaccounted payments, inaccurate statements of comparison of budget and actual amounts, unsupported variances, and omissions in the statement of financial performance. These inaccuracies point to weak bookkeeping, inadequate review processes, and limited capacity in IPSAS compliance among finance officers handling the funds.
2. **Doubtful Recoverability of Fund Receivables and Idle Balances** - The Committee observed that several funds had long-outstanding receivables running into millions of shillings, with little recovery efforts and no evidence of structured debt repayment plans, loan rescheduling, legal enforcement and loan insurance. Additionally, the Kwale Trade Revolving Fund remained idle during the periods under review with no loans issued despite availability of funds, contrary to Regulation 83 of the Public Finance Management (County Governments) Regulations, 2015, depriving intended beneficiaries of access to financial support.
3. **Weak Governance and Non-Compliance with Enabling Legislation** - The Committee observed that many funds operated without legally mandated governance structures and regulatory frameworks. Several funds operated for extended periods without duly constituted Management Committees, while others operated without approved regulations contrary to their respective enabling legislation. Additionally, some funds made expenditures and transfers beyond their constitutional and statutory mandate, contrary to the Fourth Schedule of the Constitution of Kenya, 2010.
4. **Underfunding and Poor Budget Performance** - The Committee observed that many funds recorded significant revenue shortfalls due to delayed disbursements from the National Treasury, negatively affecting planned activities and service delivery to the residents of Kwale County. Furthermore, where funds were available, absorption of expenditure remained low, with significant under-utilization of appropriated funds within the financial year, undermining the purpose for which the funds were established.

## GENERAL RECOMMENDATIONS FOR COUNTY FUNDS

1. **Financial Reporting and Compliance** - The Governor ensures all accounting officers prepare accurate financial statements in full compliance with IPSAS, with timely bank reconciliations, properly authorized journal adjustments, and complete supporting documentation submitted to the Auditor-General as required under Section 47(2) of the Public Audit Act, Cap. 412B and Regulations 90 and 103(1) of

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

**ACKNOWLEDGEMENTS**

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


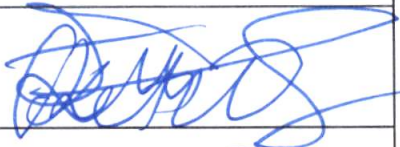
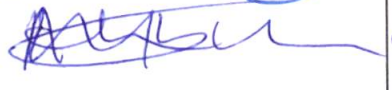

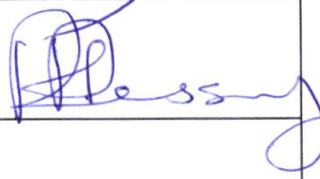
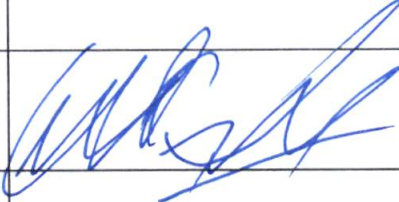
DATE: 24/03/2026 .....

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

**ADOPTION OF THE REPORT OF THE SELECT COMMITTEE ON COUNTY PUBLIC INVESTMENTS AND SPECIAL FUNDS ON THE CONSIDERATION OF THE AUDIT REPORTS OF KWALE COUNTY FOR WATER COMPANY, MUNICIPALITIES, HOSPITALS AND FUNDS 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 COMPANY</b>  | <b>1</b>   | <b>KWALE WATER AND SEWERAGE COMPANY LIMITED</b>                              |
| <b>MUNICIPALITIES</b> | <b>4</b>   | <b>DIANI MUNICIPALITY</b>  |
|                       |            | <b>LUNGALUNGA MUNICIPALITY</b>   |
|                       |            | <b>KWALE MUNICIPALITY</b>  |
|                       |            | <b>KINANGO MUNICIPALITY</b>  |
| <b>HOSPITALS</b>      | <b>4</b>   | <b>KWALE SUB-COUNTY HOSPITAL</b>   |
|                       |            | <b>MSAMBWENI COUNTY REFERRAL HOSPITAL</b>                                    |
|                       |            | <b>LUNGALUNGA SUB-COUNTY LEVEL 4 HOSPITAL</b>                                |
|                       |            | <b>KINANGO LEVEL 5 HOSPITAL</b>  |
| <b>FUNDS</b>          | <b>5</b>   | <b>KWALE COUNTY BURSARY AND SCHOLARSHIP FUND</b>                             |
|                       |            | <b>KWALE COUNTY EMERGENCY FUND</b>   |
|                       |            | <b>KWALE COUNTY YOUTH, WOMEN AND PERSON WITH DISABILITIES REVOLVING FUND</b> |
|                       |            | <b>KWALE COUNTY TRADE REVOLVING FUND</b>                                     |
|                       |            | <b>KWALE COUNTY CLIMATE CHANGE 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<br><i>(Chairperson)</i> |    |
| 2.  | Sen. Eddy Gicheru Oketch, MP <i>(Vice – Chairperson)</i>    |    |
| 3.  | Sen. Agnes Kavindu Muthama, MP                              |    |
| 4.  | Sen. William Kipkemoi Kisang, CBS, MP.                      |   |
| 5.  | Sen. Peris Pesi Tobiko, CBS, MP                             |  |
| 6.  | Sen. Beth Kalunda Syengo, MP                                |  |
| 7.  | Sen. George Mungai Mbugua, MP                               |  |
| 8.  | Sen. Raphael Chimera Mwinzangu, MP                          |  |
| 9.  | Sen. Hamida Ali Kibwana, MP                                 |  |

## CHAPTER ONE: WATER COMPANY

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

The Governor of Kwale County, Hon. Fatuma Mohamed Achani, EGH, appeared before the Committee on Tuesday 21<sup>st</sup> January, 2025 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Kwale Water and Sewerage Company Limited for the Financial Year 2024/2025. The Governor was accompanied by the following officers—

- |                       |                          |
|-----------------------|--------------------------|
| 1. Ms. Sylvia Chidodo | - County Secretary       |
| 2. CPA Bakari Sebe    | - CECM for Finance       |
| 3. Mr. Hemed Mwabudzo | -CECM for Water.         |
| 4. Mr. Alex Onduko    | - Chief Officer, Finance |
| 5. Mr. Eric Parmet    | - Managing Director.     |

### REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **qualified opinion** on the financial statements of Kwale Water and Sewerage Company Limited for the period under review on the following basis-

#### 1 Material Uncertainty Related to Going Concern

Out of the total outstanding liabilities of kshs. 695,295,800 a total of kshs. 589,925,002 is owed to Coast Water Works Development Agency for bulk water supply. Out of the total indicated kshs. 302,793,011 is an amount incurred before devolution and the balance of kshs. 287,131,991 was incurred between 2013 to 2025. The other liabilities of kshs 105,370,798 are trade payables to KPLC, Wasreb, payroll liabilities (Pension) and other creditors.

The going concern of the company can be assured if the liabilities of Ksh 302,793,011 incurred to CWWDA before devolution can be waived.

#### Other mitigation Measures to address going concern:

- i. Complete hand over of Tiwi boreholes by CWWDA to Kwawasco for full operationalization to avoid double Billing
- ii. The company is investing on replacing some of the dilapidated lines which are prone to leaks and burst to reduce non-revenue water.
- iii. Procurement of 4,600pcs water meters'/customer meters to replace the non-working meters and improve metering efficiency.
- iv. Activation of the already laid 14kms HDPE pipeline as a replacement of old AC line from Mwachema- check point which will reduce non-revenue water attributable to illegal connections.

- v. The anticipated completion of Ukunda Water Supply Improvement project, with a potential to supply 10,000m<sup>3</sup> /day to over 6,000 new connections, has a project monthly revenue of Ksh25,200,000 and an Annual turnover of Ksh 302,400,000. This will significantly improve the financial position of the company. The Project completion date is earmarked for February 2026.

#### **Committee Observation**

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

- i. A substantial portion of the company's liabilities (Kshs. 302,793,011) relates to pre-devolution bulk water costs whose waiver is dependent on CWWDA and the National Government, and remains uncertain;
- ii. The company has a high concentration of liabilities owed to a single creditor (CWWDA), posing a significant financial risk to its going concern; and
- iii. The mitigation measures cited by management are largely prospective and their effectiveness in improving the company's financial position is yet to be demonstrated and can only be assessed in the subsequent audit cycle.

#### **Committee Recommendations**

The Committee recommends that—

- i. **The Governor should ensure the County Executive Committee Member responsible for water should continuously monitor the financial performance of the water company in accordance with section 184 of the Public Finance Management Act Cap. 412A and regularly report on its financial health and viability to the Governor through the County Executive Committee in accordance with Article 179 (6) of the Constitution;**
- ii. **the Governor ensures the Accounting Officer responsible for the water company prepares and submit to the CECM for Finance, quarterly reports regarding the financial and non-financial status of the water company in accordance with section 166 of the Public Finance Management Act;**
- iii. **The Governor should ensure the CECM for Finance to undertake annual reporting on the water company including an assessment of the commercial viability of the company in accordance with the standards set by the Water Services Regulatory Board (WASREB) as provided under section 77(6) of the Water Act; and**
- iv. **The Governor ensures the Accounting Officer should, within 60 days of adopting this report, implement strategic and innovative measures aimed at recovering and strengthening the financial health of the water company to ensure self-sustainability. Additionally, the Governor ensures the**

management of the water company reviews and regularizes the company's existing assets, maintain an updated asset register that accurately reflects the current financial position, and determine the commercial viability of these assets in compliance with the requirements of the Public Sector Accounting Standards Board (PSASB).

## 2 Unsupported Balances

### 2.1 Unsupported Ordinary Share Capital

The statement of financial position and Note 24 to the financial statements reflect issued and fully paid ordinary share capital of Kshs. 2,000,000 of par value of Kshs. 1,000 each. However, the share certificate was not provided for audit review.

#### Management Response

Before devolution the company shareholding was under the defunct Town Council of Kwale holding 1,998 shares, chairman of Town Council of Kwale 1 share and 1 share held by the Clerk of Kwale Town Council thus making a total of 2,000 shares. Currently the management has regularized the Memorandum and Articles of Association to reflect the current ownership by Kwale County Government.

|    | Subscriber   | Shareholding |
|----|--|--------------|
| 1. | CECM in charge of Water Services- Kwale County Government- (in trust for the County) | 300          |
| 2. | CECM in charge of Finance Kwale County Government – (in trust for the County)        | 100          |
| 3. | County Secretary Kwale County Government – (in trust for County)                     | 100          |

Issuance of the share certificate will be effected once the registration process is completed. The MEMOARTS have already been submitted to the registrar of companies for processing through the e-citizen portal on 31<sup>st</sup> October 2024. Evidence of submission of documents through e-citizen, new MEMOARTS and old MEMOARTS were provided for scrutiny.

#### Committee Observations

The Committee observed that the query remains unresolved as the process of transferring the ownership of the water company from the defunct Town Council of Kwale to the County Government was yet to be concluded as is required under the Water Act Cap. 372.

#### Committee Recommendations

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

- i. ensures that process of transferring the ownership of the water company from the defunct Town Council of Kwale in favor of the County Government is concluded within 60 days of the adoption of this report; and**
- ii. that the structure ownership of the water company is in accordance with the relevant laws and WASREB guidelines within 60 days of the adoption of this report and provide a status update to the Senate on the mitigation measures taken and provide the share certificate and the CR12 of the water company to the Senate and a copy to the Auditor General for verification.**

## **2.2 Unsupported Capital Reserve**

The statement of financial position and Note 24(a) to the financial statements reflects capital reserve balance of Kshs. 36,719,864. However, schedule showing details of capital reserves was not provided for audit.

In the circumstances the accuracy and completeness of share capital and reserves of Kshs. 2,000,000 and Kshs. 36,719,864 respectively could not be confirmed.

### **Management Response**

Kwale Water and Sewerage Company Limited (KWAWASCO) was incorporated on the 26th September 2005. The company's mandate is to efficiently and effectively provide quality, reliable and adequate water services to the residents of Kwale County in accordance with a versatile service provision agreement (SPA) and WASREB minimum service levels. At takeover of Kwale Water and Sewerage Company in its first audited financial statement of FY 2006/07, where an amount of Kshs. 36,719,864 was disclosed as third-party balances under accounts receivables and the same amount was also included under long term liability as customer third party balances (bills at takeover). The National Pipeline Corporation did not provide the listing of customers holding the amount to facilitate for follow up and recovery.

Through the Board of Directors KWAWASCO wrote to the National Pipeline Corporation on 4<sup>th</sup> March 2024 to get the listing of these debtors or if cannot be provided, to advise on writing off of the debtors. Evidence of the letter sent to National Pipeline Corporation for your perusal and extract of balance sheet of FY 2006/7 was shared with committee for scrutiny.

### **Committee Observation**

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

- i. the amount of Kshs. 36,719,864 represented accounts receivables from third party (National Pipeline Corporation) customers at the inception of the water company that had remained unrecovered;
- ii. despite efforts by the management to engage National Pipeline Corporation to provide a debtor’s schedule of the said customers for ease of follow up and recovery, none has been provided to date, undermining the water company’s efforts to recover the money; and
- iii. the continued reporting of the amount by the water company does not give a fair view of its financial performance.

**Committee Recommendations**

**The committee recommends that-**

- i. **The Governor engages the National Pipeline Corporation and obtain the debtor’s schedule of the said customers within 60 days of the adoption of this report; and**
- ii. **that due to the historical nature of the third-party customer balances, the Governor ensures the water company makes recovery efforts of the outstanding debt and put in place write off mechanisms for irrecoverable amounts in accordance with section 150 of the Public Finance Management Act Cap. 412A and regulations 141 and 150 of the Public Finance Management (County Governments) Regulations, 215. Governor to provide a status update to the Senate on the matter within 90 days of the adoption of this report.**

**3. Doubtful Recovery of Accounts Receivables**

Note 21 (a) to the financial statements reflects gross trade receivables balance of Kshs. 336,932,327. Included in this amount is receivables amounting to Kshs. 258,354,692 which has been outstanding for over 120 days. Management did not however disclose measures put in place to recover the debts.

In the circumstances the collectability and validity of the trade receivables balance of Kshs. 258,354,692 is doubtful.

**Management Response**

The total accumulated trade receivables are as outlined below; the debts are from 2006 to 2024 out of the total kshs. 258,354,692, a total of kshs. 200,047,682 runs beyond six years (2006-2018)

However, the company made an effort since July 2024 that has reduced the overall debt from Kshs. 274,921,639 to Ksh. 258,354,692 reported in June 2025

|       |                         |
|-------|-------------------------|
| Years | Kwawasco aging analysis |
|-------|-------------------------|

|                    |                    |
|--------------------|--------------------|
| Up to 2017/19      | 165,380,688        |
| 2019/20            | 20,905,994         |
| 2020/21            | 19,116,846         |
| 2021/22            | 22,063,980         |
| 2022/23            | 20,604,092         |
| 2023/24            | 14,035,305         |
| 2024/25            | (3,752,213)        |
| <b>Total Debts</b> | <b>258,354,692</b> |

**Old Debt more than Ten (10) years per Station.**

|            | AGED DEBT          |
|------------|--------------------|
| Ukunda     | 28,368,567         |
| Samburu    | 6,590,687          |
| Mariakani  | 7,445,922          |
| Taru       | 11,355,349         |
| Mazeras    | 8,707,334          |
| Kwale      | 9,533,041          |
| Kinango    | 3,811,368          |
| Lutsangani | 5,758,160          |
| Tiwi       | 13,441,813         |
| Msambweni  | 11,017,795         |
| Lungalunga | 3,462,658          |
| Kombani    | 24,467,838         |
| Mkanda     | 272,900            |
|            | <b>134,233,432</b> |

With the above analysis and Debt recovery procedures in place the Company has an original inherited debt of Ksh. 36,719,864 from the Ministry then transferred to the company through Coast Water Development Agency which for long the company has struggled to write off but the process has proved to be difficult. This is after Coast Water hired a Consultant to help consolidate the debts in the company and recommended the write off of the Ksh 36,719,864. The process ended with a recommendation to get approval from the Ministry of Treasury in Nairobi after all the other processes in the company and Coast water had been followed.

A further analysis of the current debt shows out of the Ksh 160,799,138 which is more than 120 days, Ksh 134,233,432 is over ten years in the Company debtors list and is legible for write off which is inclusive of the Ksh 36,719,864

The company has identified the figure of Ksh 134,233,432 and is in the process of again following the procedure both legal and administratively to seek permission through the government authorities to write off the debt.

### **Committee Observations**

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

- i. measures put in place by the management failed to demonstrate their contribution towards debt recovery; and
- ii. the collectability and validity of long outstanding trade receivables is doubtful; and
- iii. the water company has no debt management policy that put in place a framework for debt management by the water company.

### **Committee Recommendations**

The Committee recommends that-

- i. the Governor should ensure that the water company puts in place a debt management policy within 90 days of the adoption of this report and submit a copy of the same to the Auditor-General for verification. The Auditor-General to provide a status update on the matter in the subsequent audit cycle; and
- ii. the Governor ensures the Accounting Officer should within 60 days of the adoption of this report establish a debt recovery plan for the long outstanding receivables and submit evidence of the same to the Senate and a copy to the Auditor General for verification and monitoring. The Auditor-General to monitor implementation of the plan and report on its effectiveness in the subsequent audit cycle.

#### **4. Unconfirmed Property, Plant and Equipment Balance**

The statement of financial position and Note 18 to the financial statements reflects property, plant and equipment balance of Kshs. 1,537,351,915. However, the fixed asset register provided for audit did not contain depreciation workings like useful lives, depreciation rates, and accumulated depreciation. Further, the land balance of Kshs. 4,187,240 was not supported by an updated land register.

#### **Management Response**

The management has taken in your recommendation and updated the fixed asset register to include depreciation workings like useful lives, depreciation rates and accumulated depreciation. Further the management has updated the land register in support of the Kshs. 4,187,240.

### **Committee Observations**

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

- i. The updated fixed asset register and depreciation workings were not availed for audit verification
- ii. The updated land register supporting the land balance of Kshs. 4,187,240 was not provided for review;
- iii. As a result, the existence, ownership, valuation and depreciation of the Property, Plant and Equipment balance of Kshs. 1,537,351,915 could not be independently confirmed.

### **Committee Recommendations**

**The Committee recommends that—**

- i. **The Governor ensures that the Accounting Officer fast-tracks the valuation of all assets of the water company and submit the valuation report to the Auditor- General for verification during the subsequent audit cycle;**
- ii. **The Governor ensures the water company maintains an up-to-date asset register in accordance with section 149(2)(o) of the Public Finance Management Act Cap 412A and in the format prescribed by the Public Sector Accounting Standards Board (PSASB), failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply; and**
- iii. **The Governor ensures the Accounting Officer prepares an update asset register within 60 days of the adoption of this report and submit to the Senate and a copy to the Auditor General for verification.**

### **Emphasis of matter**

Under Emphasis of matter, the Auditor-General raise the following issue –

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

The statement of comparison of budget and actual amounts reflect final revenues budget and actual on a comparable basis of Kshs. 585,077,522 and Kshs. 576,400,646 respectively, resulting to an underperformance of Kshs. 101,638,601 or 11% of the budget.

Company expended Kshs. 561,896,014 against approved budget of Kshs.580,257,196 resulting to under absorption of Kshs. 18,361,182 or 3% of the budgeted amount.

#### **Management Response**

No response was provided by the management.

#### **Committee Observations**

The Committee observed that the query remains unresolved as the water company's budget had an underperformance of Kshs. 8,676,876 or 1.5 % of the budget and under absorption of Kshs. 18,361,182 or 3% of the budgeted amount.

**The Committee recommends that—**

- i. **The Governor ensures the Accounting Officer strictly compliance with section 149(2) (h) and (i) of the Public Finance Management Act, Cap. 412A and the standards prescribed by the Public Sector Accounting Standards Board under IPSAS 24 on the presentation of budget information in the financial statements for an entity that prepares their financial statements under the accrual basis of accounting, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply;**
- ii. **The Governor ensures the Accounting Officer to 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; and**
- iii. **The Governors ensures the Board of directors institutes 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.**

### **Key Audit Matters**

#### **Other Matter**

In the audit report of the previous financial year, several issues were raised under the reports on financial statements, Lawfulness and Effectiveness in use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance which remain unresolved as 30 June 2024. Management has indicated the issues as having been resolved but did not provide evidence to support that status.

#### **Management response**

The unresolved issues are policy issues and the management is in the process of addressing the matters;

- The issue of non-revenue which was previously at 62% in FY2020/21 has reduced to 49% in FY 2023/24.
- The ownership of the company has been addressed with the submission of the new MEMOARTS to the registrar of companies via e-citizen portal on 31<sup>st</sup> October 2024, the company is following up on the matter.

- The capital reserve amounting to Kshs. 36,719,864 was discussed by the Board of Directors and management wrote to National Water and Pipeline Corporation on 4<sup>th</sup> March 2024 to seek direction on the matter. Evidence of Letter Sent to National Corporation and 2006 Financial Statement was given for scrutiny.

### **Committee Observations**

The Committee observed that the query remains unresolved. While progress had been made in addressing prior years' matters, a significant number of queries were still outstanding.

### **Committee Recommendations**

**The Committee recommends that the Governor ensures Accounting Officer responsible for the water company should resolve any issues resulting from an audit that remains outstanding as required by section 149(2)(l) of the Public Finance Management Act, Cap 412A. The Auditor-General to monitor progress and provide a status update in the subsequent audit cycle**

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

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

The statement of profit or loss and other comprehensive incomes reflect operating revenue and Note 6 to the financial statements reflect operating revenue of Ksh. 241,979,786. During the year under review, the Company produced 4,113,920 cubic meters of water, out of which only 2,126,169 cubic meters or 52% was billed to customers at Kshs. 238,892,286. The balance of 1,987,751 cubic meters or 48% of the total volume produced was not billed and represents Non-Revenue Water. This is higher than 25% allowable loss by the water service regulatory board (WASREB) guidelines.

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

### **Management Response**

The issue of non-revenue which was previously at 49% in FY2023/24 has reduced to 48% in FY 2024/25

Non-Revenue water is caused by many factors and the company has put measures in place to ensure it is reduced to the acceptable levels as stated below;

| <u>CAUSES</u>  | <u>MEASURES</u>   |
|--|---|
| 1. Dilapidated infrastructure due to old age and corrosion which is rampant in coastal region-<br>The existing network is made up of | ❖ The company is embracing modern technology by installing HDPE pipes |

|  |   |
|--|---|
| <p>galvanized iron pipes which is currently eroded and cannot withstand high pressure leading to spillages.</p> <p>2. Frequent Burst and leaks across our Schemes-This has resulted to water wastage before it is noticed since some of our network crisscrosses forest and wilderness.</p> <p>3. Suspected Illegal connections-The Company has found cases where individuals bypass water meters and use water without authorization.</p> <p>4. Meter reading errors, billing errors and meter stoppages.</p> | <p>which is not prone to corrosion as our standard operating procedure.</p> <ul style="list-style-type: none"> <li>❖ The company is currently doing a new pipeline reticulation which will replace the aged pipeline leading to decrease in spillages hence low non-revenue water</li> <li>❖ The company has set timelines for Quick response to bursts and leaks whenever they occur</li> <li>❖ The company has repair kits for fittings and pipes</li> <li>❖ The company embarked on inspection and investigation of illegal connection especially in ukunda where several suspected illegal connections were discovered and culprits surcharged. The practice has been escalated to other schemes.</li> <li>❖ Establishing DMA in ukunda with the help of WSDP consultants which will highly unearth unauthorized water users</li> <li>❖ The company is replacing a 14Km Asbestos line with HDPE which will remove the illegal connections since only valid consumers</li> </ul> |
|--|---|

|  |   |
|--|---|
| <p>5.Vandalism –There is rampant damage of pipeline and fittings especially metallic which had led to water wastage leading to high unaccounted for water.</p> <p>6.Pipeline damages by Road contractors while upgrading the existing roads- There has been scenarios where contractors mercilessly damages existing water infrastructure during construction works</p> <p>7.Wild animal invasion –There is conflict with the wildlife during dry seasons while they are looking for water making them damage water infrastructure, this is mainly common with elephants which sometimes uproots a long stretch of the pipeline leading to water wastage</p> | <p>will be transferred to the new line</p> <ul style="list-style-type: none"> <li>❖ The company has embraced digital meter reading which relays on-time data to the billing system hence reducing inaccuracies</li> <li>❖ Joint bulk meter reading exercise with Coast water works development agency which is done on 25<sup>th</sup> day of every month for accuracy readings.</li> <li>❖ Replacement of malfunctioning meters- The company sourced for over 3000 consumer meters</li> <li>❖ The company is embracing the use of meter seals to avoid meter tampering</li> <li>❖ The company purchased meter testing device for accuracy test and calibration of meters.</li> <li>❖ Carrying out meter reading audits</li> <li>❖ There is metering policy and connection procedures to close the gaps that existed before.</li> <li>❖ The company is currently using non-metallic fittings to avoid damages.</li> <li>❖ The company is also engaging the local</li> </ul> |
|--|---|

|  |   |
|--|---|
|  | <p>administration to inform the public on the repercussions of vandalism and finally reporting any vandalism to law enforcers</p> <ul style="list-style-type: none"> <li>❖ There is an engagement with road agencies that is KeNHA , KURRA , KeRRA and County road department on the issues of water pipeline along the roads</li> <li>❖ Deepening the pipeline within the affected areas to avoid water detection by elephants i.e. Busho line in Taru</li> <li>❖ The company engages the local KWS office.</li> </ul> |
|--|---|

Finally, the company has recruited personnel in charge of Non-Revenue Water

### **Committee Observations**

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

- i. the water company register high Non-Revenue Water of 48%, that is, 24 percentage points above the sector benchmark of 25% as per Water Services and Regulatory Board (WASREB) Guidelines;
- ii. Non-Revenue Water may arise from either commercial losses or physical losses. However, the water company did not provide a detailed breakdown to illustrate the contribution of each category to the overall Non-Revenue Water;
- iii. measures put in place by the water company to address the Non-Revenue Water are inadequate and their effectiveness is yet to be ascertained; and
- iv. this high level of Non-Revenue Water largely contributed to the Company's revenue shortfall and budgetary underperformance, as well as the material uncertainty relating to a going concern.

### **Committee Recommendations**

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 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. Affirmative Action on Gender Balance, Ethnicity and Regional Distribution**

The statement of profit or loss and other comprehensive incomes and Note 10. to the financial statements reflect staff cost of Ksh. 75,006,193. However, the following anomalies were observed;

### **2.1. Compliance with Law on Affirmative Action**

The Company had one hundred and fifty-seven (157) officers out of whom seventy-six (76) or 48% and sixty-one (61) or 39% were from two communities contrary to section 7(2) of the National Cohesion and Integration Act, 2008 which provides that no public establishment to 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**

A majority of staff within Kwawasco, are in the technical and commercial sections who are mainly inherited from National Water and Pipeline corporation or seconded by the then Coast Water Services Board, a majority are from the indigenous communities in Kwale that is Digo and Duruma. However, ethnic diversity is evident in the company where other Coastal communities are represented as well as other communities of the Republic of Kenya. Evidence of staff profile was provided for scrutiny.

### **Committee Observations**

The Committee observed that the query remains unresolved as the water company failed to comply with section 7(2) of the National Cohesion and Integration Act, 2008 which requires no public establishment to have more than one third of its staff from the same ethnic community.

### **Committee Recommendations**

**The Committee recommends that—**

- i. **The Governor should ensure that there is compliance with section 7(1) and 2 of the National Cohesion and Integrity Act which states that; (1) All public establishment shall seek to represent the diversity of people of Kenya in employment of staff; (2) No public establishment shall have more than one third of its employees from same ethnic group; and**
- ii. **The Governor ensures the Board and the Accounting Officer makes deliberate efforts to progressively comply with section 65 of the County Governments Act, 2012 which provides that at least thirty percent 30% of the vacant posts at entry level be filled by candidates who are not from the dominant ethnic community.**

### **2.2. Lack of Affirmative Action for Persons Living with Disabilities**

Review of human resource records revealed that the Company engaged one hundred and four (104) employees on contract during the year under review. However, only two (2) or 2% of the employees on contract were persons with disabilities, contrary to section 13 of the Persons with Disabilities Act, 2003 which requires that employers reserve at least 5% of their employment positions for people with disabilities.

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

### **Management Response**

The company has 4 No staff who are physically impaired, two of them has certificates of disabilities, the said staff have been assigned suitable roles that suit their ability. The Company is in the process of assisting the other two staff to undergo medical assessment for them to obtain Certificates of disability and subsequent submission of the same to GOK agencies for necessary exemptions.

### **Committee Observations**

The Committee observed that the company engaged 110 officers on contract, none of who were persons living with disabilities, contrary to section 13 of the Persons with Disabilities Act, Cap.133.

### **Committee Recommendations**

**The Committee recommends that—**

- i. **The Governor ensures Accounting Officer strictly comply with the provisions of section 13 of the Persons with Disabilities Act, Cap.133 with regards to the reservation of five per cent of all casual, emergency and contractual positions in employment in the public and private sectors for persons with disabilities failure to which the provisions of section 48 of the Act on offences for penalties shall apply.**

### **2.3. Non-Compliance with Gender Rule in Staff Establishment**

During the year under review, the Company had one hundred and fifty-seven (157) officers out of whom one hundred and twenty-four (124) or 79% were male contrary to Article 27(8) of Constitution of Kenya, 2010 which provides the state to take legislative and other measures to implement the principle that not more than two-thirds of the members of elective or appointive bodies be of the same gender.

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

#### **Management Response**

A majority of staff within Kwawasco, are in the technical and commercial sections who are mainly inherited from National Water and Pipeline corporation or seconded by the then Coast Water Services Board who were mainly men, the company is in the process of filling positions which fall vacant with female staff to be in compliance with Article 27(8) of Constitution of Kenya, 2010. Recently the company recruited Human Resource Manager, Procurement Officer, Non-Revenue officer and ICT officer who were all female.

#### **Committee Observations**

The Committee observed that out of the entire staff establishment of the water company, 79% of the staff population were male contrary to paragraph B.22 (2) of the Public Service Commission Human Resource Policies and Procedures Manual 2015.

#### **Committee Recommendations**

**The Committee recommends that the Governor ensures the board and the accounting officer to make deliberate efforts progressively in the endeavor to comply with Section 7 (1) and (2) of the National Cohesion and Integrity Act, 2008, which requires that public establishments shall seek to represent the diversity of the people of Kenya in employment of staff.**

#### **Non-Compliance with the Order on Public Procurement Regulatory Authority (PPRA) Capacity Building Levy**

Review of quarterly procurement reports revealed that the Company awarded seventy-five (75) contracts valued at Kshs. 13,951,239 between 01 September, 2024 and 30 June, 2025. However, Management did not deduct and remit PPRA capacity building levy amounting to

Kshs. 4,185 on the contracts, contrary to Public Procurement Capacity Building Levy Order, 2023.

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

**Management response**

The levy was introduced 17<sup>th</sup> September 2024 however the Procuring Entity did not recover the 0.003% of the contract amount from the Suppliers, going forward this will not happen all funds on CBL will be recovered.

The unpaid of Kshs. 4,185/= including interest of 5% will be remitted to E-Citizen by the Procuring Entity

**Committee Observations.**

The committee observed that the management did not deduct and remit PPRA capacity building levy amounting to Kshs. 4,185 from 75 contracts.

**Committee Recommendations**

**The Committee recommends that the Governor ensures the County Executive Committee Member and the Accounting Officer strictly enforce compliance by the water company with the provisions of Section 53(2) of the Public Procurement and Asset Disposal Act, Cap. 412C, particularly regarding the preparation of an annual procurement plan. Failure to adhere to this requirement shall attract the penalties prescribed under Section 177 of the Act.**

**4. Lack of Salaries and Remuneration Commission (SRC) Concurrence on the Salary Structure**

The statement of profit or loss and other comprehensive income and Note 10 to the financial statements reflects staff costs of Kshs. 75,006,193. The staff costs were incurred in compliance with a salary structure approved by the Board of Directors on 19 July, 2015. However, no evidence was provided to confirm that the Management sought the concurrence or advice of the Salaries and Remuneration Commission before implementing the salary structure.

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

**Management Response**

The Management through the Board of Directors have reviewed the salary structure and it will be in concurrence with the Salaries and Remuneration Commission (SRC). The proposed CBA has been submitted to SRC September 2025 for review and once approved it will guide the Company's salary structure for the next 4 years. Evidence of the correspondence provided for scrutiny.

**Committee Observations**

The salary structure approved by the Board of Directors in 2015 was implemented without prior concurrence of SRC and although CBA has been submitted to SRC, final approval is still pending.

**Committee Recommendation**

**The Governor ensures the Management should ensure that all salary structures and related staff costs are formally reviewed and approved by the Salaries and Remuneration Commission (SRC) before implementation, and maintain evidence of such concurrence to ensure compliance with the law.**

**REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE****Basis for Conclusion****Ineffective Internal Audit Function**

Review of internal control indicated that the internal audit department comprises of only one (1) staff member. This is a significant concern given the size, complexity, and risk profile of the water utility operations. This is contrary to Section 7.2 of the Mwongozo code of Governance of state Corporations which requires internal audit function to be independent and adequately resourced to effectively discharge its responsibilities

In the circumstances, the effectiveness of the internal audit function could not be confirmed

**Management Response**

The management has proposed to the Board of Directors the need to recruit qualified staff for position of Senior Internal Auditor.

**Committee Observations**

The Committee observed that the water company did not have an audit committee and an ineffective internal audit function in place during the financial year under review contrary to Section 155(1) of the Public Finance Management Act, Cap.412A.

**Committee Recommendations**

**The Committee recommends that the Governor ensures the Board of Directors of the company puts in place all internal control systems such as the Internal Audit Committee as provided under section 155 (5) of the Public Finance Management Act, 2012 among others to guide the internal operations of the water company. Further, the managements to submit evidence of the same to the Auditor General for verification.**

## CHAPTER TWO: MUNICIPALITIES

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

The Governor of Kwale County, Hon. Fatuma Mohamed Achani, EGH, appeared before the Committee on Tuesday 21<sup>st</sup> January, 2025 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Diani Municipality for the Financial Year 2024/2025. The Governor was accompanied by the following officers—

- |                       |   |
|-----------------------|---|
| 1. Ms. Sylvia Chidodo | - County Secretary                                  |
| 2. CPA Bakari Sebe    | - CECM for Finance                                  |
| 3. Ms. Saumu Beja     | - CECM for Lands, Environment and Natural resources |
| 4. Mr. Alex Onduko    | - Chief Officer, Finance                            |

#### REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **qualified opinion** on the financial statements of Municipality of Diani for the period under review on the following basis –

##### 1. Unsupported Prior Year Adjustments

The statement of changes in net assets reflect accumulated surplus as at 30 June, 2025 of Kshs.110,611,706. Further, the statement reflects prior year adjustment of Kshs.4,208,657 and Kshs.2,103,505 in respect to current and prior years. However, the prior year adjustments were not supported or disclosed as required under IPSAS 3.

In the circumstances, the accuracy of the accumulated surplus of Kshs.110,611,706 could not be confirmed.

##### Management Response

The management acknowledges the above observation. Disclosures in the Notes of the restated figures in the financial statements to be made in the subsequent year.

##### Committee Observations

The Committee observed that prior year adjustments totaling Ksh. 4,208,657 and Ksh. 2,103,505 were not supported or disclosed as per IPSAS 3.

##### Committee Recommendations.

- i. The Governor should ensure that the Accounting Officer ensures prior year adjustments are carried out in the company's financial statements of the subsequent financial year to correct the errors in order to reflect the true financial position of the company; and
- ii. The Governor should ensure 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 and offences shall apply.**

## **2. Inaccurate Opening Balances**

The statement of financial position reflects opening net assets balance of Kshs.112,127,796 as at 30 June, 2025. However, receivables from non-exchange transactions, property, plant and equipment and trade and other payables of Kshs.2,208,964, Kshs.144,744,258 and Kshs.35,898,323 differs with the audited prior year balances of Kshs.6,417,621, Kshs.148,952,914 and Kshs.35,188,991 respectively. No explanation or disclosure was made on the variances.

In the circumstances, the accuracy of opening net assets balance of Kshs.112,127,796 could not be confirmed.

### **Management Response**

The management acknowledges the above observation. Disclosures in the Notes of the Restated figures in the financial statements to be made in the subsequent year.

### **Committee Observation**

The Committee observed that opening balances in the statement of financial position were inconsistent with the audited prior year figures.

### **Committee Recommendation**

**The committee recommended the following-**

- i. The Governor should ensure that the Accounting Officer takes appropriate administrative action on responsible officers within the Accounts and Finance department who fail to keep complete financial records in accordance with section 156(1) of the Public Finance Management Act, Cap.412A and in accordance with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply; and**
- ii. The Governor ensure 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 and offences shall apply.**

## **3. Inaccurate Receivables from Non-Exchange Transactions Balance**

The statement of financial position and Note 21 to the financial statements reflects receivables from non-exchange transactions balance of Kshs.1,009,941. However, recalculation of the balance shows a closing balance of Kshs.2,208,964 resulting to an unexplained variance of Kshs.1,199,023.

Non-exchange transactions balance of Kshs.1,009,941 could not be confirmed.

#### **Management Response**

The variance of Kshs 1,199,023 relates to prior year adjustments where revenue was erroneously overstated and Receivables overstated. Prior year adjustment Disclosures will be made in the subsequent year as per the Attached Journal.

The variance was Ksh. 1,199,023, and the variance was from prior year errors where revenue and receivables from non-exchange transactions were overstated.

#### **Committee Observation**

The committee observed that the unexplained variance of Ksh 1,199,023 and the variance was from prior year errors where revenue and receivables from non-exchange transactions were overstated.

#### **Committee Recommendation.**

**The Governor ensures that the County Executive Committee Member responsible for finance ensures compliance with section 105(1)(d) and (g) of the Public Finance Management Act, Cap. 412A with respect to enforcement of compliance by county entities with all applicable norms or standards regarding accounting practices as prescribed by the Accounting Standards Board, failure to which the penalties under section 199 of the Act shall apply;**

#### **Emphasis of Matter**

Under Emphasis of matter, the Auditor-General raise the following issue –

#### **Budgetary Controls and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.167,815,675 and Kshs.79,460,482, respectively, resulting in under-realization of Kshs.88,355,193 or 53% of the budgeted revenue.

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

#### **Management Response**

The management acknowledges the above observation. The under funding was as a result of late disbursement of funds from the National Treasury.

#### **Committee Observation**

The Committee observed that the query remains unresolved as there was a budgetary under-funding of Ksh 88,355,193, or 53% of the budget. This was linked to delays in disbursement of funds by the National Treasury.

**The Committee recommends that –**

- i). The Governor should ensure that the Accounting Officer complies with regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures failure to which provisions of section 199 of the Public Finance Management Act on penalties for offenses shall apply; and**
- ii). the National treasury should ensure timely disbursement of funds to counties in accordance with the disbursement schedule passed by the Senate.**

**Other Matters**

**Unresolved Prior Year's Audit Matters**

In the prior years' audit reports, several issues were raised under the Report on the Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on the Effectiveness of Internal Controls, Risk Management and Governance. Review of the status during audit of the Municipality in 2024/2025 revealed that the following four (4) issues remained unresolved:

**Management response**

The management acknowledges the above observation. However, the management states that the issues were resolved as follows;

| No. | Financial Year | Audit Issue  | Response  |
|-----|----------------|--|---|
| 1.  | 2023/2024      | Inaccuracies in the financial statements           | Inaccuracies in the financial statements were resolved in the subsequent year 2024-2025 and a copy of Audited Financials is available for reference |
| 2.  | 2023/2024      | Misstatement of financial statements balances      | Misstatement of financial statements were resolved in the subsequent year 2024-2025 and a copy of Audited Financials is available for reference     |
| 3.  | 2023/2024      | Delayed completion of the proposed construction of | Diani Municipality Bus Park has been completed and a certificate of final completion raised; the  |

|    |           |                                  |  |
|----|-----------|----------------------------------|--|
|    |           | Diani Municipality bus park      | contractor has also been paid in full all the outstanding balances, Vouchers and completion certificate are attached   |
| 4. | 2023/2024 | Unsupported supplementary budget | A The municipality had forwarded its supplementary Budget requirement to the county executive member for finance. The management carried forward the previous year unspent budget and appropriated it as per supplementary II budget. The object was to make sure all the projects are paid when certificates are raised. The internal memo is attached to confirm the same. |

#### **Committee Observations**

The Committee observed that the query remains unresolved. While progress had been made in addressing prior years' matters, some queries were still outstanding.

#### **Committee Recommendations**

**The Committee recommends that the Governor ensures that the Accounting Officer responsible for the municipality resolves any issues resulting from an audit that remains outstanding in accordance with section 149(2)(l) of the Public Finance Management Act, Cap 412A failure to which provisions of section 199 of the Public Finance Management Act on penalties for offenses shall apply. The Auditor-General to monitor progress and provide a status update in the subsequent audit cycle.**

#### **Basis for Conclusion**

##### **1. Lack of Risk Management Policy**

During the year under review, Management did not have a risk management policy in place to help in identifying, assessing, and mitigating risks to safeguard the achievement of strategic objectives, thus exposing the municipality to ineffective risk management. This is contrary to regulation 158(1)(a) and (b) of the Public Finance Management (County Governments) Regulations, 2015 which requires that an accounting officer of a County Government entity to develop risk management strategies, which include fraud prevention

mechanism; and a system of risk management and internal control that builds robust business operations.

In the circumstances, the effectiveness of internal controls over management of risks could not be confirmed.

**Management response**

The municipality uses the risk policy for the County Executive. A copy was provided to the committee for verification.

**Committee Observations**

The Committee observed that the Municipality did not have a Risk management policy during the audit cycle.

**Committee Recommendations**

**The Committee recommends that the Governor ensures that the Board of Directors put in place all internal control systems such as a Risk Management Policy as provided under section 158 (1) of Public Finance Management (County Governments) Regulations, 2015 among others to guide the internal operations of all the funds.**

**2. Lack of Internal Audit Function and Reports for The Year Under Review**

Review of documents provided established that the Municipality did not have an audit function and neither was internal audit conducted with the purpose of reviewing the governance mechanisms of the entity. Further, there were no internal audit reports on the state of risk management, control and governance within the entity and there was no approved internal audit workplan for the year.

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

**Management response**

The Municipality uses The Internal Audit function for the County Executive. A Copy of a workplan for the financial year 2024-2025 showing that the Municipality had been incorporated was provided to the committee.

**Committee Observations**

The Committee observed that the Municipality operated without an Internal Audit Function during the financial year under review.

**Committee Recommendations**

**The Committee recommends that the Governor ensures that the County Executive Committee Member (CECM) responsible for Finance establishes and operationalizes robust internal control systems, including a fully functional Internal Audit function**

**for, in accordance with Section 155(5) of the Public Finance Management Act, 2012, and other relevant provisions, to effectively guide and strengthen the internal operations and governance of the Municipality.**

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

The Governor of Kwale County, Hon. Fatuma Mohamed Achani, EGH, appeared before the Committee on Tuesday 21<sup>st</sup> January, 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Lungalunga Municipality for the Financial Year 2024/2025. The Governor was accompanied by the following officers

- |                       |   |
|-----------------------|---|
| 1. Ms. Sylvia Chidodo | - County Secretary                                  |
| 2. CPA Bakari Sebe    | - CECM for Finance                                  |
| 3. Ms. Saumu Beja     | - CECM for Lands, Environment and Natural resources |
| 4. Mr. Alex Onduko    | - Chief Officer, Finance                            |

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

The Auditor-General rendered a **qualified opinion** on the financial statements of Municipality of Lungalunga for the period under review on the following basis –

#### **1. Inaccurate Property, Plant and Equipment Balance**

The statement of financial position reflects property, plant and equipment balance of Kshs.57,349,574 as disclosed in Note 24 to the financial statements. The balance includes additions for the year of Kshs.25,490,246 out of which Kshs.14,737,000 is in respect of motor vehicles. However, review of documents provided revealed that the amount relates to advance payment for supply and delivery of a skip loader delivered on 26 September, 2025. The payment should have been reported under prepayments instead of property, plant and equipment.

In the circumstances, the accuracy and completeness of property, plant and equipment balance of Kshs.57,349,574 could not be confirmed.

#### **Management Response**

The management acknowledges the above observation. This is well noted and will be adjusted accordingly in the subsequent financial year through a journal by Debiting Prepayment and Crediting Assets.

#### **Committee Observations**

The Committee observed that Ksh.14,737,000 relating to an advance payment for a skip loader was erroneously reported as an asset (PPE) instead of a prepayment. This resulted in the overstatement of the PPE balance.

**The Committee recommends that –**

- i). The Governor should ensure Accounting Officer undertakes a reconciliation of the understatements and overstatements in the Property, Plant and Equipment and ensure that the adjustments are reflected as prior year adjustments in the financial statement of the subsequent financial year. The Auditor-General to provide a status update on the matter in the subsequent audit cycle; and**
- ii). the Governor ensures that the Accounting Officer fully complies with Section 149(2) of the Public Finance Management Act, 2012 (Cap. 412A) with respect to the preparation, maintenance, and management of proper financial and accounting records, failure to which the provisions of Section 199 of the Public Finance Management Act, 2012 relating to offences and penalties shall apply.**

## **2. Failure to Disclose Restatement of Balances**

The statement of financial position and Note 24 to the financial statements reflects Kshs.33,724,512 in respect to opening balance for property, plant and equipment. The balance differs with the audited prior year balance of Kshs.53,321,202 resulting in a variance of Kshs.19,596,690. Although, Management has indicated in the statement of changes in net assets that prior year adjustments were done to correct errors, the disclosures have not been made in the notes to financial statements as required under IPSAS 3.

In the circumstances, the accuracy, completeness and existence of the corrected errors of Kshs.19,596,690 and Kshs.10,196,696 could not be confirmed.

### **Management Response**

The management acknowledges the above observation. Disclosures of the Restated figures in the financial statements will be made in the subsequent year.

### **Committee observation**

The Committee observed that there is a significant variance of Ksh. 19,596,690, which was caused by prior year adjustments arising from corrections of errors in the recognition and valuation of property, plant and equipment, which were not disclosed in the notes to the financial statements as required under IPSAS 3.

### **Committee Recommendations**

**The Committee recommends that-**

- i). the Governor ensures that the Accounting Officer strictly complies with Sections 149(2)(h) and (i) of the Public Finance Management Act, 2012 (Cap. 412A) and the accounting standards prescribed by the Public Sector Accounting Standards Board (PSASB) in the preparation of financial statements for entities applying the accrual basis of accounting, failure to which the provisions of Section 199 of**

the Public Finance Management Act, 2012 relating to offences and penalties shall apply; and

- ii). the Governor ensures that the Accounting Officer corrects all inaccuracies identified in the financial statements through appropriate and supported journal entries, and that such corrections are properly treated and disclosed as prior-year adjustments in the financial statements of the subsequent financial year, in accordance with applicable accounting standards, and the Auditor-General verifies the adjustments and reports on their accuracy and completeness in the subsequent audit cycle.

### **Emphasis of Matter**

Under Emphasis of matter, the Auditor-General raise the following issue –

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

The statement of comparison of budget and actual amounts reflects final receipts budget and actual amounts on comparable basis of Kshs.84,469,927 and Kshs.71,436,229 respectively, resulting in under-realization of Kshs.13,033,698 or 15% of the budgeted revenue. Similarly, the statement reflects final total expenditure budget and actual on comparable basis of Kshs.84,469,927 and Kshs.71,434,063 respectively resulting in under expenditure of Kshs.13,035,864 or 15% of the budget.

The underfunding and under expenditure affected planned activities and may have impacted negatively on service delivery to the citizens

#### **Management response**

The management acknowledges the above observation. The under funding was as a result of late disbursement of funds from the National Treasury.

#### **Committee Observations**

The Committee observed that the query remains unresolved as there was a budgetary underfunding and under expenditure. This was linked to delays in disbursement of funds by the National Treasury.

#### **Committee Recommendations**

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 failure to which provisions of section 199 of the Public Finance Management Act on penalties for offenses shall apply; and
- ii). The National treasury should ensure timely disbursement of funds to counties in accordance with the disbursement schedule passed by the Senate.

## Other Matter

### Unresolved Prior Year's Audit Matters

In the prior years' audit reports, several issues were raised under the Report on the Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on the Effectiveness of Internal Controls, Risk Management and Governance. Review of the status during the audit of the Municipality in 2023/2024 revealed that the following five (5) issues remained unresolved.

### Management response

The management acknowledges the above observation. However, the management states that the issues were resolved as follows and supporting documents was provided for the committee.

| No. | Financial Year | Audit Issue  | Response  |
|-----|----------------|--|---|
| 1.  | 2023/2024      | Inaccuracies in the financial statements                 | Inaccuracies in the financial statements were resolved in the subsequent year 2024-2025 and a copy of Audited Financials is available for reference   |
| 2.  | 2023/2024      | Land purchased in the name of County Government of Kwale | The municipality is in the Process of Pin Registration and a copy of a letter to KRA is attached for your reference   |
| 3.  | 2023/2024      | Undisclosed contingent liability                         | The outstanding invoice of Kshs. 5,826,680 in respect of situation analysis report has since been fully paid, hence averting the risk of interest attraction.   |
| 4.  | 2023/2024      | Lack of transfer of delegated authority                  | H.E. The Governor of Kwale County approved an Executive order and the subsequent Gazette notice which delegates functions to the municipal manager. The manager has control over the operations of the Municipality as evidenced by a Letter ref. CG/KWL/3.ACCTS./(15) dated 30th October 2023, offering accounting rights to the Municipality Manager as the Accounting Officer. |

|    |           |  |  |
|----|-----------|--|--|
| 5. | 2023/2024 | Failure to prepare municipal integrated development plan | The Municipality has Incorporated the preparation of IDEP in Supplementary 1 of FY 25-26 |
|----|-----------|--|--|

**Committee Observation**

The committee noted that Most of prior issues have been resolved and a report of the same provided as evidence for scrutiny.

**Committee Recommendations**

The Committee recommends that the Governor should ensure that the Accounting Officer responsible for the municipality resolve any issues resulting from an audit that remains outstanding in accordance with section 149(2)(l) of the Public Finance Management Act, Cap 412A failure to which provisions of section 199 of the Public Finance Management Act on penalties for offenses shall apply. The Auditor-General to monitor progress and provide a status update in the subsequent audit cycle.

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

**Non-collection of Own Generated Revenue**

Review of documents provided for audit revealed that Lunga Lunga Municipality was financed solely through revenue allocated by the County Government of Kwale. The Municipality did not report any revenue collection activity to support its operations and delivery of essential services to its residents. This is an indication that the conferment of Municipal status was done before meeting the criteria for demonstration of revenue collection capabilities or revenue collection potential.

In the circumstances, the effectiveness of governance and ability of the Municipality to achieve its objectives could not be confirmed.

**Management response**

The management has acknowledged the above observation however all County Revenue is centrally collected through a centralised system which uses the County legislation and later disbursed to the Municipality.

**Committee Observation**

The committee observed that the municipality failed to demonstrate capacity to generate sufficient revenue to sustain its operations as required by the law

**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.**

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

The Governor of Kwale County, Hon. Fatuma Mohamed Achani, EGH, appeared before the Committee on Tuesday 21<sup>st</sup> January, 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Kwale Municipality for the Financial Year 2024/2025. The Governor was accompanied by the following officers—

- |                       |   |
|-----------------------|---|
| 1. Ms. Sylvia Chidodo | - County Secretary                                  |
| 2. CPA Bakari Sebe    | - CECM for Finance                                  |
| 3. Ms. Saumu Beja     | - CECM for Lands, Environment and Natural resources |
| 4. Mr. Alex Onduko    | - Chief Officer, Finance                            |

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

The Auditor-General rendered a **qualified opinion** on the financial statements of Municipality of Kwale for the period under review on the following basis –

#### **1. Inaccurate Statement of Financial Position**

The statement of financial position reflects total net assets of Kshs.157,482,276 which includes capital/ development grants fund and accumulated surplus of Kshs. 62,290,046 and Kshs. 95,192,230 respectively. However, the amount differs with balances reflected in the statement of changes in the net asset of Kshs. 2,339.915 and Kshs, 157,048,154 in respect of capital development grants and accumulated surplus respectively.

In the circumstances, the accuracy of the total net assets and liabilities balance of Kshs. 157,482,276 could not be confirmed.

#### **Management Response**

The balances from statement of changes in net assets were erroneously captured wrongly in the statement of financial position however there was an overstatement of expenses which will be corrected in the subsequent years.

#### **Committee Observations**

The Committee observed that the balances reflected in the Statement of Financial Position were inconsistent with those in the Statement of Changes in Net Assets, particularly in respect of capital/development grants and accumulated surplus.

#### **Committee Recommendations**

**The Committee recommends that –**

- (i) **the Governor ensures that the Accounting Officer reconciles and resolves all discrepancies between the Statement of Financial Position and the Statement of Changes in Net Assets, and corrects the same through appropriate and**

- adequately supported journal entries, with such corrections properly disclosed as prior-year adjustments in subsequent financial statements, in accordance with applicable accounting standards; and
- (ii) the Governor ensures strict compliance by the Accounting Officer with Section 149(2) of the Public Finance Management Act, 2012 in the preparation of accurate, complete, and reliable financial statements, failure to which the provisions of Section 199 of the Act relating to offences and penalties shall apply.

## **2. Inaccurate Transfers from the County Government**

The statement of financial performance and Note 6 to the financial statements reflects transfers from the County Government of Kshs. 65,405,563. However, the amount differs with Kshs. 127,860,738 reflected in the County Executive financial statements under transfers to other government entities. The variance of Kshs.62,455,175 was not explained or reconciled.

In the circumstances, the accuracy and completeness of the transfers from the County Government of Kshs.65,405,563 could not be confirmed.

### **Management Response**

The variance of Kshs.62,455,175 relates to payments made after 30<sup>th</sup> June 2025. This payment relates to error of omission since was not disclosed as receivables which will be corrected in the subsequent year.

### **Committee Observation**

The committee noted that transfers reported in the Municipality's financial statements amounted to Ksh 65,405,563, while the County Executive reported Kshs.127,860,738, resulting in an unreconciled variance of Ksh 62,455,175.

### **Committee Recommendations**

The Committee recommends that—

- i. The Governor ensures that the Accounting Officer undertakes prior year adjustments to reconcile the variance of Kshs. 62,455,175 in the statement of transfers from the County Government 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. Non-disclosure of Employee Costs**

The statement of financial performance reflects total expenses of Kshs.31,066,702 which omits staff costs of unknown amount paid by the County Government of Kwale on behalf of the Municipality. The omission of staff costs understates the actual revenue received and actual expenses.

In the circumstances, the accuracy and completeness of total expenses of Kshs.31,066,702 could not be confirmed.

#### **Management Response**

The County uses government payroll system (HRIS) which is a centralized system and municipality staff are seconded from the executive and included in the county payroll.

#### **Committee Observation**

The committee observed that the employee costs paid by the County Government on behalf of the Municipality were not included in the financial statements, resulting in understated expenses and revenue.

#### **Committee Recommendations:**

**The Committee recommends that the Governor should ensure that the Municipality maintains financial independence in accordance with Sections 45 and 46 of the Urban Areas and Cities Act, 2011, and that all employee costs incurred on its behalf are fully disclosed in the financial statements in compliance with IPSAS.**

### **4. MISSTATEMENT OF CASH AND CASH EQUIVALENTS**

The statement of financial position reflects cash and equivalents balance of Kshs.826 as disclosed in Note 19 to the financial statements. Review of the cash book for Kwale Urban Support program and KCB account revealed closing balances of Kshs.32, 309,520 and Kshs

5.60 while Kshs 520 and Kshs 306 were reported in the financial statement resulting in an unexplained variance of Kshs.32, 309,000 and Kshs.300 respectively.

In the circumstances, the accuracy and completeness of cash and equivalents balance of Kshs.826 could not be confirmed.

### **Management Response**

As per cashbook balances both for Kwale Urban Support program and KCB account has a balance of Kshs. 520 and 305.60, The unexplained variance of 32,309,000, was money received past the closure of financial year. The date received was 15<sup>th</sup> July 2025. A copy of cashbook, bank statement and bank reconciliation for both Kwale Urban Support program and KCB account was provided for committee verification.

### **Committee Observation**

The Committee observed significant variances between cashbook balances, bank statements and balances reported in the financial statements, which were not adequately explained at the time of audit.

### **Committee Recommendation**

The Committee recommends that—

- i. the Governor ensures that the Accounting Officer undertakes prior year adjustments to reconcile the variance of (Kshs.32, 309,000) 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.

## **5. Inaccurate Trade and Other Payables Balance**

The statement of financial position and Note 27 to the financial statements reflects trade and other payables balance of Kshs.75,970,163. However, recalculation of the balance shows a closing balance of Kshs.74,064,371 resulting to a variance of Kshs.1,905,792

In the circumstances, the accuracy of the trade and other receivables balance of Kshs.75,970,163 could not be confirmed

### **Management Response**

The amount of Kshs. 75,970,163 disclosed in the financial statements in Note No. 27 reflects trade and other payables however there is overstatement of trade payable that will be corrected in the subsequent years. A copy of trade payable schedule was provided to the committee for verification.

### **Committee Observations**

The Committee observed that the company's trade and other payables included Kshs.75,970,163 was overstated by Kshs.1,905,792. The variance had not been reconciled at the time of audit, reducing the accuracy and reliability of the financial statements.

### **Committee Recommendations**

**The Committee recommends that; -**

- i. The Governor ensures that the Accounting Officer undertakes prior year adjustments to reconcile the variance of Kshs. 1,905,792 in the Statement of Financial Position (Trade and Other Payables) 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**

Under Emphasis of matter, the Auditor-General raise the following issue –

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

The statement of comparison of budget and actual amounts reflects budgeted revenue and actual on comparative basis of Kshs.152,653,099 and Kshs.65,405,563 respectively resulting in under realization of Kshs 87,247,536 or 57% of the budget.

The under realization may have negatively impacted on service delivery to the residents.

#### **Management Response.**

The under realization of the 57% of the budget was due to late disbursement of funds from National Treasury.

#### **Committee Observations**

The Committee observed that the query remains unresolved as there was a budgetary under-realization of 87,247, 536 or 57% of the budget. This was linked to delays in disbursement of funds by the National Treasury.

#### **Committee Recommendations**

The Committee recommends that –

- iii). **The Governor ensures the Accounting Officer complies with regulation Regulations 42 of the Public Finance Management (County Governments) Regulations, exerting budgetary control measures failure to which provisions of section 199 of the Public Finance Management Act on penalties for offenses shall apply; and**
- iv). **the National treasury should ensure timely disbursement of funds to counties in accordance with the disbursement schedule passed by the Senate.**

### **Other Matter**

#### **Unresolved Prior Year's Audit Matters**

In the prior year's audit reports, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of internal Controls. Risk management and Governance. Review of the status during audit of the Municipality in 2024/2025

Revealed that the following four (4) issues remained unresolved.

| NO. | Financial Year | Audit issues                              | Status of Audit Issues  |
|-----|----------------|---|---|
| 1.  | 2023/2024      | Unsupported financial statements balances | All the financial statements balances were supported with all schedules and journals and submitted to the auditors.   |
| 2.  | 2023/2024      | Failure to submit performance bond        | The tender was reserved for women under the Access to Government Procurement Opportunities(AGPO) Women category who are exempted from providing Performance Bond as per Article 61(1)(5) and Article 142(3) of Public Procurement and Disposal Act(PPDA)2015.( Attached is the PPDA Annex 4). |
| 3.  | 2023/2024      | Unsupported supplementary budget          | The county appropriation Act 2024 were attached and submitted to the auditor.   |
| 4.  | 2023/2024      | Regularity of imprest management          | All the imprest register and memorandum cashbook are managed well. (Annex 4)  |

### **Management Response**

All the prior year audit issues were resolved.

### **Committee Observation**

The committee observed that all audit prior issues was resolved and a report of the same provided as evidence for scrutiny.

### **Committee recommendations**

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

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

### **1. Irregular and unsupported budget allocation**

The statement of financial position reflects trade and other payables balance of Kshs. 75,970,163 as disclosed in Note 27 to the financial statements. Review of the approved supplementary budget revealed that Kshs.7,580,960 was allocated for payment of the previous recurrent pending bills in the budget. However, review of the statement of financial

position, note 27 and prior year audited financial statements revealed that the Municipality had no trade payables in the previous year. No explanation was provided for inclusion of nonexistent trade payables in the budget contrary to Section 149 of the Public Finance Management Act, 2012 outlines the responsibilities of Accounting Officers, including the duty to ensure that the resources of the entity are used in a manner that is lawful, authorized, effective, efficient, economical, and transparent.

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

#### **Management Response**

The management has noted the omission of the opening balance of trade payable of Kshs7,580,960 which will be corrected in the subsequent year and provided a copy of supplementary budget to the committee for verification.

#### **Committee Observation**

The Committee noted that Ksh 7,580,960 was allocated for prior-year recurrent pending bills despite no trade payables in the previous year.

#### **Committee Recommendation:**

**The Governor ensures the Accounting Officer complies with all budget allocations are supported by verified obligations and correct the error in the subsequent financial year contrary to Regulation 41 of the PFM (County Governments) Regulations, 2015.**

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

#### **Irregularities in the Management of Municipality Board**

Review of documents provided for audit revealed that five members of the Municipality Board appointed on 5 March, 2020 to hold office for a term of five years on part time basis had their contract period expired on 5 March, 2025. No evidence was provided for audit confirmation to show that Management had renewed, initiated appointment process or made new appointments. Further, the Board held three sittings during the year while the number of board members with active contract was four with one being absent from three consecutive meetings of the board without reasonable cause, hence ceased to hold office in line with section 3.13 (e) of the Kwale Municipal Charter which states that member of the board of the Municipality shall cease to hold office if without reasonable cause is absent from three (3) consecutive meetings of the Board within one year.

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

#### **Management Response.**

The board member had some other work engagements that made the member not to attend the board meetings and She gave apologies but unfortunately were not captured in the minutes. This is noted and will be corrected in future. The new board members have been vetted by the County Assembly of Kwale a waiting for the vetting report for appointment. Copy of vetting advertisement gazette notice was provided to the committee for verification.

### **Committee Observation**

The Committee observed governance weaknesses arising from expired board contracts and irregular board sittings, which undermined effective oversight, risk management and decision-making within the Municipality.

### **Committee Recommendations**

- i). **The Committee recommends that the Governor ensures that the Municipality Board is reconstituted without delay in strict compliance with the Kwale Municipal Charter and the Urban Areas and Cities Act, to address the governance vacuum arising from expired board members' contracts and provide status update within 60 days of the adoption of this report; and**
- ii). **The Committee further recommends that the Governor ensures that no board member whose term has expired or who has ceased to hold office under Section 3.13(e) of the Kwale Municipal Charter participates in board meetings or decision-making, and that all board sittings are conducted in accordance with the law.**

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

The Governor of Kwale County, Hon. Fatuma Mohamed Achani, EGH, appeared before the Committee on Tuesday 21<sup>st</sup> January, 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Kinango Municipality for the Financial Year 2024/2025. The Governor was accompanied by the following officers—

- |                       |   |
|-----------------------|---|
| 1. Ms. Sylvia Chidodo | - County Secretary                                  |
| 2. CPA Bakari Sebe    | - CECM for Finance                                  |
| 3. Ms. Saumu Beja     | - CECM for Lands, Environment and Natural resources |
| 4. Mr. Alex Onduko    | - Chief Officer, Finance                            |

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

The Auditor-General rendered a **qualified opinion** on the financial statements of Municipality of Kinango for the period under review on the following basis –

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

The statement of financial position reflects property, plant and equipment balance of Kshs.25,358,255 as disclosed in Note 24 to the financial statements. However, the balance includes land valued at Kshs.12,824,000 which was not supported by land ownership documents.

In the circumstances, the accuracy, completeness and valuation of land valued at Kshs.12,095,255 could not be confirmed.

##### **Management response.**

The parcel of land is dully registered under the ownership of the Kwale County Government and Kinango Municipality is an entity of the County Government however the municipality is in the process of acquiring its PIN number for transfer of ownership. A request letter of KRA was provided to the committee,

##### **Committee Observation**

The Committee observed that the county government has taken steps in ensuring transfer of ownership is done.

##### **Committee Recommendation**

**The Committee recommends that the Governor should ensure that within 90 days of the adoption of this report, the Municipality has a KRA Pin and the two parcels of land are transferred in favor of the Municipality and provide copies of Title Deeds to Auditor-General for review and verification in the next audit cycle.**

##### **2. Inaccurate Trade and Other Payables Balance.**

The statement of financial position and note 27 to the financial statements reflects kshs. 12,561,861 in respect of trade and other trade payables. however, recalculation shows a balance of kshs. (2,175,139) resulting to an unexplained variance of kshs. 14,737,000.

In the circumstances, the accuracy and completeness of trade and other payables balance of kshs. 12,561,861 could not be confirmed.

**Management response.**

The amount kshs, 12,561,861 was disclosed in note 27 in the financial statements as trade payables. However, the statement of cashflow erroneously included prepayment of kshs. 14,737,000 under purchase of property plant and equipment and intangible asset which will be corrected in the subsequent years.

**Committee Observation.**

The committee observed an unexplained variance of kshs.14,737,000 in the trade and other payables balance, indicating weaknesses in record keeping and reconciliation of obligations.

**Committee Recommendations**

**The Committee recommends that-**

- i. **The Governor ensures that the Accounting Officer undertakes prior year adjustments to reconcile the variance of Kshs. 14,737,000 in the statement of Trade and Other Payables 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. Inaccurate Statement of Cash Flows**

The statement of cash flows reflects net cash flows from investing activities of Kshs. 28,173,656 which relates to purchase property, plant and equipment Note 24 to the financial statements shows additions during the year of Kshs. 897,650 and Nil balance of trade payables in respect to purchase of property, plant and equipment. However, the Municipality paid Kshs 28,173,656 during the year including prepayments of Kshs. 14,737,000 for machinery. The additional payments of Kshs 13,436,656 was not supported or explained. In the circumstances, the accuracy of cash and cash equivalent balance of Kshs. 93 could not be confirmed.

#### **Management response.**

There was an understatement of trade payable and will be corrected in subsequent years.

#### **Committee Observation**

The Committee observed that the matter remains unresolved because –

- i. Management did not provide supporting documents for the additional payments of Ksh. 13,436,656;
- ii. Reconciliation of cash payments to the statement of cash flows and trade payables was not undertaken.

#### **Committee recommendation**

The Committee recommends that—

- i. **The Governor ensures that the Accounting Officer undertakes adjustments to the financial statements so as to reflect the true value of the assets (Plant, Property, and Equipment), and the Auditor-General should keep the matter in view in the subsequent audit cycle;**
- ii. **The Committee recommends that the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9(1)(e) of the Public Audit Act, Cap.412B failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act in the subsequent audit cycle;**
- iii. **The Governor takes appropriate administrative action on responsible officers within the Accounts and Finance department who fail to keep complete financial records in accordance with section 156(1) of the Public Finance Management Act, Cap.412 and provide evidence of the same within 60 days of the adoption of this report; and**
- iv. **The Governor ensures to enhance the capacity of in-post officers preparing financial statements to comply with the requirements of the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.**

#### **4. Non-disclosure of Employee Costs**

The statement of financial performance reflects staff costs of Nil amount as disclosed in Note 13 to the financial statements. However, the Management failed to disclose staff costs of unknown amount paid by the County Government of Kwale on behalf of the Municipality. In the circumstances, the accuracy and completeness of staff costs of Nil amount could not be confirmed.

#### **Management response.**

The County uses government payroll system (HRIS) and its a centralized system and municipality staff are seconded from the executive and included in the county payroll.

#### **Committee Observation**

The Committee observed that staff costs paid by the County Government on behalf of the Municipality were not disclosed in the financial statements and the amount are known.

#### **Committee Recommendation**

**The committee recommends that-**

- (i) The Governor ensures that the Accounting Officer enhances the technical capacity of officers responsible for the preparation of financial statements to ensure full compliance with applicable accounting standards (IPSAS), in accordance with Section 149(2)(b) of the Public Finance Management Act, 2012, which requires Accounting Officers to maintain proper financial and accounting records; and**
- (ii) Within sixty (60) days of the adoption of this Report, the Governor ensures that the Municipality takes concrete and verifiable steps towards attaining financial independence, in compliance with Sections 45 and 46 of the Urban Areas and Cities Act, 2011, and submits a status report to the Committee detailing the measures undertaken and progress achieved.**

#### **Emphasis of Matter**

On the emphasis of matter the Auditor General raises the following issues-

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

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.82,675,505 and Kshs.44,376,273, respectively, resulting in under-realization in revenue of Kshs.38,299,232 or 54% of the budget.

The underfunding may have negatively impacted on the planned service delivery to the citizens of Kinango Municipality.

#### **Management response.**

We acknowledge the observation, the under funding and revenue shortfall was largely due to late disbursement of funds from the exchequer.

**Committee Observation**

The Committee observed that the query remains unresolved as there was a budgetary under-realization in revenue of Ksh. 38,299, or 54% of the budget. This was linked to delays in disbursement of funds by the National Treasury.

**Committee Recommendation**

The Committee recommends that –

- i). the Governor ensures that the Accounting Officer complies with regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures failure to which provisions of section 199 of the Public Finance Management Act on penalties for offenses shall apply; and
- ii). the National treasury should ensure timely disbursement of funds to counties in accordance with the disbursement schedule passed by the Senate.

**Other Matter**

**Unresolved Prior Year’s Audit Matters.**

In the prior year’s audit reports, several issues were raised in respect of the Report on the Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on the Effectiveness of Internal Controls, Risk Management and Governance. Review of the status during audit of Kinango Municipality in 2024/2025 revealed that the following nine (9) issues remained unresolved:

| NO. | Financial Year | Audit Issues                         | Status of Audit Issues   |
|-----|----------------|--------------------------------------|--|
| 1.  | 2023/2024      | Inaccuracies in financial statements | The financial statements were corrected and submitted to the auditors.   |
| 2.  | 2023/2024      | Unreconciled charge on cash vote     | All the departmental imprest are voted in the cash vote which are later expensed in the relevant votes. Attached find An analysis of all the departmental imprest was submitted to the auditors) |
| 3.  | 2023/2024      | Unapproved bank account              | The bank account was approved (Attached A letter from CEC finance authorizing the opening of the bank account was attached and submitted to the Auditors.  |

|    |           |  |  |
|----|-----------|--|--|
| 4. | 2023/2024 | Land in the name of the County Government of Kwale       | The municipality is in the process of acquiring PIN so that all assets will be under the Municipality name. The municipality was authorized by the department of Environment and Natural Resources to use the land. Attached an authorized letter from CEC). |
| 5. | 2023/2024 | Unsupported procurement on property, plant and equipment | The site meeting and handover reports were submitted to the auditors.  |
| 6. | 2023/2024 | Unsupported consultancy services                         | The signed report was submitted to auditors.   |
| 7. | 2023/2024 | Failure to prepare Municipal Integrated Development Plan | An approved draft IDP is available and submitted to the auditors.  |
| 8. | 2023/2024 | Unsupported supplementary budget                         | The county appropriation Act 2024 were attached and submitted to the auditor.  |
| 9. | 2023/2024 | Lack of transfer of delegated authority.                 | Appointment letter of the manager, gazette notice were submitted to the auditor.   |

**Management response.**

We acknowledge the auditor's observation. Two audit issues raised in the previous audit period remain partially resolved.

The municipality is in the process of approving its integrated development plan and transferring the lands in the name of county government to Kinango Municipality.

**Committee Observations**

The Committee observed that the Municipality had not resolved the issues raised in the previous year's audit.

**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;
- ii. The Governor should ensure that Accounting Officer submits the status report to the Senate and a copy to the Auditor General on the mitigation measures taken to resolve prior year matters within 60 days of the adoption of this report.

## **RREPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES.**

### **Irregular Procurement of Fuel, Oil and Lubricants**

The statement of financial performance reflects use of goods and services amounting to Kshs.19,348,858 as disclosed in Note 12 to the financial statements. Included in this amount is Kshs.1,242,897 in respect of fuel, oil and lubricants. Review of documents provided for audit revealed that the Municipality was using an expired framework contract for County Government of Kwale signed on 5 October, 2020 and valid until 30 September, 2022 contrary to Section 149 (2) (d) which requires accounting officers of county government entities to ensure that all contracts entered into by the entity are lawful and are complied with.

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

### **Management response.**

The Municipality used a two years contract (from 13<sup>th</sup> September 2023 to 12<sup>th</sup> September 2025) valid fuel framework agreement contract for the County Government of Kwale a copy of fuel contract agreement was provided for committee verification.

### **Committee Observation**

The Committee observed that the county provided the copy of the fuel contract agreement that use during the period under review.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures timely submission of documents by the municipal manager 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.**

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

### **1. Lack of a Risk Management Policy**

Review of documents provided for audit revealed that the Municipality does not have a risk management policy in place to help in identifying, assessing, and mitigating risks to safeguard the achievement of strategic objectives, thus exposing the municipality to ineffective risk management contrary to Regulation 165(1) of the Public Finance

Management Regulations, 2015 requires that accounting officers shall ensure entity to develop risk management strategies, which include fraud prevention mechanism; and a system of risk management and internal control that builds robust business operations.

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

**Management response.**

Kinango Municipality adopted the well-established risk management policy of the county Government of Kwale, a copy of the policy was provided to the committee.

**Committee Observation**

The Committee observed that the Municipality did have a Risk management policy.

**Committee Recommendation**

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

**2. Lack of an Internal Audit Function and Reports for The Year Under Review.**

Review of documents provided for audit revealed that the Municipality, in the year under review, did not have an audit function and neither was internal audit conducted with the purpose of reviewing the governance mechanisms of the entity and mechanisms contrary to Section 153 (1) (a) and (b) which requires a county government entity shall ensure that it complies with this Act and (a) has appropriate arrangements for conducting internal audit according to the guidelines issued by the Accounting Standards Board; and (b) if any regulations are in force under subsection (2), those regulations are complied with .

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

**Management response.**

The county government has a well-functioning internal audit department whose responsibility is to conduct internal audit in all departments including municipalities. Copy of the programme was shared with the committee

**Committee Observation**

The Committee observed that the Municipality operated without an Internal Audit Function during the financial year under review, however the management submitted document to support existence functional unit hence addressing the matter satisfactory.

**Committee Recommendation**

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

### CHAPTER THREE: HOSPITALS

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

The Governor of Kwale County, Hon. Fatuma Mohamed Achani, EGH, appeared before the Committee on Monday, 23<sup>rd</sup> March, 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Kwale sub-county hospital for the Financial Year 2024/2025. The Governor was accompanied by the following officers—

- i. Dr. Kitzaio Mjimba - Chief Officer Health
- ii. Dr. Paul Gathuma - Medical Superintendent

#### REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered **unqualified opinion** on the financial statements of Kwale Sub-County Hospital for the period under review.

#### Other Matter

##### Unresolved Prior Year Matters

In the prior year's audit report, several issues were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. Review of the status during audit of the Hospital in 2024/2025 revealed that the following five (5) issues remained unresolved.

| No. | Financial Year | Audit Issue  |
|-----|----------------|--|
| 1   | 2023/2024      | <p>Understatement of transfer from the county government</p> <p><b>Management Response</b></p> <p>Resolved: The difference was due to short expiry drugs donations from KEMSA and MEDS. Therefore, the executive did not report them because they were not in their budget. The drugs were received in our Hospital Pharmacy and that is why we reported them as in-kind contribution in the financial statement. copy of summary of drugs received from KEMSA and Meds provided for scrutiny.</p> |
| 2   | 2023/2024      | <p><b>Inaccurate property, plant and equipment</b></p> <p><b>Management Response</b></p>   |

|   |           |  |
|---|-----------|--|
|   |           | The Assets included buildings, land, motor vehicle, plant and medical equipment were reported by the Department of Health Services However, the management is in the process of transferring asset ownership to the hospital. The management will include these assets in its Asset Register once the transfer is done.  |
| 3 | 2023/2024 | <p><b>Inaccurate statement of comparison of budget and actual amounts</b></p> <p><b>Management Response Resolved.</b></p> <p>The variances were as a result of non-disclosure of in Kind contributions which were done in the Statement of Financial Performance. The Original Budget and Final Budget were erroneously interchanged in the Statement of comparison of budget and actual amounts. Copy of Supplementary Budget was provided for Scrutiny</p> |
| 4 | 2023/2024 | <p><b>Deficiencies in implementation of level 4 hospital requirements</b></p> <p><b>Management Response</b></p> <p>The deficiencies and in implementation of level 4 hospital requirements are done progressively. Refer to the current status under the Basis for Conclusion No. 1</p>  |
| 5 | 2023/2024 | <p><b>Failure to retain and report revenue collected after enactment of the facility improvement act, 2023</b></p> <p><b>Management Response Resolved.</b></p> <p>The management has since opened a revenue account and all revenues in respect to Kwale Sub-County Hospital are retained in the facility. Three letter for opening revenue bank account and bank statement</p>  |

#### **Committee observations**

The Committee observed that while most prior year audit queries for the Hospital have been addressed, some matters remain unresolved.

#### **Committee Recommendations**

The Committee recommends the Governor ensures that the Accounting Officer resolves any issues resulting from an audit that remains outstanding as required by section 149(2)(I) of the Public Finance Management Act, Cap. 412A, failure to which

the provisions of section 199 of the Public Finance Management Act on penalties for offences may apply and the Governor should ensure that the accounting officer submits the status report on the mitigation measures taken to resolve prior year matter

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

### Conclusion

#### Basis for Conclusion

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

Review of the Hospital's records and interview with Management on services offered, equipment used and medical specialists in the Hospital revealed that the facility did not meet the requirements of Kenya Quality Model for Health policy guidelines due to staff deficits by 38 staff requirements or 37% of the authorized establishments as detailed below. This is contrary to Section 25 of the Health Act, 2017 states (1) The technical classification of levels health care shall be as set out in the First Schedule.

| Staff Requirements                       | Level Standard | Number in Hospital | Variance | Variance in Percentage % |
|--|----------------|--------------------|----------|--------------------------|
| Medical Officers                         | 16             | 5                  | 11       | 69%                      |
| Anesthesiologists                        | 2              | 4                  | (2)      | (1)                      |
| General Surgeons                         | 2              | 1                  | 1        | 50%                      |
| Gynecologist                             | 2              | 2                  | 0        | 0%                       |
| Pediatrics                               | 2              | 1                  | 1        | 50%                      |
| Radiologist                              | 2              | 0                  | 2        | 100%                     |
| Kenya registered community Health Nurses | 75             | 50                 | 25       | 33%                      |

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

#### Management Response

The Hospital Management has since written to the CEC Health requesting for more staff and equipment in order to implement UHC fully. We have managed to get one more nurse deployed to our facility and 2 new born unit cots. The CECM Health has promised to progressively increase the number of staff and equipment to meet the recommended UHC standards. Copy of the letter requesting for staff was provided for scrutiny.

#### Committee Observation

The Committee observed that the Hospital was not providing all key services required of a Level 4 facility, and staffing levels do not meet several of the specifications outlined in the Kenya Quality Model for Health.

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

**2. Lack of Essential Equipment and Machines**

Review of Hospital Health Policy Guidelines revealed that the Hospital did not have the necessary equipment and machines as required under Section 44(1) of the Primary Health Care Act, 2023. This is contrary to The Primary Health Care Act, 2023 Section 44(1) requires that the Primary Health Care.

Services shall be accessed at the community or at a health facility in accordance with this Act and any other written law. (2) The services referred to in subsection (1) shall include health promotion, prevention, curative, rehabilitation and palliative services.

| Service                                 | Level 4 Hospital Standard Requirements | Actuals in the hospital | Variance | Variance in Percentage- (%) |
|---|--|-------------------------|----------|-----------------------------|
| Beds                                    | 150                                    | 72                      | 78       | 52                          |
| Newborn unit incubators                 | 5                                      | 1                       | 4        | 80                          |
| Newborn unit cots                       | 5                                      | 1                       | 4        | 80                          |
| Functional ICU Beds                     | 6                                      | 0                       | 6        | 100                         |
| High dependency Unit (HDU)              | 6                                      | 0                       | 6        | 100                         |
| Renal unit at least 5 dialysis machines | 5                                      | 0                       | 5        | 100                         |

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

**Management Response**

The management has increased the bed capacity from 72 to 75. In addition, the health services Department is currently renovating the old male ward which after its completion will increase the bed capacity from 75 beds to 123 beds. The management has lobbied for construction of the surgical male and female wards, ICU, HDU and renal unit to ensure conformity to level 4 standard requirements. Copy of the five letters provided for committee verification.

#### **Committee Observation**

The Committee observed that the Hospital does not meet the required Level 4 standards in terms of essential facilities and operational capacity. While management has taken steps to address the gaps, full compliance has not yet been achieved.

#### **Committee Recommendation**

**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 in line with Section 44(1) of the Primary Health Care Act, 2023. The Auditor-General should monitor progress and keep this matter under review in the subsequent audit cycle.**

#### **3. Non-Compliance with the Law of Ethnic Composition**

Review of payroll records revealed that the dominant ethnic community employed at the Hospital constitute 119 or 65% of permanent and pensionable staff. This is contrary to Section 7 (1) and (2) of the National Cohesion and Integration Act, 2008 which requires all public establishments to seek to represent the diversity of the people of Kenya in the employment of staff and that no public establishment to 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 recruitment of staff is done centrally by the Kwale County Public Service Board. The management is not involved in this process and only benefits through deployments done by the health service Department. However, on the 119 staff, the management had erroneously identified them as mijikendas and not as per their specific tribes. The term Mijikendas does not refer to a single tribe but refers to the nine tribes which include the kauma ,Giriama, kambe Duruma, Rabai Chonyi, Jibana, ribe and Digo. The management has considered the specific tribes' distribution for the Mijikendas and no tribe has surpassed the third rule as required by the law. Copy of staff ethnicity distribution was provided for committee verification.

### **Committee observation**

The Committee observed that while the majority of the Hospital's staff belong to the broader Mijikenda community, no single tribe exceeds the one-third limit, but overall staff composition does not fully reflect the ethnic diversity required under Section 7(1) and (2) of the National Cohesion and Integration Act, 2008.

### **Committee Recommendation**

**The Committee recommends that the Kwale 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.**

### **4. Non-Compliance with Facility Improvement Financing Act, 2023**

Review of records revealed that the facility collected Kshs. 41,212,861 and transferred an amount of Kshs. 10,811,107 to the County Revenue Fund which was later reimbursed to the hospital. However, the Facility Improvement Financing (FIF) revenues were deposited into the general county revenue accounts instead of the designated Facility bank accounts. This is contrary to the provisions of Section 20-25 of the Facilities Improvement Financing Act, 2023 which requires that all revenues collected by health facilities be retained in designated FIF accounts and utilized strictly for approved operational and improvement activities.

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

### **Management Response**

It is important to note that in Kwale county FIF commenced in July 2024. However, the FIF law had taken effect from 2<sup>nd</sup> November, 2023. Before July, 2024, all revenues pertaining to all health facilities were collected through the County Revenue fund. The ksh 10,811,107 in question were monies owed to Kwale Sub-County Hospital by NHIF and SHA but paid to the County Revenue Fund account as this was the previous arrangement before the inception of the FIF Act. Treasury reimbursed the amount to Kwale Hospital as stated by the external auditors in recognition and fulfillment of the FIF Act directive that all revenues collected by a facility be retained and utilized for operational and improvement activities in that facility. Copy of the bank statement was provided for scrutiny.

### **Committee Observation**

The Committee observed that the County has taken mitigating measures and reimbursed the queried amount to the Hospital.

**Committee Recommendation**

**Noting the mitigation measures by the county, the Committee recommends that the matter be marked as resolved.**

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

The Governor of Kwale County, Hon. Fatuma Mohamed Achani, EGH, appeared before the Committee on Monday, 23<sup>rd</sup> March, 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Msambweni county referral hospital for the Financial Year 2024/2025. The Governor was accompanied by the following officers—

- i. Dr. Kitao Mjimba - Chief Officer Health
- ii. Dr. Hassan Mwachome - Director Msambweni

#### REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **qualified opinion** on the financial statements of Msambweni county referral hospital for the period under review on the following basis-

##### 1. Variances Between Financial Statements and Supporting Schedules

The statement of financial performance and Note 15 to the financial statements reflects medical/clinical cost of Kshs.172,293,071. Review of the supporting schedules revealed variances between the financial statements and supporting schedules as shown below:

| Medical items                     | Supporting schedules (Kshs) | Financial Statements (Kshs) | Variance (Kshs) |
|-----------------------------------|-----------------------------|-----------------------------|-----------------|
| Laboratory chemicals and reagents | 42,877,320                  | 40,859,360                  | 2,017,960       |
| Food and Ration                   | 20,624,313                  | 21,354,840                  | (730,527)       |
| Dressing and Non-Pharmaceuticals  | 44,910,046                  | 54,588,995                  | (9,678,949)     |
| Pharmaceutical supplies           | 4,344,902                   | 24,699,842                  | 20,354,940      |
| Sanitary and cleansing Materials  | 2,675,294                   | 6,005,506                   | (3,330,212)     |

In the circumstances, the accuracy and completeness of medical/clinical cost of Kshs.172,293,071 could not be confirmed.

##### Management Response

The ledgers submitted for audit were inclusive of movement in inventory. Evidenced of summarized inventory ledger for each medical item showing the figures reflected in the

statement of financial performance and copy of extract of the audited Financial Statement indicating the opening and closing balances of the inventory was provided for scrutiny.

### **Committee Observations**

The committee observed significant variances between the supporting schedules and the financial statements for medical/clinical costs, with inventory ledgers provided but without adequate reconciliation or supporting documentation.

### **Committee Recommendation**

The committee recommends that –

- i. the Governor ensures that the Accounting Officer undertakes prior year adjustments to reconcile the variance of Kshs. 8,633,212 in the statement of medical/clinical cost 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 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 Governor ensures the Accounting Officer provides complete supporting documents to the Auditor during audit as required under section 9(1)(e) of the Public Audit Act, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act, 2015 in the subsequent audit cycle; and
- iv. the National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties

### **2. Inaccurate Trade and Other Payables Balance**

The statement of financial position reflects trade and other payables balance of Kshs.11,245,855 as disclosed in Note 36 to the financial statements. However, recalculation shows Kshs.56,862,977 which differs with reported balance of Kshs.11,245,855 resulting in an unexplained variance of Kshs.45,617,122.

In the circumstances, the accuracy and completeness of trade and other payables balance of Kshs.11,245,855 could not be confirmed

### Management Response

The recalculation of Kshs. 56,862,977 did not consider in kind contributions of 32,858,260 and 15,504,044 receivable. Below is a table showing the closing balance of 11,245,855 which is what is reported in the financial statements.

|   | MCRH        | PAID FOR<br>IN KIND | SALARY     | TOTAL      |
|---|-------------|---------------------|------------|------------|
| Opening Trade Payables  | 4,365,982   | 15,504,044          | 32,858,260 | 52,728,286 |
| Expenditure in<br>STATEMENT OF<br>PERFORMANCE<br>excluding depreciation | 631,290,175 |                     |            |            |
| PPE addition during the<br>year   | 3,862,110   |                     |            |            |
| Sub Total   | 639,518,267 |                     |            |            |
| Less- Payments in<br>CASHFLOW   | 95,382,085  |                     |            |            |
|   | 3,862,110   |                     |            |            |
| Total- Payments in<br>CASHFLOW  | 99,244,195  |                     |            |            |
| Sub Total   | 540,274,072 |                     |            |            |
| Contribution in kind as<br>per note 7                                   | 529,028,217 |                     |            |            |
| Closing Trade payable   | 11,245,855  |                     |            |            |
|   |             |                     |            |            |

### Committee Observation

Committee observed that-

- i. a variance of Kshs. 45,617,122 between the reported trade and other payables and the recalculated amount.
- ii. management attributed the difference to in-kind contributions, but a reconciliation linking cash payments, in-kind contributions, and other liabilities was not fully documented.

### **Committee Recommendations**

The committee recommends that the Governor ensures that

- i. the Accounting Officer undertakes prior year adjustments to reconcile the variance of Kshs. 45,617,122 in the statement of Trade and Other Payables in the subsequent audit cycle FY 2025/2026. The Auditor-General to keep this in view in the subsequent audit cycle;
- ii. the Accounting Officer prepares a comprehensive reconciliation of trade and other payables, clearly linking cash payments, in-kind contributions, and other liabilities, and maintains adequate supporting documentation to substantiate the reported balances in the financial statements. Auditor General should review in the next audit cycle to facilitate verification;
- iii. 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 for payables to strengthen record-keeping and reporting; and
- iv. the Accounting Officer provides complete supporting documents to the Auditor during audits as required under section 9(1)(e) of the Public Audit Act, 2015, to ensure all trade and other payables are verifiable.

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

The statement of financial position reflects property, plant and equipment balance of Kshs.545,424,534 as disclosed in Note 32 to the financial statements. Included in this balance is land balance of Kshs.135,675,000. Review of the title deed provided for audit revealed that the 30.15-acre piece of land is owned by Kwale County Council and not Msambweni County Referral and Teaching Hospital. In addition, there was no evidence that the Hospital made any efforts to initiate the transfer of the title deed.

In the circumstances, the ownership of land valued at Kshs.135,675,000 could not be confirmed.

### **Management Response**

The Hospital Administration has not been able to initiate the transfer of the title deed due to pending court issue which has taken several years. The Court had however ruled in favor of the hospital but was re- appealed.

### **Committee Observation**

1. The committee observed that the financial statements include land valued at Kshs. 135,675,000 as part of property, plant, and equipment.
2. Review of the title deed revealed that the land is legally owned by Kwale County Council, and there was no evidence that the hospital had initiated the transfer of ownership, leaving the land's ownership unconfirmed.

#### **Committee Recommendation**

- i. **The Governor takes all necessary steps to monitor and expedite the resolution of the court case regarding the land and ensures that once the legal process is concluded, the transfer of ownership to Msambweni County Referral Hospital is completed promptly, with a status update submitted to the Senate; and**
- ii. **The Governor ensures that the Accounting Officer prepares and maintains adequate documentation to support ownership and valuation of the land, so that once the court ruling is final, the asset is properly recognized in the hospital's books, with a progress report submitted to the Senate within 90 days of the court decision.**

#### **Other Matter**

#### **Unresolved Prior Year Matters**

In the prior years' audit reports, several issues were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. Review of the status during audit of the Hospital in 2024/2025 revealed that the following four (4) issues remained unresolved:

| <b>No.</b> | <b>Financial Year</b> | <b>Audit Issue</b>                         | <b>CURRENT STATUS</b>   |
|------------|-----------------------|--|---|
| 1          | 2023/2024             | Unsupported Expenditure                    | The hospital had an Annual Procurement Plan for all goods and services for the Financial year under review. Also all goods supplied were recorded in bin cards.   |
| 2          | 2023/2024             | Non-compliance with law on data protection | The County Government is in the process of registering the County as an entity of Data Protection and the hospitals will adopt it.  |
| 3          | 2023/2024             | Over commitment of salary                  | Introduction of new statutory deductions such as housing levy led to staff who were within the one third rule to fall out leading to over commitment of salary.<br>The Hospital Management has however, taken up the matter and will advise the officers to |

|   |           |                        |  |
|---|-----------|------------------------|--|
|   |           |                        | reorganize their commitments to ensure that they are within the one third basic salary rule. |
| 4 | 2023/2024 | Lack of Strategic plan | <b>Approved strategic plan in place.</b>   |

### **Committee Observation**

The Committee observed that the query remains unresolved as the management of the water company did not take action in resolving 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 should ensure that the Accounting Officer resolves any issues resulting from an audit that remains outstanding as required by section 149(2)(l) of the Public Finance Management Act, Cap. 412A, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences may apply; and
- ii. the Governor should ensure that the accounting officer submits the status report on the mitigation measures taken to resolve prior year matters.

### **Basis for Conclusion**

#### **1. Non-Compliance with Facilities Improvement Financing Act, 2023**

Review of revenue records revealed that the Hospital collected an amount of Kshs. 98,805,581 in respect to Facilities Improvement Fund, out of which the Hospital transferred to County Revenue Fund Kshs 718,072. However, the amount reimbursed to the Hospital was Kshs. 715,672 resulting to a deficit of Kshs. 2,400. This was contrary to Section 5(1) the Facilities Improvement Financing Act, 2023 which requires that all monies raised or received by or on behalf of all public health facilities to be retained in the Hospital Facilities Improvement Account.

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

### **Management Response**

The amount of 2,400 was transferred to the hospital on 24<sup>th</sup> January, 2025. Copy of bank statement was provided for scrutiny.

### **Committee Observations**

The Committee observed that the County has taken mitigating measures and reimbursed the queried amount to the Hospital.

### Committee Recommendation

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

### 2. Failure to Meet Minimum Requirements of Level 5 Hospitals

Review of Hospital records and interviews for verification of services offered, equipment used and medical specialists in the Hospital at the time of audit revealed that the hospital which was gazette as a level five facility on 29 November, 2024 did not meet the requirements of Kenya Quality Model for Health Policy Guidelines.

- i. The Kenya Quality Model for Health Policy Guidelines stipulates that the health facility shall have a system for data management and shall upload data on the Digital Health Information System as per legal requirement. A review of the Hospital information systems and operations, during the year under review revealed that the Hospital had a manual system for recording, processing, and reporting its transactions, such as inventory management, patient administration and management. There was no evidence indicating that the facility had collected data on referrals/transfers and used the collected data for continuous improvement of patient care and strengthening of the referral system.
- ii. Further, The Kenya Quality Model for Health Policy Guidelines stipulates that the facility ought to have three hundred and twenty-three (323) medical professionals as indicated below, while the Hospital had one hundred and forty-six required professionals indicating a staff deficiency of 177 or 55 % as summarized below:

| Staff Requirements                       | Level 5 standard | No. in Hospital | Variance   | % Variance |
|--|------------------|-----------------|------------|------------|
| Medical Officers                         | 50               | 34              | 16         | 30%        |
| Anesthesiologists                        | 7                | 0               | 7          | 100%       |
| General surgeon                          | 4                | 4               | 0          | 0%         |
| Gynecologists                            | 4                | 3               | 1          | 25%        |
| Pediatrics                               | 4                | 2               | 2          | 50%        |
| Radiologists                             | 4                | 3               | 1          | 25%        |
| Kenya Registered Community Health Nurses | 250              | 100             | 150        | 60%        |
|  | <b>323</b>       | <b>146</b>      | <b>177</b> | <b>55%</b> |

- iii. In addition, while the first schedule required that the in charge of the facility was to be a registered medical practitioner with a Master's degree in a health-related

field, the facility in charge held a degree in forestry, and there was no registered medical practitioner in the management team.

- iv. Also, it was noted that the Facility did not meet the hospital equipment, bed capacity and machine requirements of a level 5 hospital as stipulated in the Kenya Quality Model for Health checklist for Level 5 hospitals as indicated below:

| Equipment Requirements        | Level 5 standard | No. in Hospital | Variance | % Variance |
|-------------------------------|------------------|-----------------|----------|------------|
| Bed Capacity                  | 500              | 265             | 235      | 47         |
| functional ICUs               | 12               | 6               | 6        | 50         |
| functional HDUs               | 12               | 3               | 9        | 75         |
| operational theatres          | 7                | 2               | 5        | 71         |
| New Born Unit with Incubators | 10               | 7               | 3        | 30         |

In the circumstances, the adequacy and quality of services delivered by the Hospital could not be confirmed.

### Management Response

Meeting minimum Staff Requirements

| Staff Requirements                       | Level 5 standard | No. in Hospital | Growth  |
|--|------------------|-----------------|---------|
| Medical Officers                         | 50               | 34              |         |
| Anesthesiologists                        | 7                | 0               |         |
| General surgeon                          | 4                | 4               |         |
| Gynecologists                            | 4                | 3               |         |
| Pediatrics                               | 4                | 2               | 1 added |
| Radiologists                             | 4                | 3               |         |
| Kenya Registered Community Health Nurses | 250              | 100             | 2 added |
|  | <b>323</b>       | <b>146</b>      |         |

### Additional specialists

The county Government of Kwale recently added the following specialists to Msambweni County and Teaching Referral Medical Professionals:

| Type of speciality | No. in Hospital |
|--------------------|-----------------|
|--------------------|-----------------|

|                         |   |
|-------------------------|---|
| Psychiatrist            | 1 |
| Physician               | 2 |
| pathologist,            | 1 |
| Neonatologist           | 1 |
| Orthodontist            | 1 |
| ENT surgeon             | 1 |
| Critical care Physician | 1 |
| dermatologist,          | 1 |
| Orthopedic Surgeons     | 3 |
| Urologist               | 1 |
| Medical Oncologist      | 1 |

The hospital is currently training a neurosurgeon, nephrologist, a pediatric surgeon, anesthesiologists, pediatric surgeon and cardiothoracic surgeon.

#### Meeting minimum Equipment Requirements

| Equipment Requirements        | Level 5 standard | No. in Hospital | Measures taken  |
|-------------------------------|------------------|-----------------|---|
| Bed Capacity                  | 500              | 265             | We have plans to renovate 36 beds old female ward, Rehabilitation of 12 beds amenity ward and rehabilitation of 36 beds orthopedic ward will contribute to an increase of 84 beds |
| functional ICUs               | 12               | 6               | -   |
| functional HDUs               | 12               | 3               |   |
| operational theatres          | 7                | 2               | The hospital has development budget to Construction two (2) additional theaters in the financial FY 2025-26 Please see design, drawings and BQs and budget attached               |
| New Born Unit with Incubators | 10               | 7               | 3   |

•In FY 2023-2024-In partnership with MPESA, the New Born Unit was improved with expanded capacity of 7 term incubators, 7 preterm incubators, 7 NICU cots, 7 HDU cots, 12 bed Kangaroo area and 16 bed mother's hostel.

•In partnership with Emergency Medicine Kenya Foundation, the facility is in the process of establishing an Accident and Emergency Unit. The project will conclude February and will bring an additional 9 beds to the facility capacity.

### **Committee observation**

The Committee observed that the Hospital did not meet the minimum staffing, equipment, bed capacity, service provision, and digital health system requirements as prescribed by the Kenya Quality Model for Health Policy Guidelines for a Level 5 facility.

### **Committee Recommendations**

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

### **3. Non-compliance with the National Cohesion and Integration Act on Staff Ethnic Diversity**

Review of the Hospital payroll as at 30 July, 2025 revealed that one hundred and sixty-one (161) or 57% of the two hundred and eighty-four (284) members of staff were from the same ethnic group, whereas the other ethnic groups had very low representation. This is contrary to Section 7(1) of the National Cohesion and Integration Act, 2008 which states that all public establishments shall seek to represent the diversity of the people of Kenya in

the employment of staff and Subsection 2 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 the Law.

**Management Response**

| <b>Ethnic Code</b> | <b>Ethnic Name</b> | <b>Count</b> | <b>Percentage</b> |
|--------------------|--------------------|--------------|-------------------|
| 16                 | Miji Kenda         | 161          | 56.69%            |
| 3                  | Kamba              | 21           | 7.39%             |
| 4                  | Kikuyu             | 19           | 6.69%             |
| 19                 | Taita              | 13           | 4.58%             |
| 14                 | Luyha              | 11           | 3.87%             |
| 22                 | Luo                | 10           | 3.52%             |
| 11                 | Kisii              | 9            | 3.17%             |
| 6                  | Meru               | 7            | 2.46%             |
| 17                 | Pokomo             | 6            | 2.11%             |
| 23                 | Kalenjin           | 6            | 2.11%             |
| 49                 | Kenya Arab         | 5            | 1.76%             |
| 1                  | Bajun              | 3            | 1.06%             |
| 18                 | Swahili-Shirazi    | 3            | 1.06%             |
| 2                  | Embu               | 2            | 0.70%             |
| 46                 | Other Kenyan       | 2            | 0.70%             |
| 47                 | Kenyan Asian       | 2            | 0.70%             |
| 26                 | Dorobo             | 1            | 0.35%             |
| 31                 | Boran              | 1            | 0.35%             |
| 36                 | Burji              | 1            | 0.35%             |
| 44                 | Somoli-So-State    | 1            | 0.35%             |
| <b>Grand Total</b> |                    | <b>284</b>   |                   |

Msambweni County Referral and Teaching Hospital is in full compliance of the National Cohesion and Integration Act, 2008 because we are at **56.69 %** of the local ethnic community which is not supposed to **exceed 70%**.

**Committee Observations**

The Committee observed that 56.69% of the hospital’s staff belong to the Mijikenda community, exceeding the maximum one-third threshold stipulated under Section 7(2) of the National Cohesion and Integration Act, 2008.

**Committee Recommendation**

The Committee recommends that the Kwale 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.

#### **4. Payment of net salary below one third of basic salary**

Review of the payroll records for the year revealed that, in at least seven (7) months, a minimum of ten (10) employees received net salaries that were less than one-third of their basic pay. This was contrary to Section 19(3) of the Employment Act, 2007 which stipulates that without prejudice to any right of recovery of any debt due, and notwithstanding the provisions of any other written law, the total amount of all deductions made by an employer from the wages of his employee at any one time shall not exceed two-thirds of such wages.

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

#### **Management Response**

Introduction of new statutory deductions such as housing levy led to staff who were within the one third rule to fall out leading to over commitment of salary.

However, the management has taken up the matter and will advise the officers to reorganize their commitments to ensure that they are within the one third basic salary rule.

#### **Committee Observations**

The Committee observed that, in at least seven months, ten employees received net salaries below one-third of their basic pay, contrary to Section 19(3) of the Employment Act, 2007, which limits total deductions from wages to no more than two-thirds at any one time.

#### **Committee Recommendation**

The Committee recommends that Governor ensures the hospital adheres to provisions of to Section 19(3) of the Employment Act, Cap.226 which stipulates that the total amount of all deductions which may be made by an employer from the wages of his employee at any one time shall not exceed two-thirds of the basic pay, failure to which the provisions of section 87 of the Employment Act on penalties for offences shall apply.

#### **5. Non-compliance with the data protection act, 2019**

The Hospital handles patients' health records on a manual system, which captures private patients' information such as name, phone number, and location, and their health status.

However, the Hospital has not been registered with the Data Commissioner as a data controller or data processor. This was contrary to Section 18(1) of the Data Protection Act, 2019 which requires 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 County Government is in the process of registering the County as an entity of data protection, therefore the hospital will adopt the same.

### **Committee Observations**

The Committee observed that Hospital handles patients' health records manually but has not been registered with the Data Commissioner as required under Section 18(1) of the Data Protection Act, 2019, and is therefore in breach of the law.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures the Accounting Officer registers the Hospital with the Data Commissioner as a data controller or data processor in accordance with the Data Protection Act, 2019 within sixty days from the adoption of this report and implements appropriate measures to secure patients' personal and health information.**

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

### **Basis for Conclusion**

#### **1. Weak Internal Controls on Inventory Management**

The statement of financial position reflects inventory balance of Kshs.12,101,140 as disclosed in Note 31 to the financial statements. Review of the Hospital's inventory management system revealed that the Hospital did not have a policy on inventory management to guide the standard operating procedures when handling inventories.

In addition, there was no evidence of segregation of duties, as only one employee was in charge of the store, handling receiving, storing, issuance, and recording of inventory, thus stock management system lacks checks and balances. Further, both the pharmaceuticals and non-pharmaceuticals were manually managed with manual bin cards. There was no evidence of monitoring the management of inventory as periodic inventory reports were not provided for audit.

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

### **Management Response**

i) The County Government has developed Asset and liability manual which will be rolled down to all the hospitals.

ii) Also, the Taifa Care which is being rolled out will assist in addressing this issue as all assets and inventory will be in the system.

### **Committee Observation**

The Committee observed that Hospital has initiated measures to strengthen inventory management through the County Asset and Liability Manual and the Taifa Care system, but evidence of the manual, additional staff deployment, and quarterly stock takes was not provided during the audit.

### **Committee Recommendation**

- i. **The Committee recommends that the Governor ensures the Accounting Officer fully implements the County Asset and Liability Manual and the Taifa Care system within 90 days, and that all inventory and stores are properly accounted for and managed in accordance with the Public Procurement and Asset Disposal Act, 2015.**
- ii. **the Governor ensures the Accounting Officer 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. Expired Medical Supplies**

The statement of financial position reflects inventory balance of Kshs.12,101,140 as disclosed in Note 31 to the financial statements. However, review of pharmaceutical and non-pharmaceutical stores records provided for audit and physical verification in the month of November 2025 revealed that drugs and other non-pharmaceutical supplies of undetermined values had expired.

In the circumstances, the effectiveness of internal control on management of pharmaceutical and non-pharmaceutical supplies could not be confirmed.

### **Management Response**

The expired drugs were drugs donated by KEMSA from their shelves and had a short expiry period.

#### **Committee Observation**

The Committee observed that the Hospital held pharmaceutical and non-pharmaceutical supplies that had expired, including donated drugs from KEMSA with short expiry periods.

#### **Committee Recommendation**

**The Committee recommends that the Governor ensures the Accounting Officer implements measures to monitor and manage expiry dates of all pharmaceutical and non-pharmaceutical supplies, including donated items, and that all inventory is properly accounted for and managed in accordance with the Public Procurement and Asset Disposal Act, 2015.**

### **3. Ineffective Governance by the Board of Management**

The statement of financial performance reflects board of management expenses totaling to Kshs.1,647,150 as disclosed in Note 17 to the financial statements. Review of the Board records revealed that the board did not have an approved annual board work plan and calendar. In addition, it did not have a charter to define its roles, responsibilities, and functions in the governance of the Hospital nor undertake an annual performance evaluation to assess its performance and achievement of its mandate.

Further, all the board members attended the health and environment committee meetings although they were not members of these sub-committee.

In the absence of adequate documents to support governance structure, the effectiveness of the Hospital's governance could not be confirmed.

#### **Management Response**

The board prepared its Sub committees and full board schedule in consultation with the hospital management for the whole financial year which was attached for committee verification.

- i) Management is in the process of developing a charter for the Board.
- ii) Management will ensure the Board undertakes an annual performance evaluation going forward.
- iii) The Health and Environment are two separate committees that used to meet on the same day but hold separate meetings. Attached are minutes of the subcommittee meetings.

#### **Committee Observation**

The Committee observed that the Board of Management lacked a formal work plan, charter, and performance evaluation, and that board members attended sub-committee meetings they were not assigned to.

#### **Committee Recommendation**

**The Committee recommends that the Governor ensures the Board of Management develops and approves an annual work plan and a formal charter defining its roles and responsibilities, conducts annual performance evaluations, attends only the committees to which they are formally assigned, and ensures that the affairs of the Board are run in accordance with the Mwongozo and relevant circulars issued from time to time.**

#### **Failure to Develop and Implement Risk Management Policy**

Review of documents provided for audit revealed that the Hospital did not have a risk management policy in place to help in identifying, assessing, and mitigating risks to safeguard the achievement of strategic objectives. Lack of risk management policy exposes the Hospital to ineffective risk management processes and high-risk exposure contrary to Regulation 158. (1) of the Public Finance Management (County Governments) Regulations, 2015 which provides that the accounting officer shall ensure that the county government entity develops risk management strategies, which include fraud prevention mechanism.

In the circumstances, the effectiveness of risk management systems at the Hospital could not be confirmed.

#### **Management Response**

The hospital is using the County Risk management Policy, a copy of which was provided for scrutiny.

#### **Committee Observation**

**The Committee observed that the Hospital did not have its own risk management policy, but relies on the County Risk Management Policy.**

#### **Committee Recommendation**

**The Committee recommends that the Governor ensures the Accounting Officer develops and implements a hospital -specific risk management policy that aligns with the County Risk Management Policy, including mechanisms for fraud prevention, to safeguard the achievement of strategic objectives and compliance with Regulation 158(1) of the Public Finance Management (County Governments) Regulations, 2015.**

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

The Governor of Kwale County, Hon. Fatuma Mohamed Achani, EGH, appeared before the Committee on Monday, 23<sup>rd</sup> March, 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Lungalunga Sub- County hospital for the Financial Year 2024/2025. The Governor was accompanied by the following officers—

- i. Dr. Kitzao Mjimba - Chief Officer Health
- ii. Dr. Hamisi S. Singwa - Medical Superintendent

#### REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **qualified opinion** on the financial statements of Lungalunga Sub-county hospital period under review on the following basis-

##### **Inaccuracies in Trade and Other Payables Balance**

The statement of financial position and Note 34 to the financial statement reflects Kshs.6,258,071 for trade and other payables. However, recalculation of the amount shows a closing balance of Kshs. 8,150,813 resulting to an unexplained variance of Kshs. 1,892,742

In the circumstances, the accuracy and completeness of the trade and other payables balance of Kshs.6,258,071 could not be confirmed.

##### **Management Responses:**

Management acknowledges the discrepancy and the Financial Statements have been re-stated. There was no opening balances hence the figure Ksh 1,892,742 was zero. In this way the current Trade payables will be ascertained as hereunder;

| FINACIAL STATEMENT                      | ITEMS                   | AMOUNT     |
|---|-------------------------|------------|
|   | Opening Balance         | 0          |
| Statement of Financial Performance(Add) | Board Expenses          | 697,500    |
|   | Repairs and Maintenance | 882,403    |
|   | General Expenses        | 12,022,534 |

|   |                         |            |
|---|-------------------------|------------|
|   | <b>TOTALS(A)</b>        | 13,602,437 |
| Cashflow statement (Less)               | Board Expenses          | 697,500    |
|   | Repairs and Maintenance | 882,403    |
|   | General Expenses        | 5,764,463  |
|   | <b>TOTALS(B)</b>        | 7,344,366  |
| Current Trade and Other Payable Balance |                         | 6,258,071  |

Evidence of the Statement of Financial Performance, Statement of Financial Position and Statement of Cashflows was provided for scrutiny.

### **Committee Observation**

The Committee observed that the management acknowledged a variance of Kshs. 1,892,742 in the trade and other payables and has since restated the financial statements to reflect the correct balances.

### **Committee Recommendation**

The Committee recommends that-

- i. the Governor ensures the Accounting Officer puts in place adequate controls to ensure that financial statements are properly reviewed, and that any errors, including discrepancies in payables, are identified and corrected in a timely manner; and
- ii. the Governor ensures the Accounting Officer takes appropriate administrative action against officers in the Accounts and Finance department who fail to maintain complete and accurate financial records in accordance with Section 156(1) of the Public Finance Management Act, Cap.412A, in line with their terms of employment, with penalties applied under Section 199 of the same Act for non-compliance.

### **Other Matter**

#### **Unresolved Prior Year Matters**

In the prior years' audit report, several issues were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. Review of the status during audit of the Hospital in 2024/2025 revealed that the following four (4) issues remained unresolved:

| No. | Financial Year | Audit Issue |
|-----|----------------|-------------|
|-----|----------------|-------------|

|    |           |   |
|----|-----------|---|
| 1  | 2023/2024 | Inaccurate statement of cash flows                              |
| 2. | 2023/2024 | Inaccurate trade and other payables balance                     |
| 3. | 2023/2024 | Unsupported over expenditure                                    |
| 4. | 2023/2024 | Deficiencies in implementation of Level 4 Hospital requirements |

**Management Response:**

| No. | Financial Year | Audit Issue   |
|-----|----------------|---|
| 1   | 2023/2024      | <p>Inaccurate statement of cash flows</p> <p><b>Management Response</b></p> <p><b>Resolved</b><br/>The understatement of cash and cash equivalent of Kshs 1,266 for the previous year was restated to reflect the correct opening balance of Kshs.1,486</p>             |
| 2.  | 2023/2024      | <p>Inaccurate trade and other payables balance</p> <p><b>Management Response</b></p> <p>Resolved<br/>The Financial statements have been restated.</p>   |
| 3.  | 2023/2024      | <p>Unsupported over expenditure</p> <p><b>Management response</b></p> <p>Resolved<br/>The statement of comparison of budget and actual amounts erroneously included depreciation expense which is a non cash item. This has been corrected in the subsequent years.</p> |
| 4.  | 2023/2024      | <p>Deficiencies in implementation of Level 4 Hospital requirements</p> <p><b>Management response</b></p>  |

|  |  |  |
|--|--|--|
|  |  | The deficiencies and in implementation of level 4 hospital requirements are done progressively. Refer to the current status under the Basis for Conclusion No. 1 |
|--|--|--|

### Committee Observations

The Committee observed that most of the prior year audit issues were addressed by management; however, some matters remain outstanding and require further action.

### Committee Recommendations

The Committee recommends the Governor ensures 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 the Governor should ensure that the accounting officer submits the status report on the mitigation measures taken to resolve prior year matter

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

### 1.1 Lack of Key Personnel

Review records and interviews of staff on services offered, equipment used and medical specialists done in the month of November 2025 that the Hospital had forty- eight (48) staff in post against the authorized establishment of one hundred and one (101) for level 4 Hospitals, resulting in a staff deficit of fifty-three (53) or 52% as detailed below:

| Staff Requirements                        | Level 4 Standard | Number in Hospital | Variance  | Percentage % |
|---|------------------|--------------------|-----------|--------------|
| Medical officers                          | 16               | 4                  | 12        | 75.          |
| Anesthesiologists                         | 2                | 2                  | 0         | 0            |
| General Surgeons                          | 2                | 4                  | (2)       | 100          |
| Gynecologist                              | 2                | 1                  | 1         | 50           |
| Pediatrics                                | 2                | 0                  | 2         | 100          |
| Radiologists                              | 2                | 2                  | 0         | 0            |
| AKenya Registered Community Health Nurses | 75               | 35                 | 40        | 53           |
| <b>TOTAL</b>                              | <b>101</b>       | <b>48</b>          | <b>53</b> | <b>52</b>    |

This was contrary to the requirements of Kenya Quality Model for Health Policy Guidelines

**Management Response:**

The County Government has made progressive efforts in complying with the Kenya Quality Model for Health Policy Guidelines. At the time of audit, the hospital had 48 staff members against the required 101, representing a shortfall of 53 staff (52%) however, the facility currently has four (4) additional staff members as tabulated below:

| Staff Requirements                       | Level 4 Standard | Number in Hospital | Variance  | No. Of staff Posted | Growth   | Current Variance |
|--|------------------|--------------------|-----------|---------------------|----------|------------------|
| Medical officers                         | 16               | 4                  | 12        | 0                   | 0        | 12               |
| Anesthesiologists                        | 2                | 2                  | 0         | 1                   | 1        | 0                |
| General Surgeons                         | 2                | 4                  | 2         | 0                   | 0        | 2                |
| Gynecologist                             | 2                | 1                  | 1         | 0                   | 0        | 1                |
| Pediatrics                               | 2                | 0                  | 2         | 0                   | 0        | 2                |
| Radiologists                             | 2                | 2                  | 0         | 0                   | 0        | 0                |
| Kenya Registered Community Health Nurses | 75               | 35                 | 40        | 3                   | 3        | 37               |
| <b>TOTAL</b>                             | <b>101</b>       | <b>48</b>          | <b>53</b> | <b>4</b>            | <b>4</b> | <b>49</b>        |

**Committee Observations**

The Committee observed that the Hospital had a staffing deficit of 53 officers (52%) against the approved establishment of 101 staff for a Level 4 Hospital, contrary to the Kenya Quality Model for Health Policy Guidelines. Although management reported the addition of four (4) staff members, substantial gaps remain in critical cadres, limiting the Hospital’s ability to fully deliver Level 4 service.

**Committee Recommendations**

**The Committee recommends that the Governor ensures the Hospital Board submits measures it is taking to address the staffing deficit and align personnel levels with Level 4 standards to the Auditor-General within sixty (60) days of the adoption of this report, and the Auditor-General should keep the matter under review in the subsequent audit cycle.**

**1.2 Lack of Essential Equipment and Machines**

The Hospital lacked the necessary equipment and machines as detailed below:

| Service                                 | Level 4 Hospital Standard Requirements | Actuals in the hospital | Variance  | Percentage % |
|---|--|-------------------------|-----------|--------------|
| Beds                                    | 150                                    | 92                      | 58        | 39           |
| New-born unit incubators                | 5                                      | 1                       | 4         | 80           |
| New-born unit cots                      | 5                                      | 0                       | 5         | 100          |
| Functional ICU Beds                     | 6                                      | 0                       | 6         | 100          |
| High dependency Unit (HDU)              | 6                                      | 0                       | 6         | 100          |
| Renal unit at least 5 dialysis machines | 5                                      | 0                       | 5         | 100          |
| <b>Total</b>                            | <b>177</b>                             | <b>93</b>               | <b>84</b> | <b>47</b>    |

This was contrary to the requirements of the Kenya Quality Model for Health Policy Guidelines. Further, these deficiencies contravene the First Schedule of Health Act, 2017 and imply that accessing the highest attainable standard of health which includes the right of 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 may not be able to deliver on its mandate and Management was in breach of the law.

#### **Management Response:**

The management acknowledges the Auditor General's observation regarding the shortfall in essential equipment and machines at Lunga Lunga Sub County Level 4 Hospital, as required under Section 43(1) of the Primary Health Care Act, 2023. The number of Equipment has progressively increased in the facility is as shown below;

| Service | Level 4 Hospital Standard Requirements | Actuals in the hospital | Variance | Equipment Brought | Growth | Current Variance |
|---------|--|-------------------------|----------|-------------------|--------|------------------|
| Beds    | 150                                    | 92                      | 58       | 10                | 10     | 48               |

|   |     |    |    |    |    |    |
|---|-----|----|----|----|----|----|
| New-born unit incubators                | 5   | 1  | 4  | 0  | 0  | 0  |
| New-born unit cots                      | 5   | 0  | 5  | 0  | 0  | 0  |
| Functional ICU Beds                     | 6   | 0  | 6  | 0  | 0  | 0  |
| High dependency Unit (HDU)              | 6   | 0  | 6  | 0  | 0  | 0  |
| Renal unit at least 5 dialysis machines | 5   | 0  | 5  | 0  | 0  | 0  |
| Total                                   | 177 | 93 | 84 | 10 | 10 | 74 |

### **Committee Observations**

The Committee observed significant shortages in essential equipment and machines required for a Level 4 Hospital, contrary to the Kenya Quality Model for Health Policy Guidelines, the Health Act, 2017, and Article 43(1) of the Constitution of Kenya, 2010.

### **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 audit cycle.**

### **2 Non-Compliance with Facilities Improvement Financing Act,2023**

Review of revenue records revealed that the Hospital collected an amount of Kshs.18,993,171 in respect of Facilities Improvement Fund,out of which the Hospital transferred to County Revenue Fund Kshs 6,168,052.However,the amount reimbursed to the Hospital was Ksh 83,820,resulting to a deficit of Kshs 6,084,232.This was contrary to section 5(1) th Facilities Improvement Financing Act ,2023 which requires that all monies

raised or received by or on behalf of all public health facilities to be retained in the Hospital Facilities Improvement Financing account.

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

**Management Responses:**

All revenues pertaining to all health facilities were collected through the County Revenue fund. The Kshs 6,168,052 in question were monies owed to Lunga Lunga Sub-County Hospital by NHIF and SHA but paid to the County Revenue Fund account as this was the previous arrangement before the inception of the FIF Act. Treasury reimbursed the amount to Lunga Lunga Hospital as stated by the external auditors in recognition and fulfillment of the FIF Act directive that all revenues collected by a facility be retained and utilized for operational and improvement activities in that facility.

**Committee Observations**

The Committee observed that the Hospital transferred Kshs. 6,168,052 from the Facilities Improvement Fund to the County Revenue Fund, contrary to Section 5(1) of the Facilities Improvement Financing Act, 2023, and the amount was later reimbursed to the Hospital.

**Committee Recommendation**

**The Committee recommends that the Governor ensures all funds collected under the Facilities Improvement Financing Act, 2023 are properly retained and managed by the Hospital in accordance with Section 5(1) of the Act, and that procedures are established to prevent future misallocation.**

### 3.4 REPORT ON THE AUDITED FINANCIAL STATEMENTS OF KINANGO SUB-COUNTY REFERRAL HOSPITAL FOR THE FINANCIAL YEAR 2024/2025.

The Governor of Kwale County, Hon. Fatuma Mohamed Achani, EGH, appeared before the Committee on **Monday, 23<sup>rd</sup> March**, 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Kinango sub-county referral hospital for the Financial Year 2024/2025. The Governor was accompanied by the following officers—

#### REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **qualified opinion** on the financial statements of Kinango sub-county referral hospital for the period under review on the following basis-

#### Misstated Property, plant and Equipment,

The statement of financial position and as disclosed under note 32 to the financial statements, reflects property, plant and equipment balance of Kshs.113, 587,160. The property, plant and equipment balance includes computers balance of Kshs 132,913 determined after deducting recalculated accumulated depreciation of Kshs 4,203,323 from the cost of Kshs 3,136,233 implying that the computers have been depreciated beyond their cost by Kshs 1,067,090. There was no valuation report on these assets hence their carrying values could not be determined.

In the circumstances, the valuation of the property, plant and equipment balance of Kshs 113,587,160 could not be confirmed

#### Management response

We have noted the auditor's observation and will be corrected in the subsequent year by passing a journal entry as follows:

| S/N | PARTICULARS              | DR        | CR   |
|-----|--------------------------|-----------|------|
|     |                          | Kshs      | Kshs |
| 1.  | Accumulated depreciation | 1,067,090 |      |

|  |  |  |           |
|--|--|--|-----------|
|  | Depreciation   |  | 1,067,090 |
|  | <b>Being correction of the overstatement of depreciation</b> |  |           |

### Committee Observation

The Committee observed that the Hospital's property, plant, and equipment balance of Kshs.113,587,160 included computers that had been depreciated beyond their cost by Kshs.1,067,090, and there was no valuation report to confirm the carrying values of the assets.

### Committee Recommendation

**The Committee recommends that Governor ensures the management conduct a professional valuation of all the hospital's fixed assets within 60 days of the adoption of this report, correct any misstatements (including over-depreciation), and submit the valuation report to the Senate and a copy to the Auditor-General. The Auditor-General should review and confirm the corrected balances in the subsequent audit cycle."**

### Other matters

#### Unresolved prior year Matters

In the prior year's audit report, several issues were raised under the Report on Financial statements, Report on lawfulness and Effectiveness in use of public Resources, and Report on Effectiveness of internal controls, Risk management and Governance. Review of the status during audit of the Hospital in 2024/2025 revealed that the following seven (7) issues remained unresolved:

| No. | Financial year | Audit Issue   |
|-----|----------------|---|
| 1   | 2023/2024      | Inaccurate statement of changes in net assets.                    |
| 2   | 2023/2024      | Inaccurate statement of financial position                        |
| 3   | 2023/2024      | Inaccurate statement of cash flow                                 |
| 4   | 2023/2024      | Unexplained variances between the financial statements and Notes. |
| 5   | 2023/2024      | Procurement without approved requisition.                         |

|   |           |  |
|---|-----------|--|
| 6 | 2023/2024 | Failure to meet level 4 hospital requirements    |
| 7 | 2023/2024 | Lack of qualification by the Board of Directors. |

#### Management response

| No. | Financial year | Audit Issue   | Management Response  |
|-----|----------------|---|--|
| 1   | 2023/2024      | Inaccurate statement of changes in net assets.                    | We have passed prior year adjustments in the changes in Net assets for the Audited financial statements of 2024/2025   |
| 2   | 2023/2024      | Inaccurate statement of Financial position                        | We have restated the statement of financial position as at 30 <sup>th</sup> June 2025.   |
| 3   | 2023/2024      | Inaccurate statement of cash flow                                 | We have noted the observations and they have been corrected in the year 2024/2025 audit report.  |
| 4   | 2023/2024      | Unexplained variances between the financial statements and Notes. | We have restated the financial position as at 30 <sup>th</sup> June 2025 together with the notes.  |
| 5   | 2023/2024      | Procurement without approved requisition.                         | Attached are the respective Delivery /issuing notes, Requisitions, Inspection certificates, counter receipts vouchers and Bin cards-ANNEX 1                      |
| 6   | 2023/2024      | Failure to meet level 4 hospital requirements                     | The deficiencies and in implementation of level 4 hospital requirements are done progressively. Refer to the current status under the Basis for Conclusion No. 2 |
| 7   | 2023/2024      | Lack of qualification by the Board of Directors.                  | The term of board of director ends in July 2026 and going forward only the qualified members of the board will be recruited.                                     |

### **Committee Observation**

The Committee observed that most of the prior year audit issues were addressed by management; however, some matters remain outstanding and require further action.

### **Committee Recommendations**

The Committee recommends the Governor ensures 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 the Governor should ensure that the accounting officer submits the status report on the mitigation measures taken to resolve prior year matter.

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

### **Lack of land ownership Documents**

The statement of financial position and Note 32 to the financial statements reflects property, plant and equipment's balance of Kshs 113,587,160 which includes land valued at Kshs 7,557,760. However, no valuation report or evidence of ownership or land lease agreement was provided for audit review. This is contrary to section 162(2)(c)(i) of the public finance management Act 2012 which obligates the accounting officer to ensure that adequate arrangements are made for the proper use, custody, safeguarding and maintenance of public property.

In the circumstances, Management was in breach of law.

### **Management response**

The management of Kinango sub county level 4 Hospital relied on the valuation report of property, Plant and Equipment's which was carried on May-2018 by the County Government of Kwale on its asset's valuation. Evidence of Assets Valuation report -Department of Health services was provided for scrutiny.

### **Committee Observation**

The Committee observed that although management relied on a 2018 valuation report, no current valuation or ownership documents were provided to confirm the land valued at Kshs 7,557,760 as reflected in the financial statements.

### **Committee Recommendations**

The Committee recommends that 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.

## 2. Non-Compliance with Law and Effectiveness of Upgrade of Hospitals

Review of Hospital records and interviews conducted on verification of services offered, equipment used and medical specialists in the Hospital at the time of audit in November, 2025 revealed that the Hospital did not meet the requirements of Kenya Quality Model for Health Policy Guidelines due to staff deficits by forty-eight (45) % of the authorized establishment as detailed below:

| Staffing Requirement               | Level 4 Hospital Standard | Actuals In the Hospital | Variance    | Percentage % |
|------------------------------------|---------------------------|-------------------------|-------------|--------------|
| Medical Officers                   | 16                        | 4                       | (12)        | 75           |
| Anaesthesiologists                 | 2                         | 0                       | (2)         | 100          |
| General Surgeons                   | 2                         | 1                       | (1)         | 50           |
| Gynaecologists                     | 2                         | 2                       | 0           |              |
| Paediatricians                     | 2                         | 1                       | (1)         | 50           |
| Radiologists                       | 2                         | 0                       | (2)         | 100          |
| Registered Community Health Nurses | 75                        | 48                      | (27)        | 36           |
| <b>Total</b>                       | <b>101</b>                | <b>56</b>               | <b>(55)</b> | <b>45</b>    |

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

| Service                                   | Level 4 Hospital Standard | Actuals in the Hospital | Variance | Percentage % |
|---|---------------------------|-------------------------|----------|--------------|
| Beds                                      | 150                       | 121                     | (29)     | 19           |
| Resuscitaire (2 in labour & 1 in theatre) | 3                         | 2                       | (1)      | 33           |
| New born unit incubators                  | 5                         | 2                       | (3)      | 60           |
| New born unit cots                        | 5                         | 0                       | (5)      | 100          |
| 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       |
| Two functional operational theatres - Maternity & General | 2          | 2          | (2)         |           |
| <b>Total</b>  | <b>182</b> | <b>127</b> | <b>(55)</b> | <b>30</b> |

These deficiencies contravene the First Schedule of Health Act, 2017 and imply that 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 will not be able to deliver on its mandate.

#### Management response

| Staffing Requirement               | Level 4 Hospital Standard | Actuals In the Hospital | Variance    | Percentage % | Current Status: FY 2025/2026 |
|------------------------------------|---------------------------|-------------------------|-------------|--------------|------------------------------|
| Medical Officers                   | 16                        | 4                       | (11)        | 69           | 5                            |
| Anaesthesiologists                 | 2                         | 0                       | (2)         | 100          |                              |
| General Surgeons                   | 2                         | 1                       | (1)         | 50           |                              |
| Gynaecologists                     | 2                         | 2                       | 0           |              |                              |
| Paediatricians                     | 2                         | 1                       | (1)         | 50           |                              |
| Radiologists                       | 2                         | 0                       | (2)         | 100          |                              |
| Registered Community Health Nurses | 75                        | 48                      | (27)        | 36           |                              |
| <b>Total</b>                       | <b>101</b>                | <b>57</b>               | <b>(44)</b> | <b>44</b>    |                              |

| Service | Level 4 Hospital Standard | Actuals in the Hospital | Variance | Percentage % | Management Response F/Y 2025/2026 |
|---------|---------------------------|-------------------------|----------|--------------|-----------------------------------|
| Beds    | 150                       | 126                     | (24)     | 16           | 131                               |

|   |            |            |             |           |   |
|---|------------|------------|-------------|-----------|---|
| Resuscitative (2 in labour & 1 in theatre)                | 3          | 2          |             | 0         | 3 |
| New born unit incubators                                  | 5          | 2          | (3)         | 60        | 2 |
| New born unit cots  | 5          | 0          | (5)         | 100       |   |
| 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       |   |
| Two functional operational theatres - Maternity & General | 2          | 2          | (0)         |           |   |
| <b>Total</b>  | <b>182</b> | <b>133</b> | <b>(49)</b> | <b>28</b> |   |

The hospital had a technical staff establishment of 101 in the year 2023/2024 and in post of 53. For FY 2025/2026 we have staff Establishment of 120 and in post of 76; a growth of 23%. Hospital Equipment's and Machines increase from 127 to 133 in the 2025/2026. A growth of 6%.

Additionally, an ICU and renal unit block is under construction to ensure the hospital becomes fully compliant by 30<sup>th</sup> June 2026. Copy of the ICU and renal unit block plan and Site handing over minutes was provided for scrutiny.

### **Committee Observations**

The Committee observed that despite reported improvements in staffing and equipment, the Hospital still falls short of the required Level 4 standards under the Health Act, 2017 the Kenya Quality Model for Health and Article 43(1) of the Constitution of Kenya, 2010, with significant gaps remaining in critical personnel and essential units.

### **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 audit cycle.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROL, RISK MANAGEMENT AND GOVERNANCE

### 3. Non-Compliance with Facility Improvement Financing Act, 2023

Review of records revealed that the facility collected Kshs.31, 755,396 and transferred an amount of Kshs, 7,353,287 to the county Revenue Fund which was later reimbursed to the hospital. However, the Facility Improvement Financing (FIF) revenue were deposited into the general county revenue accounts instead of the designated Facility bank accounts. This is contrary to the provisions of section 2025 of the Facilities improvement Financing Act, 2023 which requires that all revenues collected by health facilities be retained in designated FIF accounts and utilized strictly for approved operational and improvement activities. In the circumstances, Management was in breach of the law.

#### Management response

The hospital had one account as at 1<sup>st</sup> July 2024 and all the collections were deposited to the account 1146764049 (Imprest account). The hospital opened revenue collection account on August 2024 and all the revenue collected by the county revenue fund was reimbursed to the hospital revenue account (1332113052) as per the attached.

Copy of revenue bank statements

| DATE       | PARTICULARS                         | AMOUNT    |
|------------|-------------------------------------|-----------|
|            |                                     | Kshs      |
| 13/12/2024 | Transfer to Kwale county Government | 204,480   |
| 24/12/2024 | Transfer to Kwale county Government | 913,530   |
| 30/01/2025 | Transfer to Kwale county Government | 4,738,066 |
| 15/01/2025 | Transfer to Kwale county Government | 1,496,321 |
|            | Total                               | 7,352,397 |

#### Committee Observation

The Committee observed that the Hospital initially deposited Facility Improvement Financing (FIF) revenues into the general county revenue account, contrary to Section 25 of the Facility Improvement Financing Act, 2023. However, management has since opened a designated FIF revenue account and reimbursed all funds collected to this account.

#### **Committee Recommendation**

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

#### **Lack of Qualification by the Board of Management**

The statement of financial performance and note 17 to the financial statements reflect board expenses of Kshs.466, 500. However, review of the board members' qualifications as indicated in the annual report and financial statements under the board of directors revealed that board members are in possession of primary level education and only two have post primary qualifications. In the circumstances, the board as currently constituted lacks the necessary competence and qualification to provide effective oversight and guidance to the management.

#### **Management response**

We have noted the concerns raised by the auditors in this matter and we wish to state that since the board's tenure expires in July 2026, the upcoming board recruitment will be done in accordance with the stipulated requirements. Evidence of the Kenya Gazette Notice was provided for committee verification.

#### **Committee Observation**

The Committee observed that most members of the Hospital's Board of Management have only primary education, with only two holding post-primary qualifications, and therefore the Board does not fully comply with the stipulated qualification requirements.

#### **Committee Recommendation**

**The Committee recommends that the Governor ensures that the Hospital Board fully meets the stipulated qualification requirements and evidence of the recruitment and appointment documents should be submitted to the Senate within 60 days of the adoption of this report and a copy to the Auditor-General for verification.**

## CHAPTER FOUR: FUNDS

### 4.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS OF KWALE COUNTY BURSARY AND SCHOLARSHIP FUND FOR THE FINANCIAL YEAR 2024/2025.

The Governor of Kwale County, Hon. Fatuma Mohamed Achani, EGH, appeared before the Committee on Monday, 23<sup>rd</sup> March, 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Kwale County Bursary and Scholarship Fund for the Financial Year 2024/2025. The Governor was accompanied by the following officers—

- |                   |                  |
|-------------------|------------------|
| 1. Ms.Mishi Salim | -CECM- Education |
| 2. Mr.Juma Nzao   | -CO Education    |

#### REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **qualified opinion** on the financial statements of Kwale County Bursary and Scholarship Fund for the period under review on the following basis-

##### Emphasis of matter

##### Budget Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparative basis of Kshs. 238,000,000 and Kshs. 196,493,767 respectively resulting in receipts shortfall of Kshs. 43,790,000 or 18% of the budget. The income shortfall affected planned activities and impacted negatively on service delivery to the citizens.

##### Management response

The mandate of the Fund Management is to ensure 100% absorption of the bursary funds to deserving students in the County. However, in the year under review there were delays of funds transfer from the Exchequer. As at the close of the financial year, the Fund had under-realization of revenue of 18% that had not been transferred to the Fund account, resulting in the under-expenditure.—

##### Committee Observation

The Committee observed a revenue shortfall of 43,790,000(18% of the budget) which was primarily due to delays in the disbursement of funds from the National Treasury.

##### Committee Recommendations

- i. **The Governor ensures the Accounting Officer implements proper budgetary control measures to ensure revenue targets are fully realized and planned activities are executed, in line with Regulation 42(1)(b) 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; and**

- ii. The National Treasury ensures timely disbursement of funds to counties in accordance with the disbursement schedule approved by the Senate; and**

## **Basis for Conclusion**

### **1. Non-Utilization of Bursary Management System**

Review of documents provided for audit revealed that the Fund Management procured and installed a Bursary Management System (Elimu Ni Sasa Portal) at a cost of Kshs. 4,128,500 for use by the Fund in the financial year 2022/2023. However, the portal was not utilized for application, approval and management of bursaries. Bursary application forms were filled, verified and approved manually/outside the system contrary to Section 149(2) of the Public Finance Management Act, 2012 which states that in carrying out a responsibility imposed by subsection (1), an accounting officer shall manage the assets of the entity to ensure that it receives value for money when acquiring, using or disposing of its assets.

In the circumstances, value for money on the procurement of the bursary management system could not be confirmed.

### **Management Response**

The County Government of Kwale through the Department of Tourism and ICT procured a county E-governance portal to enhance online presence and digitalize access to government services, bursary application process being one of them. As at the time the portal was launched, the bursary application cycle had already been advertised to the public using the manual application process.

The Fund Management has since initiated stakeholder awareness to ensure maximum use of the portal in subsequent application cycles. Additionally, capacity building of key implementers including administrators and education officers has been conducted to equip them with the skills to operationalize the website and support community uptake.

The portal is still not in use, pending bursary funds approvals.

### **Committee Observation**

The Committee observed that the Bursary Management System has not been utilized for bursary processes, and value for money on its procurement could not be confirmed.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures the Fund Management fully operationalizes the Bursary Management System for bursary applications, approvals, and management within 90 days of adoption of this report, and undertakes user**

**training and awareness campaigns to ensure consistent use, in order to realize the intended value for money.**

## **2. Irregular Provision of Bursaries**

The statement of financial performance reflects transfers from the County Executive of Kshs. 198,000,000 as disclosed in Note 10 to the financial statements. Further, the statements reflect bursary transfers expenditure of Kshs. 246,583,700 as disclosed in Note 10. Bursary transfers of Kshs. 41,816,300, Kshs. 7,750,000, Kshs. 194,477,400 and Kshs. 2,540,000 were made to universities, TVETs and colleges, secondary schools and special schools respectively.

This was contrary to the Fourth Schedule (Article 185(2), 186(1) and 187(2)) of the Constitution on distribution of functions between the National Government and County Governments. The Schedule provides that County Governments are responsible for pre-primary education, village polytechnics, home craft centers and childcare facilities. The activities funded including provision of bursaries to secondary schools, colleges and universities fall under the mandate of the National Government.

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

### **Management Response**

At the time of these bursary transfers, Management had obtained all necessary approvals to enable access to the funds. However, Management acknowledges the legal concerns raised regarding distribution of functions between the National and County Governments.

Management has subsequently complied with the Controller of Budget Circular (COB/COG/002/Vol.IV(65)) on the signing of the Intergovernmental Partnership Agreements (IPA).

The following actions have been achieved:

- The Kwale County Government signed an Intergovernmental Partnership Agreement (IPA) on issuance of bursaries and scholarships with the National Government through the Ministry of Education.
- The IPA has been Gazetted in the Kenya Gazette.
- The National and County Assembly have been notified of the same.

### **Committee Observation**

The Committee observed that bursary transfers were made beyond the County Government's mandate to secondary schools, colleges, and universities, contrary to the Constitution, but the County has since regularized the process through a formal IPA with the National Government.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures that all future bursary allocations strictly comply with the functions of County Governments as per the Constitution and that the IPA with the National Government is fully implemented and monitored to avoid recurrence of irregular transfers.**

### **2. Incomplete Bursary Application Forms**

The statement of financial performance reflects bursary transfers amounting to Kshs. 246,583,700 as disclosed in Note 10. Review of sampled bursary forms revealed that forms were not duly completed as information on outstanding fee balance, training institutions, disability status, family status and declaration by the applicant were left blank. The forms were also not stamped by both the bursary committee secretary and chairperson as required.

In the circumstances, effectiveness of internal controls on administration of bursaries could not be confirmed.

### **Management Response**

The bursary application form has sections for both secondary and tertiary students. Applicants are required to fill the relevant section according to their level of study, with non-applicable sections left blank. On outstanding fee balance, Management requests for an official updated fees statement from the respective institution to provide accurate financial position and mitigate risks associated with manual entries.

The Management commits to strengthen internal controls by ensuring application forms are duly filled in all relevant sections and indicate 'N/A' where necessary in subsequent bursary cycles. Evidence of duly filled sampled application forms was provided for committee verification.

### **Committee Observation**

The Committee observed that bursary application forms lacked required signatures, but noted that management clarified only relevant sections are completed and measures are being taken to ensure proper completion and signing.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures Accounting Officer makes all bursary application forms fully completed and duly signed by the relevant officials in line with Section 149(2) of the Public Finance Management Act, 2012, to strengthen internal controls and accountability in the administration of bursaries.**

#### **4.2. REPORT ON THE AUDITED FINANCIAL STATEMENTS OF KWALE COUNTY EMERGENCY FUND FOR THE FINANCIAL YEAR 2024/2025.**

The Governor of Kwale County, Hon. Fatuma Mohamed Achani, EGH, appeared before the Committee on Monday, 23<sup>rd</sup> March, 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Kwale County Emergency Fund for the Financial Year 2024/2025. The Governor was accompanied by the following officers—

- |                    |                |
|--------------------|----------------|
| 1. CPA Bakari Sebe | - CECM Finance |
| 2. CPA Alex Onduko | - CO Finance   |

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

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

##### **Other Matter**

##### **Unresolved Prior Year Audit Issues**

The statement of financial performance and Note 10 to the financial statements reflects Kshs. 300,575 on use of goods and services. Review of the ledger provided for audit in support of the amount shows that Kshs. 300,000 was withdrawn from the Fund bank account on 18 November, 2023 and utilized for purchase of household items and food stuff under emergency expenditure. However, the expenditure was not supported by committee approval, payment vouchers, list of beneficiaries and procurement records.

Further, no evidence was provided for audit confirmation to show that the County Executive Committee Member notified the County Assembly in writing after the payment was made out of the Fund as required by Section 18 E (1) of the Kwale County Emergency Fund Act, 2021.

##### **Management Response**

The amount of Kshs. 300,000 was erroneously declared as transfers from County Government instead of Public Contribution and donation but has now been corrected with a journal. Since the funds withdrawn to assist the victims affected by the floods was little and subjecting it to replenishment through an appropriation act would have been expensive. It was deemed prudent for the fund to look for well-wishers to contribute and replenish the emergency fund with the same amount.

The same was reimbursed on 16th February, 2024. The financial statement will be corrected this financial year. Evidence of the journal entry, deposit slip and a list of contributors was provided for committee verification.

We did not notify the County Assembly because the replenishment of the amount spent was raised through donations from well-wishers and there was no need to prepare an appropriation bill which is an expensive process comparing to the amount of Ksh. 300,000.

#### **Committee Observation**

The Committee observed that Kshs. 300,000 was withdrawn from the Emergency Fund and spent without the required approvals, supporting documentation, procurement records, and notification to the County Assembly, contrary to the Kwale County Emergency Fund Act, 2021, although the amount was later reimbursed.

#### **Committee Recommendation**

**The Committee recommends that-**

- i. the Governor ensures that all withdrawals from the Emergency Fund strictly comply with the Kwale County Emergency Fund Act, 2021, including prior approval, proper documentation, procurement procedures, and mandatory notification to the County Assembly.**
- ii. the Governor should ensure that the Accounting Officer takes appropriate administrative action against officers responsible for the failure to maintain proper documentation and comply with statutory requirements, in accordance with Section 156(1) of the Public Finance Management Act, Cap. 412A and their terms and conditions of service, failure to which the provisions of Section 199 of the Public Finance Management Act, Cap. 412A shall apply.**

#### **4.3. REPORT ON THE AUDITED FINANCIAL STATEMENTS OF KWALE COUNTY, YOUTH, WOMEN AND PERSONS WITH DISABILITIES REVOLVING FUND FOR THE FINANCIAL YEAR 2024/2025.**

The Governor of Kwale County, Hon. Fatuma Mohamed Achani, EGH, appeared before the Committee on Monday, March, 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Kwale County, Youth, Women and Persons with Disabilities Revolving Fund the for the Financial Year 2024/2025. The Governor was accompanied by the following officers—

- |                    |                       |
|--------------------|-----------------------|
| 1. CPA Bakari Sebe | -CECM Finance         |
| 2. Ms. Grace Sheti | -Financial Accountant |

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

The Auditor-General rendered a **qualified opinion** on the financial statements of Kwale County, Youth, Women and Persons with Disabilities Revolving Fund for the period under review on the following basis-

#### **Doubtful Recoverability of Receivables from Exchange Transactions and Accrued Penalties**

Note 13 to the financial statements disclosed receivables from exchange transactions of Kshs 53,902,209. Review of the loan statements indicated that Management issued loans totaling Kshs 44,900,000 to four hundred and forty (440) persons who, as at 30 June, 2025, owed the Fund Kshs 53,902,257 inclusive of interest and penalties. However, no evidence was provided in support of efforts initiated by Management to recover overdue debts.

In the circumstance, the valuation and recoverability of receivables from exchange transaction of Kshs.53,902,209 could not be confirmed.

#### **Management Response**

Management has been making efforts to recover the receivables through Community Development Officers, who engage beneficiary groups on a regular basis. However, it emerged from these field visits that many groups were severely affected by the COVID-19 pandemic and prolonged drought. As a result, several groups disintegrated, making recovery difficult since the activities that generated income for loan repayment had ceased. The management is seeking approval to write off the bad and doubtful debts since they are irrecoverable.

#### **Committee Observation**

The Committee observed that receivables from exchange transactions amounting to Kshs. 53,902,209 remained outstanding as at 30 June 2025, and no adequate documentary

evidence was provided to demonstrate structured recovery efforts or an approved process for writing off the bad and doubtful debts.

### **Committee Recommendation**

- i. The Governor should ensure the Accounting Officer develops and implements a structured recovery plan for receivables from exchange transactions, with clear timelines, responsible officers, and follow-up mechanisms, in line with the Public Finance Management Act, Cap. 412A; and**
- ii. The Governor should ensure that formal approval is sought for writing off irrecoverable debts, supported by adequate documentation.**
- iii. The Governor should ensure that all relevant records and supporting documents are submitted to auditors in a timely manner in accordance with Section 9(1)(e) of the Public Audit Act, Cap. 412B, failure to which may lead to investigation and prosecution under Section 62(2) of the same Act.**

### **OTHER MATTERS**

#### **Unresolved Prior Years Audit Matters**

In the audit report for the previous financial year, several issues were raised in respect of the Report on the Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. No evidence of action taken by Management to resolve the issues or explanation for failure to implement the recommendations was provided for audit review.

1. Unsupported fines, penalties and other levies:
2. Unconfirmed provision for bad and doubtful debts
3. Lack of Fund Management Committee
4. Failure to develop regulations to operationalize the Act

#### **Management Response**

**i. Unsupported fines, penalties and other levies**

The management has provided schedules on the fines and penalties computation.

**ii. Unconfirmed provision for bad and doubtful debts**

The provision for bad and doubtful debts was made at a reasonable rate of 10% on the outstanding loans as per the policy.

**iii. Lack of Fund Management Committee**

The overall performance of the fund could not allow for the appointment of a committee and subsequently the issuance of new loans. The management was in the process of making new legislative reforms for better management of the fund before appointing a new committee. We confirm that the new Kwale County Biashara Revolving Fund Act 2025 is now in place and the Committee was appointed on 11th July 2025.

**iv. Failure to develop regulations to operationalize the Act**

Following the enactment of the Kwale County Biashara Fund Act 2025, regulations were forwarded to the County Assembly for approval. This will now allow for full operationalization of the fund.

**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 USE OF PUBLIC RESOURCES**

**1. Unutilized Idle Funds**

Statement of financial position reflects cash and cash equivalents balance of Kshs.20,370,416 as disclosed in Note 12 to the financial statements. The balance includes receipts from loan and interest repayments since the funds inception. Review of the fund's activities and the financial statements over the past two (2) years revealed that no loans were issued despite availability of funds contrary to Regulations 83 of the Public Finance Management (County) Regulations, 2015 which requires the County Treasury to establish efficient and effective banking and cash management practices which include avoidance of accumulation of idle balances.

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

**Management Response**

The management made a decision to suspend operations of the fund as the rate of default was increasing so as to restructure the legal frameworks and incorporate financial institutions in the management of the fund so as to take advantage of their loan recovery models.

Further, the funds previously held in the Fund account have since been transferred to the County Revenue Account in accordance with the applicable financial management requirement.

**Committee Observation:**

The Committee observed that cash and cash equivalents of Kshs. 20,370,416 remained idle over the past two years, with no loans issued despite availability of funds, contrary to Regulations 83 of the Public Finance Management (County Governments) Regulations, 2015.

**Committee Recommendation**

**The Committee recommends that the Governor should ensure that available funds are efficiently utilized in compliance with the Public Finance Management (County Governments) Regulations, 2015, including exploring partnerships with financial institutions to enhance loan disbursement and recovery and avoid accumulation of idle balance.**

**Lack of Fund Management Committee**

During the year under review, the fund did not have Management Committee in place after the expiry of term of office of the previous committee, since June 2019. This is contrary to Section 16 of the Kwale County Youth, Women and Persons with Disabilities Fund Act, 2020 which requires members appointed to the committee to serve for a term of three years and to be eligible for re-appointment for a further term.

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

**Management Response**

The overall performance of the fund could not allow for appointment of a new committee and subsequently issuance of new loans. The management was in the process of making new legislative reforms to address the gaps noted for better management of the fund before appointing a new committee in office.

Management confirms that the Kwale County Biashara Revolving Fund Act, 2025 has since been enacted and provides an improved legal and governance framework for the Fund's operations.

Following the enactment of the new legislation, the Kwale County Biashara Revolving Fund Committee was duly appointed on 11th July 2025 for a term of three (3) years in accordance with the provisions of the Act.

The newly constituted Committee is now in place and will oversee the operationalization of the Fund, including the resumption of loan issuance in line with the strengthened legal framework.

#### **Lack of Fund Management Committee**

During the year under review, the fund did not have Management Committee in place after the expiry of term of office of the previous committee, since June 2019. This is contrary to Section 16 of the Kwale County Youth, Women and Persons with Disabilities Fund Act, 2020 which requires members appointed to the committee to serve for a term of three years and to be eligible for re-appointment for a further term.

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

#### **Management Response**

The overall performance of the fund could not allow for appointment of a new committee and subsequently issuance of new loans. The management was in the process of making new legislative reforms to address the gaps noted for better management of the fund before appointing a new committee in office.

Management confirms that the Kwale County Biashara Revolving Fund Act, 2025 has since been enacted and provides an improved legal and governance framework for the Fund's operations.

Following the enactment of the new legislation, the Kwale County Biashara Revolving Fund Committee was duly appointed on 11th July 2025 for a term of three (3) years in accordance with the provisions of the Act.

The newly constituted Committee is now in place and will oversee the operationalization of the Fund, including the resumption of loan issuance in line with the strengthened legal framework.

#### **Lack of Fund Management Committee**

During the year under review, the fund did not have Management Committee in place after the expiry of term of office of the previous committee, since June 2019. This is contrary to Section 16 of the Kwale County Youth, Women and Persons with Disabilities Fund Act, 2020 which requires members appointed to the committee to serve for a term of three years and to be eligible for re-appointment for a further term.

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

### **Management Response**

The overall performance of the fund could not allow for appointment of a new committee and subsequently issuance of new loans. The management was in the process of making new legislative reforms to address the gaps noted for better management of the fund before appointing a new committee in office.

Management confirms that the Kwale County Biashara Revolving Fund Act, 2025 has since been enacted and provides an improved legal and governance framework for the Fund's operations.

Following the enactment of the new legislation, the Kwale County Biashara Revolving Fund Committee was duly appointed on 11th July 2025 for a term of three (3) years in accordance with the provisions of the Act.

The newly constituted Committee is now in place and will oversee the operationalization of the Fund, including the resumption of loan issuance in line with the strengthened legal framework.

### **Committee Observation:**

The Committee observed that a new Management Committee has now been duly appointed on 11th July 2025 in accordance with the Kwale County Biashara Revolving Fund Act, 2025, and is in place to oversee the operationalization of the Fund, including resumption of loan issuance.

### **Committee Recommendations**

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

#### **4.4.REPORT ON THE AUDITED FINANCIAL STATEMENTS OF KWALE COUNTY TRADE EVOLVING FUND FOR THE FINANCIAL YEAR 2024/2025.**

The Governor of Kwale County, Hon. Fatuma Mohamed Achani, EGH, appeared before the Committee on **Monday, March 2026**, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Kwale County Trade Revolving Fund the for the Financial Year 2024/2025. The Governor was accompanied by the following officers—

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

The Auditor-General rendered a **qualified opinion** on the financial statements of Kwale County Trade Revolving Fund for the period under review on the following basis-

##### **Account for other Payments**

The statement of Cash flows reflects Kshs.10,823,168 in respect to other payments. However, the other payments were not accounted for in the statement of financial performance and do not form part of the trade and other payables from the previous year. As a result of the omission, the expenses in the statement of financial performance, net assets in the statement of financial position, surplus for the period in the statement of changes in net assets and total expenditure in the statement of comparison of budget and actual amounts are materially misstated

##### **Management response**

The amount totalling to Kshs.10,823,168 was used for stakeholder engagement during public participation and enactment of the Kwale County Biashara Revolving Fund Act, 2025. The Act was to establish a new fund that addressed the Gaps that existed in the old Fund (Kwale County Trade Revolving Fund). The funds have since been reimbursed. Evidence of the bank statement, report and the newspaper for public participation and fund act for committee verification

##### **Committee Observation**

The Committee observed that —

- i. other payments totaling Kshs. 10,823,168 were not accounted for in the statement of financial performance and did not form part of trade and other payables, resulting in material misstatements in the financial statements.
- ii. the funds were used for stakeholder engagement during public participation and enactment of the Kwale County Biashara Revolving Fund Act, 2025, and have since been reimbursed.

##### **Committee Recommendations**

The Committee recommends that-

Committee recommends the Governor ensures that-

- i. the Accounting Officer ensures timely preparation and review of bank reconciliations and corrects all misstatements through properly authorized journal adjustments in line with Regulations 90 and 103(1) of the Public Finance Management (County Governments) Regulations, to ensure accurate and complete financial reporting;
- ii. the Accounting Officer takes appropriate administrative action on responsible officers within the Accounts and Finance department who fail to keep complete financial records in accordance with section 156(1) of the Public Finance Management Act, Cap.412; and
- iii. 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.

#### **INACCURATE STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**

The statement of comparison of budget and actual amounts reflects final budgeted revenue and expenditure of Kshs. 3,703,158 and Kshs.15,000 respectively. However, the amounts differ with the Nil amounts reflected in the approved budget provided for audit review. Further, payment of Kshs.10,823,168 in respect of other payments reflected in the statement of cash flows was not reported in the statement of comparison of budget and actual amounts. In addition, the budget reconciliation statement is inaccurate and erroneously reflects closing cash and cash equivalents as Kshs. (10,639,373) instead of Kshs. 20,124,762.

#### **Management Response**

The amount of kshs.10,823,168 was a borrowing from the Department of Trade and Enterprise Development to facilitate public participation which was supposed to be refunded within the financial year but due to late disbursement it was reimbursed on the month of October 2025, therefore reinstating the financial position of the fund. Copy of Bank statement was provided for scrutiny.

#### **Committee Observation**

The Committee observed that-

- i. Kshs. 10,823,168 used for stakeholder engagement during public participation and the enactment of the Kwale County Biashara Revolving Fund Act, 2025, was not

- properly accounted for in the financial statements, although the amount was later reimbursed.
- ii. Bank reconciliations and journal adjustments were not timely prepared or reviewed, contributing to misstatements in the financial statements, despite management taking corrective actions to address the issues.

### **Committee Recommendations**

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

- i. the Accounting Officer adhere to timely preparation and review of bank reconciliations, correct all misstatements through properly authorized journal adjustments, in line with Regulations 90 and 103(1) of the PFM (County Governments) Regulations, 2015, to ensure accurate, transparent, and compliant financial reporting.
- ii. the Accounting Officer to take appropriate administrative action on responsible officers within the Accounts and Finance department who fail to keep complete financial records in accordance with section 156(1) of the Public Finance Management Act, Cap.412A and in line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;
- iii. the Accounting Officer should comply 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;
- iv. the Accounting Officer should enhance the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.

### **DOUBTFUL COLLECTABILITY LONG OUTSTANDING LONG-TERM RECEIVABLES**

The statement of financial position and Note 18 to the Financial Statements reflect long-term receivables from exchange transactions of Kshs.116,663,811. However, the Fund only recovered Kshs.572,621 or about 0.8% of the total loan amount from Seventeen (17) out of a total of one thousand one hundred and fiftyeight (1,158) borrowers whose actual outstanding loan balance stood at Kshs.120,180,056. This implies that the one thousand one

hundred and forty- one (1,141) borrowers were defaulting and the loans recoverability was doubtful.

In addition, it was noted that Management Committee had not taken remedial action to prevent the loss of resources by rescheduling loans or exercising a lien over the securities charged. There was no evidence that the loans were insured and recoveries were expected from any underwriter.

In the circumstances, the accuracy and recoverability of overdue outstanding long-term receivables of Kshs.116,663,811 could not be confirmed.

### **Management response**

As at 30 June 2025, the Fund had cumulatively recovered Kshs. 65,256,312 against total seed capital disbursements of Kshs. 98,793,879, representing an overall recovery rate approximately 66% since inception.

The outstanding Balance of Kshs. 120,180,056 is the total outstanding loan portfolio as at 30<sup>th</sup> June 2025 which comprising of a principal amount of Kshs. 73,731,541 and accrued interest of Kshs. 46,448,515.

The low recovery performance during the period under review was largely attributable to resource and operational prioritization toward the legislative process culminating in the enactment of the Kwale County Biashara Revolving Fund Act, 2025.

Following the enactment of the new legislation and the appointment of a fully constituted Biashara Revolving Fund Committee, the Fund is now better positioned to implement strengthened remedial and enforcement measures to enhance loan recovery:

- Enforcing lien rights and collateral realization as provided under Section 27 of the Kwale County Biashara Revolving Fund Act, 2025;
- Restructuring and rescheduling of viable loans;
- Development of risk mitigation strategies, including consideration of credit insurance for future lending cycles

Regarding the variance in borrower numbers, the increase from 1,140 to 1,158 borrowers arose from a technical spreadsheet referencing error affecting beneficiary clustering and not loan amounts or portfolio balances. Updated records confirm the total number of beneficiaries to be 1,299, as detailed in the attached beneficiary profile report. Copy of Kwale County Trade Revolving Fund Beneficiary Profile FY2024/2025 was provided for scrutiny.

### **Committee Observation**

**The committee observed that-**

- i. Long-term receivables totaling Kshs. 116,663,811 remained largely unrecovered, with only Kshs. 572,621 recovered from a small number of borrowers, and no evidence of remedial action such as rescheduling of loans, lien enforcement, or insurance coverage to secure the Fund's resources.
- ii. Although measures to enhance recoverability and strengthen loan management had been planned following the enactment of new legislation and appointment of a Fund Committee, they were not yet implemented during the period under review.

**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 aging 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**

**UNRESOLVED PRIOR YEAR'S AUDIT MATTERS**

In the prior years' audit reports; several issues were raised under the Report on the Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on the Effectiveness of Internal Controls, Risk Management and Governance. Review of the status during audit of the Fund in 2024/2025 revealed that the following five (5) issues remained unresolved.

| No. | Financial Year | Audit Issue  |
|-----|----------------|--|
| 1   | 2023/2024      | Unsupported variance in accrued interest receivable from long-term loan. |

|   |           |  |
|---|-----------|--|
| 2 | 2023/2024 | Doubtful long outstanding long-term receivables.             |
| 3 | 2023/2024 | Failure to ensure loans                                      |
| 4 | 2023/2024 | Un utilized idle funds                                       |
| 5 | 2023/2024 | Failure to appoint the County Trade Revolving Fund Committee |

### Management Response

| No. | Financial Year | Audit Issue  | Response / Action Taken   |
|-----|----------------|--|---|
| 1   | 2023/2024      | Unsupported variance in accrued interest receivable from long-term loan. | To be resolved: Management takes note of this, and state that corrective action will be undertaken by providing the schedules on the subsequent financial statements.   |
| 2   | 2023/2024      | Doubtful long outstanding long-term receivables.                         | Resolved: new legislation has since been enacted and the appointment of a fully Biashara Revolving Fund Committee constituted, the Fund is now better positioned to implement strengthened remedial and enforcement measures to enhance loan recovery |
| 3   | 2023/2024      | Failure to ensure loans  | To be resolved: Efforts are underway to ensure that insurance is procured before the rollout of the new Loan through the newly enacted Biashara Revolving Fund Act.   |
| 4   | 2023/2024      | Un utilized idle funds   | Resolved: The funds in the account has since been transferred to the CRF Account bank- See Annex #3 signed confirmed letter requesting transfer of funds from the Equity Bank account to the CRF.   |
| 5   | 2023/2024      | Failure to appoint the County Trade Revolving Fund Committee             | Resolved: new legislation has since been enacted and the appointment of a fully Biashara Revolving Fund Committee constituted, the Fund is now better positioned to implement strengthened remedial and enforcement measures to enhance loan recovery |

### **Committee Observations**

The Committee observed that while some issues raised in the Auditor-General's report for the financial year 2023/2024 were addressed, several queries remain unresolved as the Fund's management did not take action on all matters highlighted.

### **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 USE OF PUBLIC RESOURCES**

### **1. Failure to Appoint the County Trade Revolving Fund Committee**

Review of administrative records revealed that Kwale County Trade Revolving Fund Committee had not been appointed to oversee the operations of the Fund. This is contrary to Section 5 of the Kwale County Trade Revolving Fund Act, 2020 which established the Kwale County Trade Revolving Fund Committee and Section 1 of the Act provides that the Committee is mandated to manage and administer the Fund.

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

#### **Management response**

Upon establishment of the Fund, a Fund Committee was duly appointed and served effectively up to 2018. Thereafter, the Fund did not operate under an active committee due to the ongoing review and development of a new legislative framework to address existing operational and legal gaps. Appointing a new committee at that time would not have added value to the Fund's governance since the process aimed to align the Fund's operations.

Management has since developed and enacted the Kwale County Biashara Revolving Fund Act, 2025, which consolidates previous funds and provides for a strengthened governance structure, including the appointment of a new committee in compliance with the law. Copy of the gazetee notice of the appointment of the new committee and chairperson was provided for committee verification.

### **Committee Observations**

The committee observed that the Fund operated for several years without a legally mandated Committee, contrary to Section 5 of the Kwale County Trade Revolving Fund Act, 2020, though a new Committee has now been appointed under the Kwale County Biashara Revolving Fund Act, 2025.

### **Committee Recommendations**

**The Committee recommends that the Governor ensures the newly appointed Kwale County Biashara Revolving Fund Committee fully operationalizes its mandate under the Kwale County Biashara Revolving Fund Act, 2025, and that the Auditor-General monitors and reports on the Committee's performance and progress in the subsequent audit cycle.**

### **Unutilized Idle Funds**

The statement of financial position reflects cash and cash equivalents balance of Kshs 20,124,763 as detailed in Note 17 to the financial statements. This amount includes repayments of loans and interest to the fund since its inception. Review of the Fund's activities and the financial statements over the past three (3) years revealed that no loans have been issued despite availability of funds, contrary to Regulation 83 of the Public Finance Management (County Governments) Regulations, 2015 which requires the County Treasury to establish sound cash management systems, procedures and processes, to ensure efficient and effective banking and cash management practices which include avoiding accumulation of idle balances.

In the circumstances, Management was in breach of law.

### **Management response**

The Fund suspended loan disbursements to allow for the legislative process culminating in the enactment of the Kwale County Biashara Revolving Fund Act, 2025 and the establishment of an appropriate legal and governance framework. Following completion of the legislation process and the appointment of a fully constituted Biashara Revolving Fund Committee, the Fund balance has since been transferred to the County Revenue Fund (CRF) to ensure compliance with public finance management requirements and avoid idle balances. Evidence of Signed bank-confirmed letter requesting transfer of funds from the Equity Bank to CRF was provided for scrutiny.

### **Committee Observation**

The Committee observed that the Fund had idle balances due to suspension of loan disbursements pending the enactment of the Kwale County Biashara Revolving Fund Act,

2025. The funds have since been transferred to the County Revenue Fund to comply with financial management requirement.

### **Committee Recommendations**

**The Committee recommends that the Governor ensures the Accounting Officer continues to manage the Fund in accordance with Regulation 83 of the Public Finance Management (County Governments) Regulations, 2015, and that the Auditor-General monitors the status of Fund utilization in the subsequent audit cycles to confirm continued compliance and avoidance of idle balances.**

### **Failure to Insure Loans**

The statement of financial position and Note 18 to the financial statements reflect total long-term receivables from exchange transactions of Kshs.116,663,811. The balance includes loans amounting to Kshs.2,627,382 that relate to borrowers who were deceased. However, Management did not insure loans contrary to Section 27 (4) of the Kwale County Revolving Fund which requires the beneficiary to insure his loan as per the requirements to be set out by the Committee and the insurance expense to be deducted from the amount disbursed to the beneficiary.

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

### **Management Response**

Management takes notes of the deceased borrowers and has already completed profiling of the affected accounts. While insurance arrangements had not been operationalized during the period under review, Management clarifies that loan beneficiaries were required to attach collateral as part of the credit approval process. Such collateral remains withheld and is not released to next of kin until loan obligations are settled or alternative recovery arrangements are concluded.

### **Committee Observation**

The Committee observed that loans totaling Kshs. 2,627,382 to deceased borrowers were not insured, contrary to Section 27(4) of the Kwale County Revolving Fund Act, while management has completed profiling of the affected accounts and is holding collateral provided by the borrowers, the lack of operational insurance exposes the Fund to potential financial loss.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures all loans are insured in accordance with Section 27(4) of the Kwale County Revolving Fund Act, 2025, and that appropriate recovery or risk mitigation measures, including the use of collateral, are applied for deceased borrowers.**

#### **4.5 REPORT ON THE AUDITED FINANCIAL STATEMENTS OF KWALE COUNTY CLIMATE CHANGE FUND FOR THE FINANCIAL YEAR 2024/2025.**

The Governor of Kwale County, Hon. Fatuma Mohamed Achani, EGH, appeared before the Committee on **Monday, 23<sup>rd</sup> March, 2026** to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Kwale County Climate Change Fund for the Financial Year 2024/2025. The Governor was accompanied by the following officers—

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

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

#### **EMPHASIS OF MATTER**

The statement of comparison of budget and actual amounts reflects final income budget and actual on a comparable basis of Kshs. 250,649,439 and Kshs. 207,991,357 respectively, resulting in under-realization in revenue of Kshs. 42,658,082 or 17% of the budget. Similarly, Management spent Kshs. 139,400,553 against actual receipts of Kshs. 207,991,357, resulting in under-absorption of Kshs. 68,590,804 or 33% of the total receipts.

The underfunding and under absorption may have negatively affected the planned activities and service delivery to the residents of Kwale.

#### **Management Response**

During the year under review, there were delays in the transfer of funds from the exchequer. As at the close of the financial year, the fund had under-realization of revenue amounting to Kshs 42,658,082. The under-absorption of expenditure amounting to Kshs 68,590,804 was attributed to projects that had not yet been complete. copy of the Bank Statement & Projects Payment Status was provided for scrutiny.

#### **Committee Observation**

The Committee observed that the Fund recorded underfunding of Kshs. 42,658,082, representing 17% of the approved budget, and under-absorption of expenditure amounting to Kshs. 68,590,804, representing 33% of the total receipts which were attributed to delays in exchequer disbursements and delayed completion of projects.

#### **Committee Recommendation**

**The Committee recommends that-**

- i. The Governor should ensure that the Accounting Officer complies with Regulation 42(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 on exerting budgetary control measures and enhancing**

absorption of allocated funds, failure to which provisions of Section 199 of the Public Finance Management Act on penalties for offences shall apply.

- ii. **The National Treasury should ensure timely disbursement of funds to counties in accordance with the approved disbursement schedule.**

## **BASIS FOR CONCLUSION**

### **Lack of Fund Regulations**

Review of administrative records revealed that the fund operated without regulations to guide the administration and management on the formulation of the county climate finance framework, appointment and removal of the fund administrator, operations of the fund, eligibility criteria for accessing money from the fund, development of project proposals, procurement of goods and services, complaints mechanism, and monitoring, evaluation, reporting and learning of the fund.

This is contrary to Section 41 of the Kwale County Climate Change Act, 2022, which states that the County Executive Committee Member, in consultation with the County Executive Committee Member in charge of Treasury, should develop regulations for the administration and management of the fund.

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

### **Management Response**

The management is working on ensuring the fund regulations are in place. We have draft Climate Change Regulations currently at the County Assembly for consideration. A copy of the same was provided for committee verification.

### **Committee Observation**

The Committee observed that the Fund operated without approved regulations as required under Section 41 of the Kwale County Climate Change Act, 2022. However, the draft Climate Change Regulations have been developed and submitted to the County Assembly for consideration.

### **Committee Recommendations**

**The Committee recommends that the Governor should ensure that the Climate Change Fund Regulations are finalized and approved by the County Assembly within sixty (60) days in accordance with Section 41 of the Kwale County Climate Change Act, 2022 to provide a clear framework for the administration and management of the Fund and**

**submit a copy of the approved regulations to the Senate and the Auditor-General for verification.**

# ANNEXTURES

Minutes of the 52<sup>nd</sup> Sitting held on Monday 23<sup>rd</sup> March, 2026



**13<sup>TH</sup> PARLIAMENT 5<sup>TH</sup> SESSION**

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

**PRESENT**

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

**ABSENT WITH APOLOGY**

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

**SECRETARIAT**

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

**A. OFFICE OF THE AUDITOR GENERAL**

Mr. Mark Gachanja                      Liasion

**B. ETHICS AND ANTI CORRUPTION COMMISION**

Mr. Patrick Kinoti                      -Liaison Officer

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

The meeting was called to order by the Chairperson at twenty minutes past four O'clock in the afternoon followed by a word of prayer.

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

The agenda of the meeting was adopted having been proposed by Sen. Agnes Kavindu Muthama, MP and seconded by Sen. George Mungai Mbugua, MP as follows –

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

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

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

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

- a. Kisumu Water and Sanitation Company (KIWASCO)
- b. City Of Kisumu
- c. Ahero County Hospital
- d. Chulaimbo County Hospital
- e. Kisumu County Hospital
- f. Kombewa County Referral Hospital
- g. Lumumba Sub County Hospital
- h. Migosi Sub County Hospital
- i. Muhoroni County Hospital
- j. Nyakach County Hospital
- k. Kisumu County Mortgage & Car Loan (Executive) Fund
- l. Kisumu County Mortgage & Car Loan Assembly Fund
- m. Kisumu Lakefront Development Corporation
- n. Kisumu County Emergency Fund
- o. Kisumu County Bursary Fund
- p. Kisumu County Climate Change Fund
- q. Kisumu County Covid-19 Emergency Response Fund Account
- r. Kisumu County Education Fund
- s. Kisumu County Women, Youth and People with Disabilities Fund

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

There was no any other business.

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

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



**SIGNED: ..... DATE: 24/3/2026**

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