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REPUBLIC OF KENYA



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 KITUI COUNTY WATER COMPANIES, HOSPITALS, COUNTY CORPORATION AND FUND FOR THE FINANCIAL YEAR 2024/2025 (1st JULY, 2024 TO 30th JUNE, 2025):

SECTOR	NO.	ENTITY
WATER COMPANIES	2	KITUI WATER AND SANITATION COMPANY
		KIAMBEREMWINGI WATER AND SANITATION COMPANY
HOSPITALS	5	KITUI COUNTY REFERRAL HOSPITAL
		MUTOMO SUB-COUNTY HOSPITAL
		MWINGI LEVEL 4 HOSPITAL
		IKANGA SUB-COUNTY HOSPITAL
		TSEIKURU SUB-COUNTY HOSPITAL
COUNTY CORPORATION	1	KITUI COUNTY TEXTILE CENTER
FUND	1	KITUI COUNTY EMPOWERMENT FUND

PAPERS LAID	
DATE	13/03/2026
TABLED BY	SEN. OSOTSI
COMMITTEE	
CLERK AT THE TABLE	WILLIAM

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MARCH, 2026



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ABBREVIATIONS

KICOTEC	Kitui County Textile Center
EPZ	Export Processing Zone
CECM	County Executive Committee Member
COB	Controller of Budget
PPE	Property, Plant and Equipment
MOH	Ministry of Health
EACC	Ethics and Anti-Corruption Commission
FIF	Facilities Improvement Financing Act
GAAP	Generally Accepted Accounting Principles
HDU	High Dependency Unit
ICU	Intensive Care Unit
FY	Financial Year
O&M	Operations and Maintenance
IHMS	Integrated Hospital Management System
SHIF	Social Health Insurance Fund
KITWASCO	Kitui Water and Sanitation Company
KRCHN	Kenya Registered Community Health Nurses
NHIF	National Health Insurance Fund
NRW	Non-Revenue Water
NSSF	National Social Security Fund
OAG	Office of the Auditor-General
PAA	Public Audit Act
PFM	Public Finance Management
PSASB	Public Sector Accounting Standards Board
RWWDA	Regional Water Works Development Agency
SHA	Social Health Authority
SO	Standing Orders
KIMWASCO	Kiambere Mwingi Water and Sanitation Company
UHC	Universal Health Coverage
WASREB	Water Services Regulatory Board

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. **Unmodified opinion:** This is an opinion expressed by the auditor if the financial statements presents a true and fair view, in all material respects, in accordance with the applicable accounting standards.
4. **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.
5. **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.
6. **Accountability** – This refers to the assurance that an individual or a group will be held responsible for their actions or inactions.
7. **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.
8. **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 Kitui County water companies, Hospitals, County Corporation and fund for the Financial Year 2024/2025. The entities covered are: Two (2) water companies (Kitui Water and Sanitation Company Limited and Kiambere Mwingi Water and Sanitation Company Limited), Five (5) hospitals (Kitui County Referral Hospital, Mwingi Level 4 Hospital, Mutomo Sub County Hospital, Ikanga Sub-County Hospital, and Tseikuru Sub County Hospital), One County Corporation (Kitui County Textile Center) and one fund (Kitui County Empowerment Fund)

The Governor of Kitui 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 of the following Senators-

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

COMMITTEE SECRETARIAT

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

ESTABLISHMENT OF THE COMMITTEE

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

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

EXECUTIVE SUMMARY

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

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

This report presents the findings and recommendations of the Select Committee on County Public Investments and Special Funds following its consideration of the Auditor-General's reports on Eight (9) entities in Kitui County for the Financial Year 2024/2025. The entities covered are: Two (2) water companies (Kitui Water and Sanitation Company Limited and Kiambere Mwingi Water and Sanitation Company Limited), Five (5) hospitals (Kitui County Referral Hospital, Mwingi Level 4 Hospital, Mutomo Sub County Hospital, Ikanga Sub-County Hospital, and Tseikuru Sub County Hospital) and One (1) Corporation (Kitui County Textile Center) and Kenya County Empowerment Fund.

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

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 Kitui County water and Sanitation Company Limited and Kiambere Mwingi Water and Sanitation Company Limited 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 Kitui County Referral Hospital, Mwingi Level 4 Hospital, Mutomo Sub-county hospital and Ikanga Sub County hospital and Tseikuru Sub- County 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 Kitui County Textile Center for the Financial Year 2024/2025 and observations and recommendations of the Committee on each audit query.

GENERAL OBSERVATION FOR THE WATER COMPANY

- 1. Non-Revenue Water (NRW)** – The Committee observed that the Water Companies 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),
- 2. Material Uncertainty Related to Going Concern-** the Committee may observe that although Management of the Companies has undertaken several initiatives such as tariff adjustments, infrastructure improvements, solarization of water projects, and efforts to enhance operational efficiency, both Companies continue to face significant financial challenges, including recurring losses, negative working capital, and increasing liabilities, which raise material uncertainty regarding their ability to continue as going concerns. While some improvement in performance has been noted, most of the measures are long-term and their effectiveness remains unproven.
- 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. 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.
- 2. 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.

3. **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 HOSPITALS

1. **Failure to Meet Minimum Hospital Level Standards** — The Committee observed that all five 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 the 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.

GENERAL RECCOMENDATION FOR THE HOSPITALS

1. **Health Infrastructure and Staffing Plan** - The Governor develops and funds a comprehensive multi-year Health Infrastructure and Staffing Plan with clear milestones, timelines, and budgetary allocations to bring all hospitals into full compliance with the Kenya Quality Model for Health Policy Guidelines and 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.

GENERAL RECOMMENDATION FOR COUNTY CORPORATION

1. **Revenue Performance and Budgetary Control-** The committee observed that the entity is facing a severe revenue crisis, achieving only 37% of its projected targets for the financial year. With actual receipts of Kshs. 59.4 million against an ambitious budget of Kshs. 95 million, there is a clear disconnect between financial planning and market reality. This underfunding has directly hampered the center's ability to deliver services and maintain its planned operations. The committee notes that while management cited economic constraints and over-ambitious targets, the failure to meet even half of the budget suggests a need for more realistic forecasting and a more aggressive sales strategy to ensure the sustainability of the textile center.
2. **Asset Accountability and Financial Management-** The committee observed significant lapses in the management of public assets and the accuracy of financial statements. Specifically, property and equipment valued at over Kshs. 90 million remain unconfirmed due to missing ownership documents and a lack of formal valuation. Furthermore, the misclassification of direct production costs—such as labor and electricity—as administrative expenses rather than "Cost of Sales violates standard accounting regulations. This lack of transparency in the balance sheet, coupled with a massive Kshs. 118 million debt in outstanding payables, indicates a breakdown in internal controls and a precarious financial position that risks the long-term viability of the project.

GERENAL RECOMMENDATION FOR COUNTY CORPORATION

1. **Revenue Realization and Budgetary Compliance-**The Committee recommends that the Accounting Officer for KICOTEC must, submit a revised Revenue Mobilization Strategy to the County Assembly. Pursuant to Section 31 of the PFM Act, 2015 (Regulations), the management must ensure that budget estimates are based on realistic revenue projections. Failure to meet at least 50% of the projected revenue in the next quarter should trigger a mandatory budget re-alignment to prevent further unauthorized pending bills.
2. **Asset Valuation and Legal Documentation-** In accordance with Section 22 (1) (a) of the PFM (County Government) Regulations, 2015, the Committee recommends that the Management of KICOTEC, in coordination with the County Executive Committee Member (CECM) for Finance, must complete a formal valuation of all Property, Plant, and Equipment (PPE) currently valued at Kshs. 90,215,266. This valuation and the acquisition of all requisite ownership documents (Title Deeds and

Logbooks) must be finalized and reported to the Auditor General within ninety (90) days of this report.

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.

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: 




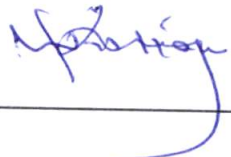
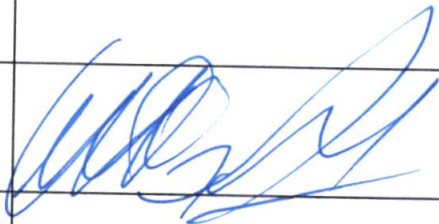
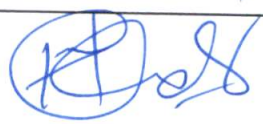
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HON. SEN. GODFREY ATIENO OSOTSI, CBS, MP
CHAIRPERSON

ADOPTION OF THE REPORT OF THE SENATE SELECT COMMITTEE ON COUNTY PUBLIC INVESTMENTS AND SPECIAL FUNDS ON THE CONSIDERATION OF THE AUDIT REPORTS OF NINE COUNTY ENTITIES FOR KITUI COUNTY FOR THE FINANCIAL YEAR 2024/2025

SECTOR	NO.	ENTITY
WATER COMPANIES	2	KITUI WATER AND SANITATION COMPANY
		KIAMBEREMWINGI WATER AND SANITATION COMPANY
HOSPITALS	5	KITUI COUNTY REFERRAL HOSPITAL
		MUTOMO SUB-COUNTY HOSPITAL
		MWINGI LEVEL 4 HOSPITAL
		IKANGA SUB-COUNTY HOSPITAL
		TSEIKURU SUB-COUNTY HOSPITAL
COUNTY CORPORATION	1	KITUI COUNTY TEXTILE CENTER
FUND	1	KITUI COUNTY EMPOWERMENT FUND

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

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

CHAPTER ONE: WATER COMPANIES

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

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

1. Mr. Peter Kilonzo - CECM Finance
2. Mr. Peter Nkunda - CECM Water
3. Ms. June Munyao - Managing Director

REPORT ON THE FINANCIAL STATEMENTS

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

1. Long outstanding Trade and Other Receivables

The statement of financial position reflects trade and other receivables balance of Kshs. 204,117,402 as disclosed in Note 18 to the financial statements. Included in the balance are receivables totaling to Kshs 166,015,837 which have been outstanding for more than one hundred and twenty (120) days. Management did not provide measures put in place to recover the long outstanding receivables.

In the circumstance, the accuracy and recoverability of trade and other receivables balance of Kshs 166,015,837 could not be confirmed.

Management Response

As at the end of the period under review, the Company's trade receivables beyond 120 days stood at Kshs. 166,015,837 as shown in Table 1 below. It is true the recoverability of some of the trade receivables is doubtful.

Table 1: Breakdown of outstanding receivables beyond 120 days as at 30th June 2025

S.no	Category	Balance
------	----------	---------

1	Domestic	110,157,369
2	Bulk	3,069,979
3	Commercial	12,580,115
4	Government institutions	5,572,789
5	Multi-dwelling (Flats)	12,100,198
6	Schools	11,616,494
7	Water Kiosk	10,918,893
	Total	166,015,837

Out of Kshs 166,015,837, Kshs. 50,271,960.31 relates to active connections, which remain in service and are under ongoing collection and follow-up processes. The balance of Kshs. 115,743,876.69 pertains to disconnected or inactive accounts across all customer categories currently undergoing customer identification and verification.

The persistent accumulation of receivables can be attributed to several factors;

1. Delayed or non-payment by public institutions, particularly schools and other government departments, often due to inadequate budgetary provisions and delay in release of exchequer disbursements for utility services.
2. Arrears from customers currently not getting water due to infrastructure related issues leading to reluctance in payment of water bills.
3. Uncollectable debts from long-disconnected accounts, including:
 - i. Deceased customers
 - ii. Dissolved community groups (previous kiosk or bulk water operators)
 - iii. Demolished properties
 - iv. Vacated or abandoned premises
 - v. Closed businesses

The Company remains committed to prudent financial management and has prioritized the recovery and resolution of long-outstanding receivables through; continuous improvements in customer data management, enforcement, and stakeholder engagement to reduce future accruals and enhance revenue performance.

In response to these challenges, the Company is implementing the following measures:

1. Customer Identification and Verification Exercise

An ongoing door-to-door survey is being conducted to update customer records, confirm meter conditions, verify connection status, and identify unbilled or unknown users

2. Debt Recovery Campaigns

Intensified collection efforts, including issuing demand notices, disconnection for non-payment (where applicable), targeted field recovery initiatives and the introduction of a collections incentive scheme Debt Management Policy Development

The Company is finalizing a Debt Management Policy aligned with public sector accounting guidelines. This will facilitate the write-off of any irrecoverable debts after comprehensive review and approval by Board of Directors, County Executive Committee and the County Assembly.

3. Engagement with Government Institutions

Continuous liaison with relevant ministries and public entities to provide adequate budgets for water and settle arrears, including the signing of payments commitments. The management has continued to pursue customers who closed with outstanding bills as at 30th June 2025. Some of these customers include; South Eastern Kenya University (SEKU) who closed with Kshs 1,618,732 made a part payment of Kshs 1,456,300 on 17th July 2025, Administration Police (AP) Border Patrol Centre at Kanyoonyoo who closed with Kshs 1,568,940 paid the full amount on 1st September 2025 and Kitui County Referral Hospital who closed with Kshs 737,100 made a part payment of Kshs 600,000 on 31st July 2025

4. Flexible Payment Plans

Customers with significant outstanding balances are being offered instalment payment arrangements to encourage compliance and affordability

5 Embraced Technology Through the Use of Majisoft Billing Software

Customer bills are broadcasted through bulk online messages where each customer receives a monthly bill through their registered phone numbers with a Push-To-Pay option. This has reduced collection turn-around period due to the timely receipt of bills. Upon payment, a customer receives an immediate payment notification which has enhanced customer trust.

Committee Observation

The Committee observed that—

- i. trade and other receivables outstanding for more than 120 days amounted to Kshs.166,015,837, out of which Kshs.115,743,876 pertained to disconnected or inactive accounts including deceased customers, dissolved community groups, demolished properties, and closed businesses.
- ii. the Company has initiated debt recovery campaigns, customer identification and verification exercises, flexible payment plans, and engagement with government institutions, and is finalizing a Debt Management Policy to facilitate write-off of irrecoverable debts.

Committee Recommendation

The Committee recommends that—

- i. **the Governor ensures the Accounting Officer fast-tracks the finalization and Board approval of the Debt Management Policy and subsequently presents it to the County Executive Committee and County Assembly for approval, to facilitate the write-off of irrecoverable debts in compliance with Section 130(2)(d) of the Public Finance Management (County Governments) Regulations, 2015;**
- ii. **the Governor ensures the Accounting Officer submits a comprehensive debtors schedule with an updated ageing analysis to the Auditor-General for verification within 60 days of the adoption of this report;**
- iii. **the Governor ensures the Accounting Officer intensifies debt recovery efforts including issuance of demand notices, disconnection of non-paying active customers, and engagement with government institutions including schools and public entities to settle outstanding arrears, and submits a status report to the Senate within 60 days of the adoption of this report; and**
- iv. **the Auditor-General monitors the implementation of the debt recovery measures and reviews the recoverability of the outstanding receivables in the subsequent audit cycle.**

1. Material Uncertainty Relating to Going Concern

The statement of profit or loss and other comprehensive income reflects loss before taxation of Kshs. 19,635,533 (Deficit of Kshs 32,796,024 for financial year 2023/202, indicating a marginal decrease of Kshs13,160,491 during the year under review.

Further, the trade and other payables balance of Kshs. 147,062,569 increased by Kshs. 1,658,276 from the previous year's balance of Kshs. 145,404,293, which may be an indication of the Company's inability to settle its current obligations as and when they fall due. Although management has in the annual report highlighted that the deficit resulted from disruption of operations due to prolonged power disconnection, breakdown of intake motor, non-efficient pumps, high energy costs, inadequate water supply and non-payment of full subsidy support by the County Government of Kitui as budgeted for, no measures have been put in place to reverse the trend.

Management Response

The company implemented a revised subsidized tariff effective from July 2024 as gazetted on 17th May 2024. The Company has progressively been able to meet her Operations and Maintenance costs (**O&M costs coverage**). The Company's O&M Cost Coverage has improved to 96% in the year under review compared to 52% in the previous year. A target of 100% O&M Cost Coverage has been set for FY2025/2026.

The table below shows the improvement in O&M cost coverage over the last 3 years as per WASREB Impact reports:

Table 2: Improvement in O&M cost coverage over the last 3 years

S.No	FY	O &M Cost Coverage (%)
1	2024-2025	96
2	2023-2024	52
3	2022-2023	60

The profit/loss reported has improved from a loss of Kshs 32,796,024 in the previous year to Kshs 19,635,533 in the year under review. The cost of electricity continues to be a threat to the sustainability of the Company and accounts for 36% of our total operation and maintenance costs. In order to reduce the cost of production, the Company through the support of County Government of Kitui solarized three (3) boreholes in the FY 2024-2025 i.e. Old Ikanga, Mutune and Matinyani boreholes.

To broaden the Company's revenue base, the County Government of Kitui is implementing cost effective (solar powered) water schemes for handover to the Company for professional management. Examples of such schemes handed over to KITWASCO include Mwita syano sumpwell, Kwa kilya kwa kilui sumpwell and Kwa mulungu sumpwell

The upgrade of Masinga intake by the National Government to fully operationalize the treatment plant (currently treating an average of 11,000 m³ of water daily against optimal daily capacity of 18,000 m³) will result to increased water supply hence increased revenues. The increased revenues will enable KITWASCO to meet its obligations as and when they fall due therefore addressing the going concern issue.

Similarly, the completion of Umaa Dam currently being implemented by the National Water Harvesting & Storage Authority will improve water supply. The project costing Kshs. 1.9Billion will have a treatment plant with a yield of 2,500 m³ per day and is expected to be completed in July 2026. Once complete, the Dam will supply water to Kitui Town and its environs. It is anticipated that the project will address the perennial water challenges experienced in Kitui Town since the existing water supply from Masinga Dam is not sufficient to cater for the rising water demand in the area. This additional water will improve revenues, increase the company ability to settle its obligations as and when they fall due hence addressing the going concern issue.

Other strategies implemented to improve sustainability include emphasis on Non-Revenue Water (NRW) management which is a major threat to the Company's sustainability. The major causes of NRW include;

- Old and dilapidated pipeline infrastructure
- Theft and vandalism of water infrastructure
- Lack of pressure management tools
- Old and faulty consumer, zonal and production meters

The level of NRW for the FY2024/2025 stood at 46% while the moving average as at December 2025 was 44% which is still above the 25% threshold set by WASREB guidelines.

The table below shows the improvement in NRW over the last 3 years as per WASREB Impact reports:

Table 3: Improvement in NRW over the last 3 years

S.No	FY	NRW (%)
1	2024-2025	46
2	2023-2024	49
3	2022-2023	49

In the Company's new strategic direction (**Strategic Plan 2024-2029**), NRW management has been identified as a Key Result Area (KRA) with various activities/strategies aimed at reducing NRW hence improved revenues. This will result to improved ability to settle obligations as and when they fall due.

Some of these strategies include;

- Inculcating positive culture change including change of mindset that NRW can be managed to the acceptable levels.
- Tracking and disconnection of illegal connections
- Surcharge and prosecution of illegal water users.
- Prompt repair of leakages and bursts.
- Installation of pressure regulation valves.
- Capacity building on NRW reduction technologies

The Company endeavors to progressively be self-sustainable with the ability to meet all her O&M costs and eliminate dependency on County Government subsidies towards full coverage of O&M costs.

Committee Observation

The Committee observed that—

- i. the Company recorded a loss before taxation and trade and other payables continued to increase, indicating the Company's inability to settle its current obligations as and when they fall due, raising serious concerns about its going concern status; and
- ii. although the Company's financial performance showed marginal improvement with O&M Cost Coverage improving from 52% to 96%, the Company still recorded an NRW level of 46%, far above the WASREB benchmark of 25%, and continued to rely on County Government subsidies with no comprehensive measures having been put in place to fully reverse the going concern trend.

Committee Recommendation

The Committee recommends that—

- i. the Governor of Kitui County should take keen interest in the management and operations of the water company in line with Article 179(4) of the Constitution;
- ii. the Governor ensures the Accounting Officer prepares and submits quarterly reports to the CECM Finance in regard to the financial and non-financial status of the water company in line with Section 166 of the Public

- Finance Management Act, Cap.412A, failure to which the provisions of Section 199 of the Public Finance Management Act, Cap. 412A on penalties for offences shall apply;
- iii. the County Executive Committee Member in charge of water should take full responsibility for monitoring the financial performance of the county corporation in line with Section 184 of the Public Finance Management Act, 2012 and regularly report to the Governor through the County Executive Committee in line with Article 179(6) of the Constitution;
 - iv. the Governor ensures the CECM Finance undertakes annual reporting on County Corporation, including an assessment of the commercial viability of the company in line with the standards set by the Water Services Regulatory Board under Section 77(2) of the Water Act, 2016;
 - v. the Governor ensures the Accounting Officer prioritizes NRW reduction as a matter of urgency, targeting progressive reduction towards the WASREB benchmark of 25%, given its significant impact on the Company's revenues and going concern status; and
 - vi. the Governor ensures the Accounting Officer, within 60 days of the adoption of this report, puts in place strategic and innovative measures for recovery and to boost the financial health of the water company for self-sustainability, reviews and regularizes the company's existing assets, maintains an updated asset register that reflects the current financial position, and determines and ascertains their commercial viability as required by the Public Sector Accounting Standards Board (PSASB). The Auditor-General to monitor the financial sustainability of the Company and report on the going concern status in the subsequent audit cycle.

Emphasis of Matter

Long Outstanding Trade and Other Payables

The statement of financial position and as disclosed in Note 25 to the financial statement s reflect trade and other payables balance of Kshs. 147,062,569. Included in the balance a re payables totaling Kshs. 56,559,809 which have been outstanding for more than two (2) years. Although Management attributed the failure to clear the payables to delay by the County Government of Kitui in paying part of the water subsidies agreed with the Com pany, no measures have been put in place to clear the payables. Failure to settle bills duri ng the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge The statement o

f comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs. 339,847,646 and Kshs. 279,881,288 respectively, resulting to underfunding of Kshs. 59,966,358 or approximately 18% of the budget.

The underfunding may affect the planned activities and may impact negatively on service delivery to the public.

Management Response

The budget underfunding was majorly as a result of customer resistance to settle their bills following the implementation of a revised tariff in the year under review. To improve on revenue collection, the Company has taken the following measures; tariff post implementation campaign forums, debt recovery drives, engagement with Government Institutions to provide adequate budgetary allocation for water bills, entering into flexible payment plans with customers, among others (See Annexes 2,4 and 5 above).

Other strategies being implemented by the company to improve sustainability include emphasis on Non-Revenue Water (NRW) management which is a major threat to the Company's sustainability.

Some of these strategies include: -

- Inculcating positive culture change including change of mindset that NRW can be managed to the acceptable levels.
- Tracking and disconnection of illegal connections
- Surcharge and prosecution of illegal water users.
- Prompt repair of leakages and bursts.
- Installation of pressure regulation valves.
- Capacity building on NRW reduction technologies

In the revised tariff the County Government of Kitui was to subsidize the Company to a tune of Kshs 63,835,738 through part payment of Masinga Treatment Plant electricity bills

The subsidy for the year under review was under-budgeted with the Company receiving Kshs 35,087,649 leaving a balance of Kshs 28,748,089. To avoid disruption in water service delivery through power disconnection, KITWASCO entered into power bills payment plans with Kenya power where an average of Kshs 4.5 million was paid monthly. Under this arrangement, 36% of the company's cashflows were directed towards payment of Masinga electricity bill at the expense of other payables .

The company looks forward to receiving support from both the National and County Government to support water service delivery within our area of supply. This will include:

- Handover of cost effective (solar powered) water schemes to the Company for professional management by the County Government. Examples of such schemes handed over to KITWASCO include Mwita syano sumpwell, Kwa kilya kwa kilui sumpwell, Kwa mulungu etc). This will broaden the Company's revenue base hence increased company's ability to meet set budget targets and settle its obligations as and when they fall due.
- The upgrade of Masinga intake by the National Government to fully operationalize the treatment plant (currently treating an average of 11,000 m³ of water daily against optimal daily capacity of 18,000 m³) will result to increased water supply hence increased revenues. The increased revenues will enable KITWASCO to meet its obligations as and when they fall due.
- Similarly, the completion of Umaa Dam currently being implemented by the National Water Harvesting & Storage Authority will improve water supply. The project costing Kshs. 1.9Billion will have a treatment plant with a yield of 2,500 m³ per day and is expected to be completed in July 2026. Once complete, the Dam will supply water to Kitui Town and its environs. This additional water will improve revenues, hence improving the company's capacity to meet the set budgetary targets.

Committee Observation

The Committee observed that—

- i. trade and other payables outstanding for more than two years amounted to Kshs.56,559,809, attributed to delays by the County Government of Kitui in paying agreed water subsidies, with a significant portion of the Company's cashflows being directed towards Kenya Power electricity bill payments at the expense of other outstanding payables.
- ii. the Company recorded budget underfunding of approximately 18%, attributed to customer resistance to the revised tariff and under-payment of the County Government subsidy, further straining the Company's ability to settle its obligations.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures the County Government of Kitui honors its subsidy obligations to KITWASCO in full and on time as gazette, and the Accounting Officer develops and implements a creditors payment plan prioritizing settlement of all long outstanding payables as a first charge on the budget, in compliance with Regulation 41(2) of the Public Finance Management (County Governments) Regulations, 2015;
- ii. the Governor ensures the Accounting Officer strengthens revenue collection measures including tariff sensitization campaigns, debt recovery drives, and engagement with government institutions to improve budget absorption and submits a status report to the Senate within 60 days of the adoption of this report; and
- iii. the Auditor-General monitors the implementation status and reports on progress in the subsequent audit cycle.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis of Conclusion

1. Failure to Refund Customers' Deposits

The statement of financial position reflects customers' deposits balance of Kshs. 31,450,287 as disclosed in Note 26 to the financial statements. However, the bank statement for the deposits account reflects a balance of Kshs. 11,797,524 resulting to a variance of Kshs. 19,652,763. As previously reported, the difference of Kshs. 19,652,763 represents the amount borrowed by Management to finance various activities including Endau Ilimukuyu water project, security for a bank guarantee and internal borrowings of Kshs. 12,054,776, Kshs. 3,175,298 and Kshs. 5,622,698 respectively. This is contrary to Section 68 (1) and (2) of the Public Finance Management Act, 2012 which stipulates that an Accounting Officer for a National Government entity, shall be accountable to the National Assembly for ensuring that the resources of the respective entity for which he or she is the Accounting Officer are used in a way that is lawful and authorized, effective, efficient, economical and transparent and in the performance of a function under Sub-Section (1) (d). An Accounting Officer shall ensure that all contracts entered into by the entity are lawful and are complied with. Although the Board approvals were sought for the borrowings, the amount borrowed totaling Kshs. 19,652,763 had not been refunded as at 30 June 2025.

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

Management Response

The Kshs 19,652,763 relates to borrowings from the customer deposits account. The amount is composed of Kshs 12,054,776 being borrowing on behalf of the County Government of Kitui as its contribution towards Ilimukuyu phase I water project, Kshs 3,175,298 being WASREB performance guarantee for Company license, Kshs 4,422,698 being Company internal borrowings.

The Kshs 12,054,776 borrowed by the County Government of Kitui Water Department for the Ilimukuyu phase I project County contribution was fully refunded on 14th July 2025.

The Kshs 3,175,298 relates to WASREB performance guarantee held by the Kenya Commercial Bank (KCB) for Company license and therefore not an actual expenditure. It was reimbursable back to the customer deposit account upon expiry of the guarantee period on 15th December 2025.

The Company has continued to honor a commitment it made in the FY2023/2024 of paying Kshs 100,000 monthly towards clearing the Company internal borrowings hence the reduction from Kshs 5,622,698 in FY2023/2024 to Kshs 4,422,698 in the year under review. With improvement in cash-flows, additional funding to shorten the repayment period will be provided in the budget.

Committee Observation

- i. The Committee observation a variance of Kshs. 19.65 million between the reported customer deposits and the bank balance, arising from Management's use of these funds for other activities, including project financing, guarantees, and internal borrowing;
- ii. although part of the amount has since been refunded and some is recoverable, a portion remains outstanding contrary of Section 68 (1) and (2) of the Public Finance Management Act, 2012.

Committee Recommendation

The Committee recommends that; -

- i. **the Governor should ensure that the Accounting Officer provides a certified bank statement for the designated customer deposit account and a comprehensive individual customer deposit register within 60 days of the**

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

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

1. Irregular payment/Delay in construction of Ilimukuyu Dam and Water Supply Project Phase II

As previously reported, the Company entered into a contract agreement with a firm on 8 December 2023 for the proposed construction of Ilimukuyu dam and water supply Project Phase II at a contract sum of Kshs. 86,165,830. The contract commenced on 19 December, 2023 for a period of six (6) months running to 18 June 2024. However, the contract was extended for thirty-seven (37) days resulting in a new completion date of 25 July 2024. Review of supporting documents and progress report revealed that the contract or had been paid the full amount while the project was 70% complete. As at the time of audit in October 2025, the project had stalled after payment of the full amount.

Although, Management explained that the reasons for the extension was additional works, ground conditions for the foundation works for the dam which were substantially more adverse than anticipated and the delay in provision of the locations for the water kiosks and latrines, the contractor failed to complete the project within the agreed completion timeline even after the contract extension. No explanation was provided for the delay in project implementation.

In the circumstances, value for money obtained from the investment of Kshs. 86,165,830 could not be confirmed.

Management Response

The Ilimukuyu Dam Project was funded by the Water Sector Trust Fund (WSTF) and the County Government of Kitui and was awarded by KITWASCO to a contractor Daje Enterprises Limited on 8th December 2023. WSTF sourced the funds from European Union (EU) programme which was supposed to close on 31st October 2024.

After the contractor was handed over the site, preliminary assessment of the scope of works demonstrated significant deficits (gaps) between the scope of work in the design and the actual expected output.

For instance:

- The Design excluded key project components such as soil stabilization (through grouting or use of bentonite), borrowed embankment wall materials (soil quantities)
- Lack of geotechnical surveys to inform the quantities to be excavated,
- Erroneous measurement of distances between the dam site and borrow pits for materials required for the construction of embankment, among others.

The design and the BoQ were done by WSTF through a consultant who worked solely under the instructions of the WSTF. The County Government of Kitui and KITWASCO were not involved in the design and the subsequent generation of the BoQ for the works.

This necessitated a review of the scope of the works and the BoQ which led to WSTF agreeing to avail an additional Kshs 9,539,243.15 from the savings realized during tendering. This additional funding resulted in the money available for the project increasing from Kshs 86,165,830 to Kshs 95,704,243

As at the time of audit, interim payment certificates (IPC) amounting to Kshs 67,348,288 based on measured works had been prepared where Kshs 60,613,459 was paid to the contractor and a 10% retention of Kshs 6,734,829 retained. The total interim payment certificates (IPC) of Kshs 67,348,288 was based on measured works by a joint technical evaluation team composed of technical officers from WSTF, County department of Water, KITWASCO and the contractor.

The contractor was therefore not paid the full amount of Kshs 86,165,830 as indicated in the OAG report. The IPCs amounting to Kshs 67,348,288 translates to 70% of the revised contract sum for the project of Kshs 95,704,243.

WSTF sourced the funds from European Union (EU) programme which closed on 31st October 2024. As at the time of the programme closure, the project was at 70% complete. WSTF and the EU could not extend funding due to programme closure.

Additionally, as indicated in the OAG report for FY 2024-2025 there had been delays in the project implementation occasioned by slow pace of implementation owing to design challenges and the delays in approval for de-scoping of works by WSTF.

Following the programmed closure there was a subsequent meeting between WSTF, County department of Water and KITWASCO on 25th March 2025, where WSTF indicated that no additional funding would be availed. Since the project was incomplete at the time of closure KITWASCO was advised to seek for alternative sources of funding to complete the project to realize its objectives.

Following the abandonment of the site by the contractor for more than 30 days, KITWASCO initiated the contract termination process in line with clause 57.2 (a) and (b) of the form of contract and the contract was eventually terminated on 17th June 2025. The contractor handed over the site to KITWASCO on 18th July 2025 (

Measures taken towards completion of the project

The dam will be completed in two phases. Phase I will be implemented in the current FY2025/26 and Phase II in the FY2026/27. Phase I of the project amounting to Kshs 25,000,000 is being structured in two components costing Kshs 12,000,000 (from KITWASCO) and Kshs 13,000,000 (from County Water Department). This is based on an analysis of the available implementation time, which is affected by the rain season, and budget to the end of the financial year.

The County Government of Kitui will provide the requisite funds for the completion of Phase II of the dam works during FY2026/27. The amount of the additional funding will be validated by a technical team working on the designs and Bills of Quantities.

Further, World Vision Kenya has agreed to collaborate with the County Government to complete the water treatment and distribution works so that the residents of Endau can benefit from the project as envisaged

Key observations (lessons) in the project implementation

1. The design for the dam was inadequate and excluded key project components such soil stabilization (through grouting or use of bentonite), borrowed embankment wall materials (soil quantities), lack of geotechnical surveys to inform the quantities to

be excavated, erroneous measurement of distances between the dam site and borrow pits for materials required for the construction of embankment, among others.

2. WSTF did not involve the County department of Water during the design and procurement process and as such the design deficits/ gaps were only identified during the implementation.
3. There is need for a comprehensive due diligence to vouch the capacity of the contractor to deliver especially in such specialized and high magnitude works.

Committee Observation

The Committee observed that—

- i. the Ilimukuyu Dam and Water Supply Project Phase II, contracted at Kshs. 86,165,830 and later revised to Kshs. 95,704,243, stalled at 70% completion following the closure of the EU-funded programme on 31st October 2024, with the contractor subsequently abandoning the site and the contract being terminated on 17th June 2025
- ii. the project design, prepared solely by a WSTF consultant without involvement of KITWASCO or the County Government of Kitui, was found to be critically deficient, excluding key components such as soil stabilization works, geotechnical surveys, and accurate measurement of borrow pit distances, which contributed to scope revisions, cost escalation, and implementation delays; and
- iii. value for money from the investment of Kshs. 86,165,830, out of which Kshs. 60,613,459 was paid to the contractor, could not be confirmed given the incomplete and stalled state of the project.

Committee Recommendation

The Committee recommends that—

- i. **the Governor ensures the Accounting Officer fast-tracks the implementation of the two-phased completion plan for the Ilimukuyu Dam project and securing additional County Government funding for Phase II in FY2026/27, and formalizes the World Vision Kenya collaboration agreement for water treatment and distribution works, submitting evidence of progress to the Senate within 60 days of the adoption of this report;**

- ii. the Governor ensures the Accounting Officer, in collaboration with relevant technical agencies, conducts a comprehensive assessment of works executed by the terminated contractor against amounts paid and pursues appropriate recovery or legal redress for any payments made in excess of works executed;
- iii. the Governor ensures that all future project designs and Bills of Quantities involving KITWASCO are reviewed and validated by KITWASCO and County technical officers before procurement, and that no project proceeds to tendering on the basis of a design that has not been independently verified by the implementing entity;
- iv. the Governor ensures the Accounting Officer implements a rigorous contractor pre-qualification and due diligence framework to assess the technical and financial capacity of contractors, particularly for specialized infrastructure works such as dam construction, before contract award; and
- v. the Auditor-General monitors the implementation of the project completion plan and reports on the status in the subsequent audit cycle.

4. Excessive Non- Revenue Water

Review of the Company's records revealed that water production was 2,519,743 cubic meters (M3) during the year under review, out of which 1,349,164 M3 was billed to customers. The balance of 1,170,579 M3 or approximately 46% of total production represents Non-Revenue Water (NRW). This contravenes the Water Services Regulatory guidelines, which require water service providers to ensure that commercial losses in respect of water produced do not exceed 25% of total production.

In the circumstances, Management was in breach of law.

Management Response

The level of Non-Revenue Water (NRW) for the FY2024/2025 stood at 46%. The moving average as at December 2025 was 44% which was still above the 25% threshold set by WASREB guidelines.

The table below shows the improvement in NRW over the last 3 years as per WASREB Impact reports:

Table 4: Improvement in NRW over the last 3 years

S.No	FY	NRW (%)
1	2024-2025	44

2	2023-2024	46
3	2022-2023	46

NRW management has been identified in the 2024-2029 KITWASCO's Strategic Plan as a Key Result Area (KRA) with various activities/strategies aimed at reducing NRW and thus ensuring sustainability of the company

Some of these strategies include;

- i) Inculcating positive culture change including change of mindset that NRW can be managed to the acceptable levels.
- ii) Tracking and disconnection of illegal connections.
- iii) Surcharge and prosecution of illegal water users. Prompt repair of leakages and bursts.
- iv) Installation of pressure regulation valves.

Committee Observation

The Committee observed that—

- i. the Company's Non-Revenue Water stood at 46%, far exceeding the WASREB benchmark of 25%.
- ii. although the Company has shown marginal improvement in NRW levels over the last three financial years — from 49% in FY2022/23 to 46% in FY2024/25 — the pace of reduction remains too slow, and the NRW level continues to pose a serious threat to the Company's financial sustainability.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures the Accounting Officer monitors and oversees the implementation of measures to mitigate Non-Revenue Water, addressing both physical and commercial losses, and reports progress to the Auditor-General for review in the subsequent audit cycle;
- ii. the Governor ensures the Accounting Officer segregates NRW into physical and commercial losses so that the Company can ascertain and identify specific mitigating measures to effectively address and reduce NRW levels, including installation of smart meters, replacement of the old water supply network, and introduction of a Geographic

- Information System (GIS) to enable real-time monitoring of pipe leaks and maintenance; and**
- iii. the County Government collaborates with the Ethics and Anti-Corruption Commission (EACC) to ensure pre-emptive measures are put in place to reduce cases of theft and illegal connections.**

4. Failure to Dispose Unserviceable Assets

The statement of financial position reflects property, plant and equipment balance of Kshs.24, 614,040 as disclosed in Note 15 to the financial statements. However, physical verification revealed that eleven (11) grounded motor vehicles and eighteen (18) computers were unserviceable and had not been disposed. This is contrary to Section 164(1) of the Public Procurement and Assets Disposal Act, 2015 which stipulates that the employee in charge of unserviceable, obsolescent, obsolete or surplus assets shall bring the matter to the attention of the Disposal Committee through the Head of Procurement function.

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

Management Response

The management clarified that the 11 grounded motor vehicles include 10 motor cycles and 1 motor vehicle. The company did not dispose unserviceable assets during the year under review. However, the management has put in place measures in the current financial year to identify and dispose unserviceable assets in compliance with the Public Procurement and Asset Disposal Act, 2015.

Committee Observation

The Committee observed that eleven (11) grounded motor vehicles (comprising 10 motorcycles and 1 motor vehicle) and eighteen (18) computers remained unserviceable and had not been disposed of, contrary to Section 164(1) of the Public Procurement and Asset Disposal Act, 2015, and that no disposal action was taken during the year under review.

Committee Recommendation

The Committee recommends that the Governor ensures the Accounting Officer constitutes a Disposal Committee and initiates the formal disposal process for all identified unserviceable assets including the eleven motor vehicles and eighteen computers through the Head of Procurement function, in compliance with Section 164(1) of the Public Procurement and Asset Disposal Act, 2015, and submits evidence

of the disposal to the Senate and Auditor-General within 60 days of the adoption of this report.

2. Non-Compliance with Law on Ethnic Composition

During the year under review, the total number of employees of Company was one hundred and fifteen (115) out of which, one hundred and seven (107) or approximately 93% of the total number were from the dominant ethnic community in the County. This is contrary to the provisions of Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which provides that all public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff and that no public establishment shall have more than one third of its staff from the same ethnic community. Management did not provide measures put in place to bridge the ethnic gap.

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

Management Response

The employment opportunities at the entry level that may arise going forward will be filled competitively and affirmative action applied as provided for under Article 232 (h) and (i) of the Constitution of Kenya 2010, to ensure progressive realization of the provision of County Government Act 2012 Section 65(e) and Section 7(1) and (2) of the National Cohesion and Integration Act, 2008.

Committee Observation

The Committee observed that 107 out of 115 employees, representing approximately 93% of the Company's staff, were from the same dominant ethnic community, far exceeding the one-third threshold prescribed under Section 7(1) and (2) of the National Cohesion and Integration Act, 2008.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures management comes up with deliberate measures to ensure staff diversity at entry level when filling vacant positions, in full compliance with Section 7(2) of the National Cohesion and Integration Act, 2008 and Section 65 of the County Governments Act, 2012; and

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1. Lack of an Approved Information and Communication Technology (ICT) Security Policy

Review of the Company's information technology systems revealed that the Company did not have an approved ICT Policy for governance and management of its ICT resources. In addition, there is no ICT Steering Committee in place to assist in the development of ICT Policy Framework to enable the Company to realize long-term ICT strategic goals.

Lack of an approved ICT Policy may result in an unclear direction regarding maintenance of information security across the organization and safeguarding the Company's ICT assets. Further, without a sound and approved framework, users do not have any rules and procedures to follow in order to minimize risks of errors, fraud and the loss of data confidentiality, integrity and availability.

In the circumstances, existence of effective measures to manage ICT could not be confirmed.

Management Response

The Company has an ICT policy that was approved by the Board on 27th February 2025 and is being implemented.

Committee Observation

The Committee observed that the management tabled a copy of the ICT Policy approved by the Board of Directors on 27th February 2025 and confirmed it is being implemented.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

1.2. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR KIAMBERE MWINGI WATER AND SANITATION COMPANY LIMITED FOR THE FINANCIAL YEAR 2024/2025.

The Governor of Kitui County, Hon. Dr. Julius Malombe, EGH, appeared before the Committee on Monday 26th January 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Kiambere Mwingi Water and Sanitation Company Limited for the Financial Year 2024/2025. The Governor was accompanied by the following officers-

1. Mr. Peter Kilonzo - CECM Finance
2. Mr. Peter Nkunda - CECM Water
3. Mr. Mutunga Mwangengi - Ag. Managing Director

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified Opinion** on the financial statements of the Kiambere Mwingi Water and Sanitation Company Limited for the Financial Year-

1. Long outstanding trade and other receivables

The statement of financial position and as disclosed in Note 20 to the financial statements reflect trade and other receivables balance of Kshs. 24,006,057. Included in the balance are receivables totaling Kshs. 19,218,148 which have been outstanding for more than one hundred and twenty (120) days. However, management did not provide measures put in place to recover the long outstanding amounts. In the circumstances, the accuracy and recoverability of trade and other receivables balance of Kshs. 19,218,148 could not be confirmed.

Management response

The accumulation of arrears has largely been attributed to the previous tariff structure, which required customers to pay a flat rate irrespective of actual consumption. During this period, the Company experienced prolonged water scarcity caused by frequent breakdowns of ageing and inefficient pumps, some of which eventually failed completely. Consequently, many customers became reluctant to pay for services that were not consistently delivered. The following are measures being undertaken to improve revenue collection;

i. Deployment of revenue collection teams

The Company has formed revenue collection teams, which have been deployed to the field on monthly basis to engage customers to make prompt payment of water bills. Copy of the teams and bills collection sheets were provided for committee verification.

ii. Following up on defaulters through reminders, notices and structured payment plans

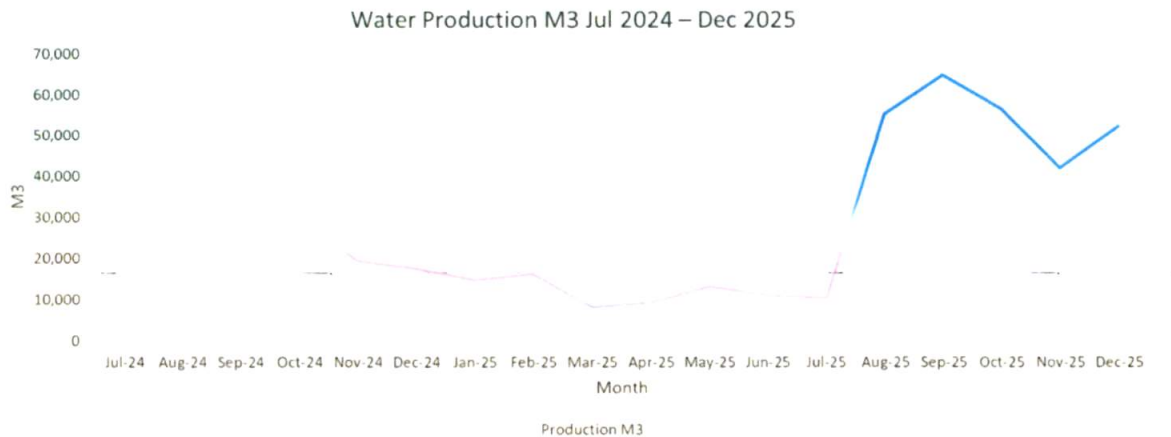
The revenue collection team, with the assistance of the management has been engaging customers with long outstanding bills to enter into reasonable payment plans, as they continue receiving water supply services.

iii. Ensuring consistent water supply to motivate payment of bills

After installation of new water pumps, the Commercial and Technical departments are working closely to ensure steady and consistent water supply to customers, which is proving to be a great motivator for payment of bills.

Below is graph showing the improvement in water production after installation of new water pumps in July 2025. The decline in production (water consumption) from the month of October is due to rainfalls and closure of institutions like schools

Water production – Before and after installation of new water pumps in July 2025



In case of interruption/delay in supply, the customers are informed through SMS's, notices in communal water points and through word of mouth from our operations staff, to maintain the customers' confidence in our service delivery.

iv. Implementation of a Consumption-Based Tariff

Effective from October 2024, we have transitioned from a tariff which had a standing charge to a consumption-based tariff structure, which has ensured fairness, transparency, and enhanced customer confidence in billing. Copy of the new and former tariff gazette notice were provided for scrutiny.

iv. Timely monthly meter reading

Ensuring timely monthly meter reading to avoid estimated bills that cause disputes.

vi. Prompt settling of billing complaints

The Company has a service charter which ensures efficient and effective service delivery through pre-determined customer service timelines.

Addressing billing complaints quickly to boost customer trust and reduce resistance to payment. The Company has a customer service desk and dedicated customer mobile lines available 24 hours and also displayed in all office letter heads and in the Company's website.

Management is confident that these measures enhance service reliability, rebuild customer confidence, and improve collection efficiency, thereby reducing the level of outstanding receivables and strengthening the Company's financial position going forward.

Committee Observation

The Committee observed that trade and other receivables of Kshs. 19,218,148 had been outstanding for more than 120 days, and that although management settled Kshs. 2,154,906, no comprehensive recovery measures with clear timelines were provided to confirm full recovery of the remaining balance.

Committee Recommendation

The Committee recommends that —

- i. The Governor ensures the Accounting Officer, within 60 days of adoption of this report, submits a debtor's schedule showing the current status of recoveries against the outstanding balance of Kshs. 17,063,242 to the Senate and Auditor-General for verification.**
- ii. The Governor ensures the Accounting Officer submits an approved copy of the Debt Management Policy to the Auditor-General for verification within 60**

days of adoption of this report. The Auditor-General to verify the policy and submit a status update in the subsequent audit cycle.

- iii. The Governor ensures the Accounting Officer puts in place measurable recovery measures with clear timelines for the remaining balance of Kshs. 17,063,242 and submits evidence of actual payments received to the Senate and Auditor-General. The Auditor-General to review implementation and provide a status update in the subsequent audit cycle.
- iv. The Governor ensures the Accounting Officer undertakes a detailed ageing analysis of all long outstanding trade receivables and with Board approval, writes off irrecoverable debts in line with Section 130(2)(d) of the Public Finance Management (County Governments) Regulations, 2015.

2. Material uncertainty relating to going concern

The statement of profit or loss and other comprehensive income reflects loss before taxation of Kshs. 20,477,242 (Deficit of Kshs. 18,252,855 for financial year 2023/2024). In addition, the statement of financial position reflects current liabilities totaling Kshs. 71,188,284 against current assets of Kshs. 30,197,580 resulting in a negative working capital of Kshs. 40,990,704. Further, trade and other payables balance of Kshs. 60,906,589 increased by Kshs. 27,087,083 from the previous year's balance of Kshs. 33,819,589, which may be an indication of the Company's inability to settle its obligations as and when they fall due. Management has in the annual report highlighted several challenges which include aged infrastructure network, which implies that the pumps require a lot of power to operate and pump water to customers.

Although management has outlined a number of measures taken to ensure future improved profitability of the Company including: developing alternative water sources within their area of operation, take over and integrate water projects developed by development partners, installation of solar power at Kiambere treatment works, automation and plot-to-plot combing to identify illegal connections, the measures may not bear immediate results. In the circumstances, the ability of the Company to continue to sustain its services could not be confirmed.

Management response:

The Company has enhanced its operational capacity with the acquisition of two new high-lift pumps at the Kiambere dam water intake/treatment plant point through support from the County Government of Kitui. This investment has significantly optimized water production by minimizing breakdowns and downtime, while also improving on energy

efficiency as well as maintenance costs. Copy of the water production table and revenue billing table was provided for scrutiny.

In addition, the Company has acquired several alternative water sources from the County Government of Kitui and other development partners.

The company is expecting key upcoming projects which will address the going concern issue of the Company. National Government-funded projects, will be implemented through the Tanathi Water Works Development Authority (TAWWDA), and are expected to significantly address KIMWASCO's going-concern challenges once completed and handed over. These projects include;

• **Kiambere Mwingi Water Project Phase II (Kshs. 1.4 billion):**

This project is designed to supply clean water to about 100,000 residents through intake and treatment works and a 105 km transmission pipeline, supported by storage tanks and sewerage infrastructure. The project will enhance water availability, expand customer coverage, and improve KIMWASCO's revenue base.

The project stalled after the termination of the Italian Contractor who was undertaking the works over poor performance and the process of disengaging the contractor is at the final stages, which will pave way for advertisement and engagement of a new contractor.

• **Kindaruma–Kiomo–Mwingi Water Supply Project (Kshs. 6.5 billion):**

This project involves construction of a water intake, a 1.6 km raw water gravity main, expansion of treatment capacity to 7,400 m³/day, and about 200 km of treated water pipelines, benefiting approximately 164,000 residents, with additional capacity for irrigation.

The project is awaiting cabinet approval for commencement with much of the initial preparations and engagements having been done including a letter of No Objection from the County Government of Kitui to the National Treasury.

Collectively, these projects will substantially improve water supply reliability, expand service coverage, and strengthen KIMWASCO's operational and financial sustainability, thereby addressing its going-concern position.

It is important to note that most of KIMWASCO's major infrastructure projects are funded and implemented by the National/County Government and other development partners, consequently, the Company is leveraging existing and partner-supported infrastructure to

enhance water production capacity and generate additional revenue without incurring capital expenditure.

Once these projects are completed and handed over, they will significantly boost KIMWASCO's asset base, improve working capital, and enhance revenue-generating capacity. This approach plays a critical role in strengthening the Company's going-concern position and long-term financial sustainability.

Also, implementation of the newly approved tariff is expected to ensure full coverage of operational expenses, strengthen the company's financial position and reinforce its commitment to long-term sustainability and reliable service delivery thereby enhancing financial sustainability and ensuring the company's continued viability as a going concern.

Another initiative the Company is exploring is Solarization of Kiambere Treatment Plant and all other water production sites in pursuit of Solar Energy for Cost Efficiency, which will improve on the going concern of the Company. On average, the cost of power for water production is approximately 49% of the Company's monthly billings.

So far, several organizations have expressed interest in partnering with the Company on this initiative. Kakunike and Tyaa Kamuthale boreholes, Tyaa and Kalwa sump wells, Kyuso Rock Catchment water project have so far been solarized.

Measures being taken to improve financial strength of the Company:

1. Expanding customer base

i. New projects

The Company has acquired new water projects from the County Government of Kitui and TAWWDA, and others are in the process of development, after which they will be handed over to the Company. These projects are;

- i. Gankanga sumpwell project
- ii. Lundi water project
- iii. Kalwa water project
- iv. Ngaaiie water project
- v. Mwanja - Maongoa water project
- vi. Nguuku sumpwell
- vii. Ngomeni water project

These new projects will supplement the already existing ones and expand our customer and revenue base through increased number of connections.

When operations at Kiambere Treatment Plant were stopped in February 2025, the Company managed to bill Kshs. 11.8M from alternative water sources. This is an average of Kshs. 2.3M per month.

iii. Connecting new households and institutions and extending pipelines to underserved areas

Through the newly acquired water projects and increased production efficiency at Kiambere Treatment Plant due to the newly installed water pumps, Kiambere Mwingi Water and Sanitation Company Limited is expecting to have more water for supply and increased revenue through connection of new households and institutions.

From July 2025 – Dec 2026, the Company has connected 106 new customers due to increase in water production.

With the improved water production and registration of new customers, the Company's revenues improved from Kshs. 3.5M in July to a peak of Kshs. 14.2M in September and Kshs. 8.1M in December 2025.

iv. Improved operational efficiency at water kiosks through automation

Kiambere Mwingi Water and Sanitation Company Limited has automated 6 No. water kiosks with water dispensing machines, which allow 24/7 access of water by consumers.

The automation has also improved revenue collection by eliminating cash handling at the kiosks.

The Company is targeting to automate 20 No. water kiosks by 2027 through its funding and support from development partners.

There is also improved monitoring of the water kiosks and boreholes, where an officer has been assigned duties to specifically monitor their performance, water supply, billing and revenue banking.

The automation and monitoring steps have improved Kiosks and boreholes revenues from a monthly billing average of Kshs. 0.8M to Kshs. 1.8M. evidence of the above attachments was provided for committee verification.

2. Improving billing accuracy

i. Replacement of faulty/old meters

The Company received a donation of new water meters from USAID - STAWI worth Kshs. 8.6M.

A total of 1,042 of the old and inaccurate meters have been replaced, and significant improvement in the billing accuracy and reduced water loss has been noted.

ii. *Increasing monthly meter reading efficiency to eliminate under-billing*

In addition to installing new accurate meters, Kiambere Mwingi Water and Sanitation Company Limited has a budget of Kshs. 204,000 in the financial year 2025/2026 to train meter readers, and monitor them to ensure 100% billing accuracy.

iii. *Reducing Non-Revenue Water (NRW) to optimize revenue*

The following measures has been put in place to reduce NRW;

- i. Active leak detection and prompt pipe burst repairs
- ii. Monitoring illegal connections and enforcing disconnections
- iii. Rehabilitating ageing infrastructure to reduce physical water losses
- iv. Community sensitization to report bursts and illegal use of water

3. Enhanced customer satisfaction to strengthen revenue collection

i. *Upgrading the Company's billing system*

The Company benchmarked with several water Companies including Muranga Water, Thika Water and Kitui Water on improved and advanced water billing system, after which plans are underway to procure the system.

The new system will enable customers to get real time notifications on monthly bills and update on when the customer makes a payment.

This advancement in technology will improve revenue collection and assist in reducing long outstanding receivables.

The Company is expecting to carry out the system upgrade before end of Financial Year 2025/2026

ii. *Deploying revenue collection teams*

The Company has formed a revenue collection team, which has been deployed to the field on monthly basis to engage customers on prompt payment of water bills.

iii. *Following up on defaulters through reminders, notices and structured payment plans*

The team, with the assistance of the management also engages customers with long outstanding bills to enter into reasonable payment plans, as they continue getting water supply.

- v. *Ensuring consistent water supply to motivate payment of bills*

The Commercial and Technical departments work closely to ensure steady and consistent water supply to customers, which has proved to be a great motivator for payment of bills.

- vi. *Running community outreach programs to build trust and encourage payment discipline.*
- vii. *The Company has a paybill number/till numbers for prompt payment of water bills*

Committee Observations

The Committee observed that –

- i. the Company recorded a loss before taxation of Kshs. 20,477,242 and a negative working capital of Kshs. 40,990,704 with current liabilities of Kshs. 71,188,284 exceeding current assets of Kshs. 30,197,580, raising serious concerns on the Company's ability to sustain its services in the short term.
- ii. the measures outlined by management including major infrastructure projects valued at Kshs. 7.9 billion, solarization and expansion of customer base are long term in nature and may not bear immediate results to address the Company's current going concern challenges.

Committee Recommendation

The Committee recommends that —

- i. **the Governor of Kitui County should take keen interest in the management and operations of the water company in line with Article 179 (4) of the Constitution;**
- ii. **the Governor ensures the Accounting Officer prepares and submit quarterly reports to the CECM Finance in regard to the financial and non-financial status of the water company in line with section 166 of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap. 412A on penalties for offences shall apply;**

- iii. the County Executive Committee Member in charge of water should take full responsibility for monitoring the financial performance of the county corporation in line with section 184 of the Public Finance Management Act, 2012 and regularly report to the Governor through the County Executive Committee in line with Article 179 (6) of the Constitution;
- iv. the Governor ensures the CECM Finance undertakes annual reporting on County Corporation, including an assessment of the commercial viability of the company in line with the standards set by the Water Services Regulatory Board under section 77(2) of the Water Act, 2016; and
- v. the Governor ensures the Accounting Officer should, within 60 days of the adoption of this report, put in place strategic and innovative measures for recovery and to boost the financial health of the water company for self-sustainability. Additionally, the management reviews and regularizes the company's existing assets and have updated assets register that reflect the current financial position. Further, management to determine and ascertain their commercial viability as required by the Public Sector Accounting Standards Board (PSASB).

EMPHASIS OF MATTER

1. Long outstanding trade and other payables

The statement of financial position and as disclosed in Note 32 to the financial statements reflect trade and other payables balance of Kshs. 60,906,589. Included in the balance are payables totaling Kshs. 9,545,707 which have been outstanding for more than one year and no measures have been put in place to settle the debts

Failure to settle bills during the year in which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

Management response:

During the year under review, two high lift water pumps at Kiambere Treatment Plant malfunctioned due to ageing, reducing the volume of water produced at the plant to zero in February 2025. Operations at the plant were shut down and the Company has been relying on sump wells and boreholes to supply water, which amounts to approximately 5% of the total water production by the Company.

This affected the Company's performance during the year with the water produced, revenues realized and expenditure budget absorption being adversely affected and the Company's payables accruing for a long time since the Company could not raise enough revenue to cater for all the expenses as they occur.

With the assistance from the County Government of Kitui, the Company acquired new high lift water pumps in July 2025 and resumed operations in August 2025, after which the Company developed a payables payment plan which was discussed and adopted by the Board of Directors on 1st August 2025.

The Company has also entered into payment plans with some of the creditors. Copy of the Payables payment plan, BOD minutes approving payables, payment plan Creditors payment plans and Creditors payment schedule was provided for committee verification.

Committee Observation

The Committee observed that trade and other payables of Kshs. 9,545,707 had been outstanding for more than one year and although the management tabled a Board-approved payables payment plan and creditor payment schedules, the outstanding payables remain unsettled.

Committee Recommendation

The Committee recommends that —

- i. **The Governor ensures the Accounting Officer implements the Board-approved payables payment plan and submits evidence of payments made to the Senate and Auditor-General within 60 days of adoption of this report.**
- ii. **The Governor ensures budget provision is made to clear all outstanding payables of Kshs. 9,545,707 treating debt service payments as a first charge on revenue in compliance with Regulation 41(2) of the Public Finance Management (County Governments) Regulations, 2015.**
- iii. **The Auditor-General monitors the implementation of the repayment plan and provides a status update in the subsequent audit cycle.**

1. Budgetary control and performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on a comparable basis of Kshs. 197,042,000 and Kshs. 84,612,666 respectively resulting to underfunding of Kshs. 112,429,334 or approximately 57% of the budget.

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

Management response:

During the year under review, the Company's expenditure was within the approved budget, however, the accrued expenditure was higher than the revenues generated during the period. This was due to fixed costs like staff costs (salaries) which are fixed yet the revenues declined due to breakdown of water pumps at the Company's main production plant.

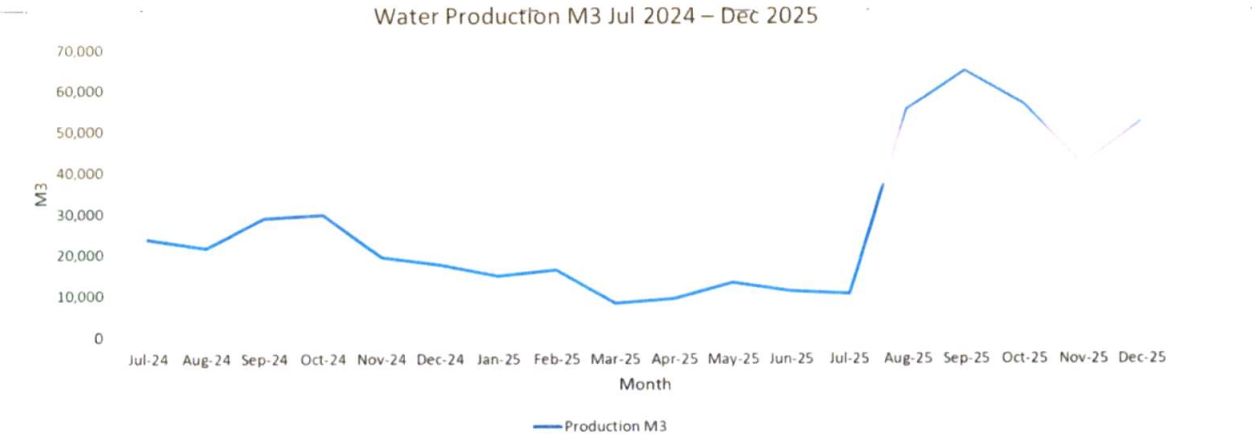
During the year under review, the failure of two ageing high-lift pumps at the Kiambere Treatment Plant led to a total stoppage of water production in February 2025. As a result, plant operations were suspended and the Company relied on sump wells and boreholes, which together provide only about 5% of the Company's normal water production capacity.

This affected the Company's performance during the year with the water produced, revenues realized and expenditure budget absorption being adversely affected.

The Company has since received new water pumps with support from the County Government of Kitui and resumed operations at Kiambere Treatment Plant in late July 2025.

With the improved water production efficiency, the newly acquired water projects which provide alternate sources of water and the ongoing activities to reduce NRW, the Company will be able to achieve its budget targets in the subsequent years.

Water production – Before and after installation of new water pumps in July 2025



Committee Observation

The Committee observed that

- i. the Company experienced under-funding of Kshs. 112,429,334 or 57% of the approved budget due to breakdown of two ageing high-lift pumps at Kiambere Treatment Plant in February 2025.
- ii. although new pumps were acquired and operations resumed in late July 2025, the under-funding had already negatively affected planned activities and service delivery.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures the Accounting Officer develops and implements a comprehensive equipment maintenance and replacement plan for all critical water production infrastructure, including high-lift pumps, to prevent future production stoppages, and submits evidence of the same to the Senate within 60 days of the adoption of this report;
- ii. the Governor ensures the Accounting Officer complies with Regulation 42(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 on budgetary control measures and puts in place contingency budget provisions to cushion the Company against revenue shortfalls arising from equipment failures and other operational disruptions; and
- iii. the Auditor-General monitors and provide status in the subsequent audit cycle.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Failure to refund customer deposits

The statement of financial position reflects refundable deposits and prepayments balance of Kshs. 10,281,695 as disclosed in Note 33 to the financial statements. However, the certificate of bank balance reflects a closing balance of Kshs. 922,451 in respect to customer's deposits resulting to a variance of Kshs. 9,359,244. As previously reported, the difference of Kshs. 9,359,244 represents the amount borrowed by management to finance various activities.

This is contrary to Section 68 (1) and (2) of the Public Finance Management Act, 2012 which stipulates that an Accounting Officer for a National Government entity, shall be accountable to the National Assembly for ensuring that the resources of the respective entity for which he or she is the Accounting Officer are used in a way that is lawful and authorized, effective, efficient, economical and transparent. In the performance of a function under Sub-Section (1), an Accounting Officer shall ensure that all contracts entered into by the entity are lawful and are complied with.

Although Board approvals were sought for the borrowings, the amount borrowed totaling Kshs. 9,359,244 had not been refunded as at 30 June, 2025. In the circumstances, management was in breach of the law.

Management response:

From the time the Company began experiencing a decline in production, which later culminated in a complete stoppage, it faced severe liquidity constraints. To sustain operations, the Company sought and obtained authority to temporarily utilise the customer deposit funds for operational survival.

The County Government of Kitui eventually procured two high lift water pumps for the Company and normal operations resumed in late July 2025.

The Company has since been paying and cleared up to date staff net salaries which were in 3 months arrears, partial payments – according to payment plans – (See attached payment plan) of statutory deductions and other creditors. The borrowed customer deposits will be refunded in instalments of Kshs. 200,000 per month, starting January 2026. Copy of the payment plan was provided for scrutiny.

Committee Observation

The Committee observed that customer deposits of Kshs. 9,359,244 were borrowed to finance operations and remained unrefunded as at 30 June 2025 contrary to Section 68(1) and (2) of the Public Finance Management Act, 2012.

Committee Recommendation

The Committee recommends that —

- i. The Governor ensures the Accounting Officer provides a certified bank statement for the designated customer deposit account and a comprehensive individual customer deposit register within 60 days of the adoption of this report to the Senate and a copy to the Auditor-General. The**

- Auditor-General to provide a status update to the Senate on the same;
- ii. The Governor ensures the Accounting Officer, within 60 days of the adoption of this report, submits to the Senate and the Auditor-General an accelerated repayment plan with clear timelines for the full refund of the borrowed customer deposits of Kshs. 9,359,244, improving on the current instalment of Kshs. 200,000 per month which would take approximately 47 months to clear;
 - iii. The Governor ensures the Board of Directors puts in place a Customer Deposits Management Policy to guide how the Company can access, utilize and refund the money within specified timelines. Further, the Accounting Officer should ensure that there is full disclosure to the customers on the utilization of the deposit; and
 - iv. The Governor ensures the Accounting Officer deposits all customer deposits in a fixed or call account whose access to management is limited and where accrued interests can be used to offset bank charges, and submits evidence of the same to the Senate and a copy to the Auditor-General within 60 days of the adoption of this report.

1. Non remittance of statutory deductions

Review of records revealed that management did not remit statutory deductions totaling Kshs. 7,774,570 which were due to Kenya Revenue Authority (KRA), National Social Security Fund (NSSF), Social Health Insurance Fund (SHIF), Housing Levy and Pension. This is contrary to Section 19(4) of the Employment Act, 2007 which stipulates that an employer who deducts an amount from an employee's remuneration shall pay the amount so deducted in accordance with the time period and other requirements specified in law. In the circumstances, management was in breach of the law.

Management response:

During the year under review, the failure of two obsolete high-lift water pumps caused a disruption of operations at the Kiambere Treatment Plant, leading to a total shutdown of water production in February 2025. As a result, the Company resorted to supplying water from sump wells and boreholes, which accounted for only approximately 5% of its total water output.

The prolonged shutdown negatively affected the Company's performance, as reduced water production led to lower revenues and poor expenditure budget absorption.

Consequently, the Company was unable to generate adequate income to meet its operational costs and statutory obligations on time, resulting in the accumulation of long-outstanding payables.

With assistance from the County Government of Kitui, replacement pumps were acquired and the plant resumed operations in late July 2025. However, the extended period during which the pipelines remained unused caused widespread pipe bursts and water losses for approximately four weeks after operations resumed. Normal water production and distribution levels were progressively restored by the third week of August 2025.

The Company then started remitting the outstanding statutory deductions, with Social Health Insurance Fund (SHIF), bank/SACCO loans and welfare deductions paid up to date. The Company also entered into payment plans with NSSF, Pension provider and KRA, which are being paid in instalments and according to the payables plan approved by the Board of Directors, all deductions are supposed to be remitted in full (including the current ones) by June 2026. Copy of the statutory deduction compliance certificate and payment plans was provided for scrutiny.

Committee Observation

The Committee observed that—

- i. the Company failed to remit statutory deductions totaling Kshs.7,774,570 due to Kenya Revenue Authority (KRA), National Social Security Fund (NSSF), Social Health Insurance Fund (SHIF), Housing Levy, and Pension, attributed to revenue shortfalls occasioned by the breakdown of high-lift pumps at Kiambere Treatment Plant in February 2025, contrary to Section 19(4) of the Employment Act, 2007; and
- ii. although the Company has since entered into payment plans with KRA, NSSF, and the Pension provider and commenced remittances, a significant portion of the statutory deductions remains outstanding with full settlement projected by June 2026.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures the Accounting Officer prioritizes the remittance of all outstanding statutory deductions in accordance with the Board-approved payment plan and submits evidence of full compliance to the Senate within 60

- days of the adoption of this report, in compliance with Section 19(4) of the Employment Act, 2007;
- ii. the Governor ensures the Accounting Officer puts in place a contingency fund to cushion the Company against revenue shortfalls that may affect timely remittance of statutory deductions in future, and that statutory obligations are treated as a first charge on available revenues; and
 - iii. the Auditor-General monitors the implementation of the payment plans and provides a status update in the subsequent audit cycle.

Excessive Non-Revenue Water

Review of water sales and production records revealed that the Company produced 214,335 cubic meters (M³) of water, out of which 157,430M³ was billed to customers, while the balance of 56,905M³ or approximately 27% of production represent Non-Revenue Water (NRW) valued at Kshs. 16,471,152 (at an average of Kshs. 289.45 per M³). This contravenes the Water Services Regulatory guidelines which require water service providers to ensure that commercial losses in respect of water produced do not exceed 25% of total production.

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

Management response:

The company is grappling with high levels of Non-Revenue Water (NRW), largely due to its aging pipeline infrastructure, which has been in place for over 27 years—far exceeding its intended 15-year design life. This deterioration has led to frequent bursts and leaks. Compounding the issue is the presence of many customer meters that are more than eight years old, resulting in inaccurate water usage readings.

In response, the company has implemented active leakage control measures, notably reducing repair times to just one day and initiating a phased replacement of pipeline sections that are most susceptible to damage. Significant progress has been made in upgrading old Galvanized Iron (GI) and Polyvinyl Chloride (PVC) pipes to more durable High-Density Polyethylene (HDPE) and Polypropylene Random Copolymer (PPR) alternatives.

To further tackle the NRW challenge, the company has established a dedicated NRW unit tasked with harmonizing zonal meters with customer meters, enabling more accurate monitoring of water distribution at the zone level. Recognizing the excessive water losses

at its kiosks, the company is also working to automate these facilities to improve accountability and efficiency. During the year under review, a total of 1,042 faulty customer meters were replaced to enhance metering accuracy.

Moreover, NRW reduction targets have been embedded into the performance contracting framework for both commercial and technical staff. This strategic move is designed to foster greater staff engagement and promote a unified approach to resolving the persistent issue of water loss.

Committee Observation

The Committee observed that the Non-Revenue Water was 27% way above the sector benchmark of 25% prescribed by the Water Services Regulatory Board (WASREB) guidelines.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures the Accounting Officer responsible for the water company puts in place comprehensive measures to mitigate the Non-Revenue Water, including the installation of smart meters to ensure accurate billing, replacement of the old water supply network, and introduction of a Geographic Information System (GIS) to help the company receive real-time data on leaks in pipes and monitor maintenance;**
- ii. the Governor ensures that the Accounting Officer segregates NRW to both Physical or Commercial so that the water company can ascertain and identify specific mitigating measures to effectively address and reduce the NRW levels;**
- iii. the Governor engages the Ethics and Anti-Corruption Commission (EACC) to facilitate the development of a comprehensive institutional corruption prevention policy for the company to address commercial losses from illegal connections and unauthorized consumption;**
- iv. given the impact of Non-Revenue Water on the company's cashflows, the Governor through the Accounting Officer should ensure that a provision for Non-Revenue Water is included in the financial statements, with explanatory notes detailing the contributions of both commercial and physical loss factors to the overall Non-Revenue Water; and**
- v. the Auditor-General monitors the implementation and effectiveness of the measures put in place to mitigate Non-Revenue Water and reports in the subsequent audit cycle.**

1. Non-Compliance with the Law on Ethnic composition

During the year under review, the total number of employees of the water company was forty-one (41) out of which thirty-four (34) or approximately 83% of the total number were members of the dominant ethnic community in the County.

This is contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that, “all public offices shall seek to represent the diversity of the people of Kenya in the employment of staff and that no public institution shall have more than one-third of its staff establishment from the same ethnic community”.

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

Management response:

Most of the Company’s current staff were inherited from TARDA and it was not possible to conform to the ethnicity gender balance regulation in the short term. However, effort is being made to conform gradually as new staff get employed.

Committee Observation

The Committee observed that 34 out of 41 employees or approximately 83% of the Company's staff were from the same ethnic community, far exceeding the one-third threshold, contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008.

Committee Recommendation

The Committee recommends that the Kitui County Public Service Board progressively complies with Section 65 of the County Governments Act, 2012 and Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 by filling vacant posts in a manner that promotes ethnic diversity and represents the people of Kenya and the Auditor-General monitors progress on ethnic diversity compliance and keeps this matter under review in the subsequent audit cycle.

2. Lack of Company’s Strategic Plan

During the year under review, management did not develop a Strategic Plan in conformity with the medium-term fiscal framework financial objectives for the entity. This is contrary to Section 149(2)(g) of the Public Finance Management Act, 2012 which states that in carrying out a responsibility imposed by Sub-Section (1), an Accounting Officer shall, in

respect of the entity concerned, prepare a Strategic Plan for the entity in conformity with the medium-term fiscal framework financial objectives of the County Government.

In the circumstances, management was in breach of the law and the Company may not be able to achieve its goals and objectives.

Management response:

The Company developed a Strategic Plan through Kenya School of Government consultants. It was approved by the Board of Directors and is now being implemented.

Committee Observation

The Committee observed that the management has provided signed copy of the strategic plan.

Committee Recommendation

The Committee recommends the matter be marked as resolved.

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

Lack of bulk water production meter at the Kiambere Water Treatment Works

Review of water production records revealed that the Company had not installed bulk meters in Kiambere Treatment Plant to control and manage water so as to avoid wastage.

In the circumstances, the effectiveness of measures put in place to manage water at Kiambere Water Treatment Plant could not be confirmed.

Management response:

The production meter at the Kiambere treatment plant malfunctioned as a result of excessive water pressure. Although a replacement had been planned and included in the budget for the year under review, the situation changed drastically when operations came to a halt in February 2025 due to pump failure.

This unexpected disruption significantly strained the company's financial resources, delaying the meter replacement. However, the company remains committed to addressing the issue and intends to proceed with the installation once its financial position stabilizes.

The Company plans to budget and procure for the bulk water production meter in the financial year 2026/2027.

Meanwhile the pumping rate is used to determine the amount of water produced and calibration is done by filling the 800 M³ tank from time to time.

Committee Observation

The Committee observed that the Company had not installed a bulk water production meter at the Kiambere Treatment Plant which attributed delay to financial constraints arising from the February 2025 pump failure and committed to procuring a bulk water production meter in the Financial Year 2026/2027, with water production currently being estimated through pumping rates and tank calibration, which is not a reliable measure.

Committee Recommendation

- i. The Committee recommends that-**
- ii. the Governor ensures the Accounting Officer makes budgetary provisions for the procurement and installation of a bulk water production meter at the Kiambere Treatment Plant in the Financial Year 2026/2027 as committed, and submits evidence of the same to the Senate within 90 days of the adoption of this report;**
- iii. the Governor ensures the Accounting Officer puts in place reliable interim measures for accurate water production measurement pending installation of the bulk meter, to ensure effective management and accountability of water resources and auditor-General to provide status update in the subsequent audit cycle.**

CHAPTER TWO: HOSPITALS

2.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR KITUI COUNTY REFERRAL HOSPITAL FOR THE FINANCIAL YEAR 2024/2025.

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

- | | |
|----------------------|--------------------------|
| 1. Mr. Peter Kilonzo | - CECM Finance |
| 2. Ms. Ruth Koki | - CECM health |
| 3. Dr. Mumai John | - Medical Superintendent |

REPORT ON THE FINANCIAL STATEMENTS

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

1. Non-Disclosure of Property, Plant and Equipment

The statement of financial position reflects a Nil balance of property, plant and equipment and intangible assets. However, physical verification revealed that the Hospital has assets including land, buildings, motor vehicles, furniture, computers and equipment which were not disclosed in the financial statements. Further, the Hospital pays monthly instalments of Kshs.100,000 to a software vendor. However, the terms of engagement and control could not be confirmed as the contract documents do not indicate whether full ownership and control had been transferred to the Hospital.

In the circumstances, the accuracy, completeness and ownership of property, plant and equipment with a Nil balance could not be confirmed.

Management Response

During the time of audit in September 2025, by the Office of Auditor General, the management shared a list of assets for the Hospital, including property, plant and equipment, intangible assets, land, buildings, motor vehicles, furniture, computers and equipment the same was verified and ascertained during a joint physical verification. In the Financial Statement that was prepared, no value could be assigned to the assets because the valuation of the assets had not been done. The County Government of Kitui is

committed to valuing all county assets. The County Treasury initiated the valuation process of compiling the available county assets. The asset valuation is expected to be completed in the FY 2026/2027.

The custodian of the Motor vehicles log books is in the County Treasury. However, there are some log books for the Motor vehicles in the facilities before devolution, which had never been transferred from the National Ministry to the County Government. The County had written to the National Transport Safety Authority (NTSA) through a letter CGKTI/CS/ADM/VOL3/21/31 dated 31st July 2025, requesting the issuance of logbooks for transferred motor vehicles.

The titling process for the Kitui Level IV Hospital land is underway, as evidenced by the attached correspondence between the Hospital Superintendent, the Chief Officers for Medical Services and Lands & Housing as enclosed herewith. The Department of Lands & Housing has submitted a progress report to the Chief Officer-Medical Services on geo referencing of 52 health facilities across the county among them being Kitui County Referral Hospital. The facility management will fast track the process to have the title deed processed by the end of FY 2026/2027.

The management further stated that the Hospital management information system (HMIS) contract framework was entered into between Kitui County Referral Hospital and Smartgen Enterprise Limited on 11th February 2022 where the management was to pay for system in monthly instalments of Ksh 300,000 until full payment.

On 14th August 2023, the Hospital management together with the vendor reviewed the terms of the contract to have an addendum clearly showing the clause on full ownership be transferred to the Hospital upon full payment. The parties also agreed to review the monthly terms of payment from Ksh 300,000 to Ksh 100,000.

Committee Observation

The Committee Observed that-

- i. although management shared an asset list during the audit, no financial values were assigned to any assets in the financial statements, leaving the property, plant and equipment balance at Nil.
- ii. The Hospital holds significant physical assets that remain unrecorded and unvalued. The motor vehicle logbooks and land title deeds are yet to be obtained, and full ownership of the HMIS software system has not yet been transferred to the Hospital.

Committee Recommendation

The Committee recommends that —

- i. within sixty (60) days of the adoption of this report, the Governor, through the CECM responsible for matters of health, engages with the Ministry of Health of the National Government to ensure the transfer of ownership documents of land and buildings is fast-tracked;
- ii. the Governor ensures that the management of the Hospital undertakes the valuation of all assets of the Hospital and submits the valuation report to the Auditor-General for verification during the subsequent audit cycle;
- iii. upon completion of the transfer and valuation, the Accounting Officer should prepare an updated asset register within 60 days of the adoption of this report and submit to the Auditor-General for verification;
- iv. the Governor, through the Accounting Officer, ensures that the Hospital maintains an up-to-date asset register in accordance with section 149(2)(o) of the Public Finance Management Act, Cap.412A and in the format prescribed by the Public Sector Accounting Standards Board (PSASB), failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply; and
- v. the Accounting Officer follows up urgently with NTSA for the outstanding motor vehicle logbooks and provides evidence of compliance to the Auditor-General within 60 days of the adoption of this report.

2. Irregular Adjustment in Cash Flows

The statement of cash flows and as disclosed in Note 16 to the financial statements reflect net cash flows from operating activities of Kshs.20,755,691. Included in Disclosure Note 16 is Kshs.63,629,767 being an adjustment for increase in capital fund which is irregular.

In the circumstances, the accuracy of net cash flows from operating activities of Kshs.20,755,691 could not be confirmed.

Management response

The Management notes the auditor's observation regarding the Kshs.63,629,767 adjustments reflected in note 16 of Net cash flows from operating activities.

This relates to prior years' adjustment which had been understated, and thus in line with applicable accounting standards, the capital fund has been fairly stated.

Subsequently, the management has strengthened controls to ensure all prior year adjustments are properly documented and disclosed to avoid recurrence of such issues.

Committee Observation

The Committee observed that –

- i. the inclusion of Kshs.63,629,767 as a prior period capital fund adjustment within the operating cash flows is irregular and inconsistent with applicable accounting standards.
- ii. The Committee further observed that no supporting documents were availed during the audit to verify the basis of this adjustment, which is a contravention of section 149(2)(b) of the Public Finance Management Act, Cap.412A.

Committee Recommendation

The Committee recommends that —

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

3. Un-Supported Receivables from Exchange Transactions

The statement of financial position and as disclosed in Note 11 to the financial statements reflect a balance of Kshs.136,492,021 in respect to receivables from exchange transactions. However, supporting schedules for the opening balance of receivables, receivables for the current year, bills paid during the year and closing balances were not provided for audit review. Further, the balance excludes Kshs.68,735,093 being receivable from National Hospital Insurance Fund (NHIF) as at 31 December, 2024.

In the circumstances, the accuracy of receivables from exchange transactions of Kshs.136,492,021 could not be confirmed.

Management Response

The Hospital receivables from exchange transactions totaling Ksh 136,492,021 comprises of Social Health Authority (SHA)-Ksh 58,993,317, NHIF-Ksh 68,735,093, AON Minet-Ksh 8,668,621 and corporate institutions-Ksh 94,990. The breakdown for the opening balance of receivables, total claims and total bills paid & Closing balances are broken as follows: SHA/NHIF opening balance Ksh 41,051,138, total claims FY 24/25 Ksh 344,397,400, total claims Ksh 385,448,538, paid Ksh 257,720,128, outstanding Ksh 127,728,410. AON Minet opening balance Ksh 9,470,398, total claims FY 24/25 Ksh 13,282,917, total claims Ksh 22,753,315, paid Ksh 14,084,694, outstanding Ksh 8,668,621. Corporate opening balance Nil, claims Ksh 196,810, total claims Ksh 196,810, paid Ksh 101,820, outstanding Ksh 94,990. TOTAL outstanding Ksh 136,492,021.

The management further states that for Social Health Authority and AON Minet, the facility maintains an account in their system where all the bills and their respective payments are recorded.

The Social Health Authority (SHA) was established in October 2024 through an enactment of parliament to replace the defunct National Hospital Insurance Fund (NHIF).

The closing balance Ksh 136,492,021 includes Ksh 68,735,093 of NHIF as reported in the receivables from exchange transactions and as reflected in the financial statement. The Kshs 68,735,093 owed to NHIF is still outstanding, and the management is making follow-ups for the same to be paid as per the attached excerpts.

Attached are the schedules for all the opening and closing receivables from the exchange transactions for the year ended 30th June 2025.

Committee Observation

The Committee observed that-

- i. while management has provided a breakdown of the receivables totaling Kshs.136,492,021.
- ii. The Committee further observed that the outstanding amount of Kshs.68,735,093 owed by SHA/NHIF remains unrecovered and that its initial exclusion from the disclosed balance raises questions about the completeness of the financial statements.

Committee Recommendation

The Committee recommends that —

- i. the Governor ensures the Accounting Officer ensures timely submission of complete and accurate documents during audit processes, including receivables schedules showing opening balances, current year claims, payments received and closing balances, in compliance with section 9(1)(e) of the Public Audit Act, Cap.412B, failure to which the provisions of section 62(2) of the Public Audit Act, Cap.412B shall apply;
- ii. the Governor ensures the Accounting Officer puts in place, within 60 days of the adoption of this report, recovery measures for the outstanding Kshs.68,735,093 from SHA/NHIF with clear timelines, and the Auditor-General reviews the implementation of those measures and provides a status update in the subsequent audit cycle; and
- iii. the Governor ensures the Accounting Officer undertakes a detailed analysis of long outstanding trade receivables and, with appropriate approval, writes off irrecoverable debts in line with section 130(2)(d) of the Public Finance Management (County Governments) Regulations, 2015, with the Auditor-General providing a status update in the subsequent audit cycle.

4. Inaccuracies in the Statement of Changes in Net Assets

The statement of changes in net assets reflects a balance of Kshs.63,629,767 in respect to additions to capital fund whose support documents were not provided for audit review.

In the circumstances, the accuracy of the statement of changes in net assets could not be confirmed.

Management Response

Management acknowledges the auditor's observation regarding the Kshs. 63,629,767 in respect to additions to the Capital fund.

The addition relates to prior years, where the capital fund had been understated. In line with applicable accounting standards, this has been treated as a prior period adjustment to ensure the capital fund balance is fairly stated.

Subsequently, the management has strengthened controls to ensure all capital fund additions are properly documented and disclosed to avoid recurrence of such issues.

Committee Observation

The Committee observed that-

- i. management acknowledged the Kshs.63,629,767 as a prior period adjustment to the capital fund; however, no supporting documents were produced during the audit to verify the basis or accuracy of this figure.
- ii. The Committee observed that undocumented prior period adjustments of this magnitude undermine the reliability and credibility of the Hospital's financial statements and are contrary to section 149(2)(b) of the Public Finance Management Act, Cap.412A.

Committee Recommendation

The Committee recommends that —

- i. **the Governor ensures that the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of the Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- ii. **the Governor ensures the Accounting Officer ensures that prior year adjustments are carried out in the financial statements of the subsequent year to correct the errors in order to reflect the true financial position of the Hospital; and**
- iii. **The Committee recommends that the Accounting Officer should ensure timely submission of documents during the audit process in line with section 47 of the Public Audit Act as read together with section 149(2)(k) of the Public Finance Management Act 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.**

OTHER MATTERS

1. Unresolved Prior Year Audit Matters

In the prior years' audit report several issues were raised under Report on Financial Statements, Lawfulness and Effectiveness in Use of Public Resources, and Effectiveness of Internal Controls, Risk Management and Governance, respectively. Review of the status during audit of Kitui County Referral Level Hospital in 2024/2025 revealed that the following matters remained unresolved:

1. FY 2023/2024 – Failure to Maintain Fixed Assets Register

2. FY 2023/2024 – Failure to Dispose Unserviceable Assets
3. FY 2023/2024 – Long Outstanding Trade and other Payables
4. FY 2023/2024 – Long Outstanding Receivables from Exchange Transactions

Management Response

Issue 1 – Failure to Maintain Fixed Assets Register:

The management acknowledges the auditor's findings and wishes to state that the County Government has initiated the process of Asset Valuation, which includes the listing of all the hospital assets. The hospital had compiled a list of all available assets, including those before devolution and assets acquired after devolution. The County Government of Kitui is committed to conducting the valuation of all the County Assets. The County Treasury initiated the valuation process of compiling the available county assets. The valuation is planned to be undertaken in the financial year 2026/2027.

Issue 2 – Failure to Dispose Unserviceable Assets:

The management acknowledges the auditor's observation and wishes to state that the County Ministry of Health and Sanitation has constituted a disposal committee in line with section 163 of the Public Procurement and Disposal Act, 2015 which has established and mapped all the assets meant for disposal in Kitui County Referral Hospital and further issued an advisory that has initiated the disposal activities as per the enclosed documents. The ministry plans to dispose of the unserviceable assets in FY 2026/2027.

Issue 3 – Long Outstanding Trade and Other Payables:

The management acknowledges the findings of the auditor and states that since FY 2023/2024, there was an outstanding payable of Kshs. 16,659,343, where Kshs. 7,329,999 (comprising Kshs. 3,450,694 of the long outstanding payables in question) was budgeted in the FY 2024/2025 and was paid on 30th April 2025. Attached is the list of paid long outstanding payables, payment vouchers, and the bank statement.

Issue 4 – Outstanding Receivables from Exchange Transactions:

The management acknowledges the auditor's observation and wishes to state that the total receivables from the exchange transactions totalled Kshs 50,521,536. This amount constituted claims amounting to Kshs 41,051,138 to the defunct National Hospital Insurance Fund (NHIF) and claims amounting to Kshs 9,470,398 to AON MINET (Medical Administrators Kenya Limited-MAKL) as per the attached documents. The Kshs 9,470,398 has since been reimbursed by MAKL as per the attached schedule, certificates and bank statement.

Committee Observation

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

Committee Recommendation

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

REPORT ON LAWFULLNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES.

1. Deficiencies in Implementation of Universal Health Coverage

Staff Requirements

Staff Requirements	Level Standard 4	Number in Hospital	Variance	Percentage (%)
Medical Officers	16	12	4	25
Anaesthesiologists	2	1	1	50
General Surgeons	2	1	1	50
Gynaecologists	2	4	0	0
Paediatrics	2	3	0	0
Radiologists	2	3	0	0
Kenya Registered Community Health Nurses	75	31	44	59
Total	101	55	49	49

Equipment and Services

Service	Level 4 Hospital Standard	Actuals in the Hospital	Variance	Percentage (%)
Beds	150	320	0	0
Resuscitaire (2 in labor & 1 in Theatre)	3	4	0	0
New Born Unit Incubators	5	6	0	0
New Born Unit Cots	5	30	0	0
Functional ICU Beds	6	2	4	67
High Dependency Unit (HDU) Beds	6	1	5	83
Renal Unit with at least 5 Dialysis Machines	5	5	0	0
Two Functional Operational theatres - Maternity & General	2	2	0	0

Management Response

The management acknowledges the auditor's findings.

The county has a total of 1,783 health care workers distributed across the 326 healthcare facilities. In the current financial year, the County Government planned for the recruitment of additional healthcare workers. In January 2026, the county public service board advertised for the recruitment of 200 (Two hundred) healthcare workers of different cadre alleviate staff shortages. Among the 200 are seven (7) medical officers. The County Ministry of Health has deployed one (1) more General Surgeon, and the facility currently has two (2), and 36 additional Kenya Registered Community Health Nurses (KRCHN) have been deployed, increasing the total to 96.

The recruited healthcare workers will be deployed to various healthcare facilities across the county, including Kitui County Referral Hospital, based on needs.

In the FY 2026/2027, the county ministry of health and sanitation will budget for the recruitment of more anesthesiologists. Additionally, the county public service board released one (1) officer to pursue masters in anesthesia and is expected to be back in September 2027. Currently, the hospital anesthesiologist is being assisted by Eleven (11) anesthetists.

The phase I construction of the renal centre has been completed. The renal centre will house an additional 7-bed ICU (Intensive Care Unit) and 5 HDU (Higher Dependency Unit) beds in keeping with the Universal Health Coverage (UHC) norms.

The County Government of Kitui has budgeted for the completion of the construction and equipping of the South Eastern Kenya Renal Centre in Kitui County Referral Hospital at a cost of Ksh 144,500,000 in FY 2025/2026.

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 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. within ninety (90) days of the adoption of this report, the Committee recommends that the Governor ensures the hospital develops and implements a comprehensive plan, with appropriate budgetary allocations, to acquire and operationalize the required facilities and equipment to provide all services required for a Level 4 hospital. The Auditor-General should monitor progress and keep this matter under review in the subsequent audit cycle.**

2. Irregular Engagement of Casuals

Review of records revealed that Management contracted six (6) casual workers who were engaged for more than three months contrary to Section B.16 (1) of the County Public Service Human Resource Manual, 2013 which states that casual workers shall be engaged only on urgent short-term tasks with the approval of the County Public Service Board. Casual workers shall not be engaged for more than three months, as stipulated in the Employment Act, 2007.

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

Management Response

The management acknowledges the auditors' findings on the engagement of the six (6) casuals for more than three months. The engagement of casual workers is done by the Kitui County Public Service Board, through advertisement and competitive recruitment.

This is based on the hospital's areas of need, where most of the casuals are contracted for both critical clinical and non-clinical purposes. The management further wishes to state that this has since been rectified and any further engagement of casuals is in line with the County Public Service Human Resource Manual of May, 2013 which states that (1) Casual workers shall be engaged only on urgent short-term tasks with the approval of the County Public Service Board and they shall not be engaged for more than three months, as stipulated in the Employment Act, 2007.

Additionally, the County Public Service Board has developed the Kitui County Temporary Workers Engagement Policy 2025 to guide the County on temporary workers' engagement.

Committee Observation

The Committee observed that the hospital engaged six casual workers for periods exceeding three months in breach of Section B.16(1) of the County Public Service Human Resource Manual, 2013 and the Employment Act, 2007. However, the Committee observed that the Kitui County Temporary Workers Engagement Policy 2025 has now been developed to guide the county on temporary workers' engagement.

Committee Recommendation

The Committee recommends that —

- i. the Governor ensures that the Accounting Officer takes appropriate administrative action on responsible officers who authorized the irregular engagement of casual workers beyond three months contrary to the Employment Act, 2007 and the County Public Service Human Resource Manual, 2013; and
- ii. the Kitui County Temporary Workers Engagement Policy 2025 is operationalized and communicated to all departmental heads, and evidence of the same is submitted to Senate and the Auditor-General within 60 days of the adoption of this report; and Auditor-General to update status in the next subsequent cycle.

3. Failure to Retain Facilities Improvement Funds (FIF) at the Hospital

Review of revenue records revealed that the Hospital collected a total Kshs.420,976,396 towards the health facilities improvement. Out of this amount, a total of Kshs.246,496,984

was transferred to County Revenue Fund. This is contrary to Section 5(1) of the Facilities Improvement Financing Act, 2023 which requires that monies raised or received by or on behalf of Public Health Facilities be retained by the facility and be paid into a separate facility improvement financing account.

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

Management Response

The management wishes to state that since devolution in 2013, the County Government of Kitui has been supporting the hospital through direct transfers of funds for operations and maintenance from funds allocated to the County Ministry of Health and Sanitation.

The process of implementing the FIF Act 2023 started in March 2024 with capacity building of healthcare workers in the 311 healthcare facilities, the County Executive Committee, Chief Officers, Advisors, and other stakeholders.

The County Ministry of Health and Sanitation thereafter implemented the National Facilities Improvement Financing (FIF) Act 2023 on 15th May 2025. The hospital had a separate revenue account where revenue was being deposited and swiped to the County Revenue Collection Account weekly. Consequently, instructions were sent to the banks to stop the weekly swiping of funds from hospitals' revenue accounts.

In the FY 2024/2025, the hospital collected a total revenue of Kshs. 420,976,396 on an accrual basis. From 1st July 2024 to 14th May 2025, a total of Kshs. 246,496,984 had been swiped to the County Revenue Fund before the implementation of FIF on 15th May 2025. From 15th May 2025 to 30th June 2025, the hospital received and retained a total of Ksh 48,870,211.

Additionally, on 7th November 2024, the County Government of Kitui, through the County Ministry of Health and Sanitation, forwarded to the Kitui County Assembly for enactment of the Kitui County Health Facilities Improvement Financing Bill, 2024.—

Committee Observation

The Committee observed that the hospital implemented the FIF Act 2023 on 15th May 2025 and now the hospital has a separate revenue account.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

REPORT ON THE EFFECTIVENESS OF INTERNAL CONTROLS, RISKS MANAGEMENT AND GOVERNANCE.

1. Expired Medical Supplies and Stock-outs

The statement of financial position and as disclosed in Note 13 to the financial statements reflect inventories balance of Kshs.112,137,493. However, the pharmaceutical store records revealed various expired drugs of determined value. Further, the stock cards from the main pharmacy indicated that the Hospital experienced stock-outs of surgical gloves, 10ml and 5ml syringes, ceftriaxone 1g injection, metronidazole 500mg injection, tramadol injection and ketorolac injection.

In the circumstances, the effectiveness of internal controls on Management of medical supplies could not be confirmed.

Management Response

The Management wishes to state that the County Ministry of Health and Sanitation constituted a disposal committee in line with section 163 of the Public Procurement and Disposal Act, 2015.

To improve internal controls and manage expired drugs, on 30th July 2024, County Chief Officer of Health and Sanitation constituted a disposal committee as per the attached letter of appointment, in line with section 163(1) and (2) of Public Procurement and Disposal Act, 2015 which gives guidelines on how to manage the process.

Several factors have contributed to the Expiry of drugs, including:

- a) Donated Drugs that don't align with hospital needs or procurement guidelines.
- b) Short Expiry medication procured for special programs (ARVs, TB Drugs) and supplied by the National government.
- c) Fluctuating patient traffic that leads to unpredictable usage of certain HPTs.
- d) During COVID 19 Pandemic the hospital received a lot of medication with short expiry.
- e) The last disposal of drugs was carried out in 2017 leading to accumulation of expired drugs.

In compliance with Pharmacy and Poisons Board Act, Cap 244 which regulates use and disposal of drugs and non-pharmaceuticals, the County Government of Kitui applied for and received approval for disposal of the expired drugs by the Pharmacy and Poisons Board (PPB) as per the attached payment voucher.

The committee mapped the expired drugs and stored them in a separate safe store. The tendering for the disposal of expired drugs was advertised on the county website on 6th May 2025, as attached. However, the tender was non-responsive. The tender was re-advertised on 15th January 2026 and closed on 2nd February 2026. Thereafter, the tendering process is being finalized. Therefore, we expect the disposal to be finalized by the end of the FY 2025/2026.

The management further state that upon implementation of FIF Act 2023, the Hospital has raised the budget allocation for Health Products Technologies (HPTs) significantly from Ksh 6,048,000 to Kshs 72,000,000 annually as per the attached budget. This is meant to supplement the Ministry of Health budget allocation of Ksh 80,000,000.

Committee Observation

The Committee observed that expired drugs have been accumulating at the Hospital since 2017, when the last disposal was conducted. The Committee further observed that stock-outs of essential medicines and surgical supplies, such as surgical gloves, syringes, and critical injection drugs.

Committee Recommendation

The committee recommends that-

- i. That within ninety (90) days of the adoption of this report, the Governor ensures that the disposal of expired drugs is finalized and a comprehensive disposal report is submitted to the Senate and copy to Auditor-General, detailing quantities disposed, methods used, and compliance with section 163(1) & (2) of the Public Procurement and Asset Disposal Act, 2015, Pharmacy and Poisons Act, Cap 244; and**
- ii. within sixty (60) days of the adoption of this report, the Governor ensures the hospital implements and strictly enforces a First-Expiry-First-Out (FEFO) inventory management system across all pharmacies and stores, alongside a structured mechanism for monthly medicines availability reporting to address and prevent stock-outs.**

2.2. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR MWINGI LEVEL 4 HOSPITAL FOR THE FINANCIAL YEAR 2024/2025.

The Governor of Kitui County, Hon. Dr. Julius Malombe, EGH, appeared before the Committee on Monday 26th January 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Mwingi Level 4 Hospital for the Financial Year 2024/2025. The Governor was accompanied by the following officers-

1. Mr. Peter Kilonzo - CECM Finance
2. Ms. Ruth Koki - CECM health
3. Dr. Hellen Munyao - Medical Superintendent

REPORT ON THE FINANCIAL STATEMENTS

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

Unsupported/ Non-disclosure of Property, Plant and Equipment

The statement of financial position reflects a Nil balance of property, plant, and equipment. However, review of the Hospital's records and physical verification carried out in September 2025 revealed assets, including land, buildings, motor vehicles, furniture, computers, and equipment that were not disclosed in the financial statement. Further ownership documents for land and motor vehicles were not provided for audit review.

In the circumstances, the accuracy, completeness, and ownership of Nil property, plant and equipment balance could not be confirmed.

Management Response

During the time of audit in September 2025, by the Office of the Auditor General, the management shared a list of assets for the hospital, and the same were ascertained during physical verification. In the financial statements that were prepared for the FY 2024/2025, no value could be assigned because the valuation of the assets had not been taken.

The County Government of Kitui is committed to valuing all county assets. The County Treasury initiated the valuation process of compiling the available county assets.

The title deed for the hospital land had not been processed at the time of the audit. The titling process for the Mwingi Level IV Hospital is underway, as evidenced by the attached

correspondence between the hospital medical superintendent and the Chief Officers for Medical Services and Lands & Housing.

The Department of Land and Housing has submitted a progress report to the Chief Officer, Medical Services, on the geo-referencing of 52 health facilities across the county, including Mwingi Level IV Hospital (Enclosed is the progress report and the list of facilities). The facility management will fast-track the process to have the title processed by the end of FY 2026/2027.

Committee Observation

The Committee observed that—

- i. the Hospital reported a Nil balance for property, plant and equipment despite existence of significant assets verified during audit, indicating material understatement of assets; and
- ii. although management has initiated valuation and titling processes, these are expected to be completed in FY 2026/2027.

Committee Recommendation

The Committee recommends that—

- i. **within sixty (60) days of the adoption of this report, the Governor, through the CECM responsible for Health, engages the Ministry of Health and relevant authorities to fast-track the transfer of ownership documents for land and motor vehicles;**
- ii. **the Governor ensures that valuation of all hospital assets is undertaken and the valuation report submitted to the Auditor-General for verification in the subsequent audit cycle;**
- iii. **upon completion of valuation and transfer, the Accounting Officer prepares and submits an updated asset register within sixty (60) days for audit verification; and**
- iv. **the Accounting Officer ensures maintenance of an up-to-date asset register in compliance with Section 149(2)(o) of the Public Finance Management Act, Cap. 412A and PSASB guidelines.**

1. Long Outstanding Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transactions balance of Kshs. 110,727,017 as disclosed in Note 17 to the financial statements. Included in the balance are receivables amounting to Kshs. 43,725,741 in respect to National Hospital

Insurance Fund (NHIF) claims, which have been outstanding for more than three (3) years. Although Management issued a demand letter to recover the amount, there has been no response from NHIF, hence raising doubts on its recoverability.

In the circumstances, the completeness and recoverability of the NHIF claims amounting to Kshs.43,725,741 could not be confirmed.

Management Response

The Social Health Authority (SHA) was established in October 2024 through the enactment of the Social Health Insurance Act 2023 to replace the defunct National Hospital Insurance Fund (NHIF).

Through gazette notice no. 4069, the National Health Insurance Fund Pending Medical Claims Verification Committee was gazette on 28th March 2025 (As attached) to review and verify Ksh.33B in outstanding claims from July 1st 2022, to September 30th 2024. However, the high court in Eldoret nullified the committee on 11th August 2025, ruling it unconstitutional and lacking a legal basis. Notwithstanding this, the management has been following up with NHIF/SHA offices regarding the payment of long-outstanding receivables from the insurance on a weekly and monthly basis through letters and mail reminders.

Committee Observation

The Committee observed that—

- i. receivables amounting to Kshs. 43,725,741 relating to NHIF claims have remained outstanding for over three (3) years, raising doubts on their recoverability.
- iii. despite follow-up efforts by management, the transition from NHIF to Social Health Authority (SHA) and related legal challenges have delayed settlement of claims.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures that Accounting Officer undertakes comprehensive follow-up with the relevant entities, including the Social Health Authority (SHA), to recover all outstanding claims and submits a status report to the Senate and Auditor-General within 60 days of the adoption of this report.
- ii. the Governor ensures the Accounting Officer prepares and submits a detailed debtors' ageing analysis to the Auditor-General for verification and update the committee in the subsequent cycle; and

- iii. **the Governor ensures the Accounting Officer develops and implements a debt recovery strategy, including provisions for doubtful debts and write-off of irrecoverable amounts in line with applicable regulations.**

2. Long Outstanding Trade and Other Payables

The statement of financial position and as disclosed in Note 21 to the financial statements reflect trade and other payables balance of Kshs. 52,938,471. Included in the balance are payables totaling Kshs. 29,594,077, which have been outstanding for more than two (2) years. Although Management indicated that the payables had been outstanding for long due to financial constraints, there were no measures put in place to clear the payables.

Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

Management Response

The hospital has been experiencing financial constraints due to accumulated receivables from NHIF/SHA. This has made the hospital operate and rely on supplies from vendors without making their payments promptly.

However, in this current financial year and with the implementation of the FIF Act 2023 on 15th May 2025, the hospital has managed to settle some of the outstanding payables that have been outstanding for more than two (2) years, amounting to Ksh. 10,199,228 alongside the current payment of utilities.

Additionally, the hospital has prioritized paying the long-standing balance of Ksh. 19,394,849 and will ensure that all are paid by the end of the FY 2025/2026.

Committee Observation

The Committee observed that the Hospital had long outstanding payables amounting to Kshs. 19,394,849 which had remained unsettled for over two (2) years and no clear repayment plan had been put in place, exposing the Hospital to supplier disputes and service delivery disruptions.

Committee Recommendation

Committee Recommends that—

- i. Within sixty (60) days of the adoption of this report, the Accounting Officer engages the relevant entities to formulate a repayment plan for the payables and file a report on the same with the Auditor-General for verification. The Auditor-General to provide a status update on the matter in the subsequent audit cycle.
- ii. the Governor to ensures the water company makes budgetary provision to clear the outstanding payables by the end of the FY 2026/2027 and provide a status update to the Senate within 60 days of the adoption report; and
- iii. the Governor ensures that the County Executive Committee Member in charge of Health continuously monitors the financial performance of the hospital in line with section 184 of the Public Finance Management Act, 2012 and report on the same to the County Executive Committee, making recommendations on how the water company can improve its performance.

3. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects actual expenditure amount of Kshs. 200,359,256 against actual receipts of Kshs. 290,967,859 resulting in under-absorption of Kshs. 90,608,603 or approximately 31% of the actual receipts. The under-absorption affected the planned activities and may have impacted negatively on service delivery to the public.

Management Response

The management acknowledges the auditors' findings on the under absorption of Ksh. 90,608,603. This resulted from an error in which the actual receipts were recorded as the total income generated on accrual during the financial year 2024/2025.

Further, the management wishes to state that, in the financial year 2024/2025, the total actual receipts was Kshs. 97,109,434.15 that was supposed to have been recorded as actual receipts on the budget. The management will correct the entry as prior year adjustments in the subsequent financial year 2025/2026.

Committee Observation

The Committee observed that the Hospital reported under-absorption of funds amounting to Kshs. 90,608,603 due to misclassification of actual receipts.

Committee Recommendation

The Committee recommends that-

- i. **The Governor ensures that the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of 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;**
- ii. **the Governor ensures the Accounting Officer strengthens internal audit controls and ensures proper record keeping in line with section 155 of the Public Finance Management Act, Cap.412A and 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;**
- iii. **the Governor ensures that the Accounting Officer enhances the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements; and**
- iv. **the Accounting Officer ensures that prior year adjustments are carried out in the company's financial statements of the subsequent year to correct the errors to reflect the true financial position of the company**

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Irregular Engagement of Casual Workers

The statement of financial performance reflects employee costs of Kshs. 27,751,165 as disclosed in Note 11 to the financial statements. Included in the amount is Kshs. 5,592,253 in respect to casuals and contractual staff who were engaged for more than three (3) months. This is contrary to Section B. 16(1) of the County Public Service Human Resources Manual of May, 2013, which states that (1) casual workers shall be engaged only on urgent short-term tasks with the approval of the County Public Service Board and they shall not be engaged for more than three months, as stipulated in the Employment Act, 2007.

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

Management Response

The management acknowledges that some of the casuals were engaged for more than three (3) months during the FY 2024/2025. The management further wishes to state that this has since been rectified and any further engagement of casuals is in line with the County Public Service Human Resource Manual of May, 2013 which states that (1) Casual workers shall be engaged only on urgent short-term tasks with the approval of the County Public Service Board and they shall not be engaged for more than three months, as stipulated in the Employment Act, (2007). Additionally, the County Public Service Board has developed the Kitui County Temporary Workers Engagement Policy 2025 to guide the county on temporary workers' engagement. The County Public Service Board verified the temporary workers' engagement.

Committee Observation

The Committee observed that the Hospital engaged casual workers beyond the legally permitted three (3) months contrary of the County Public Service Human Resource Manual and the Employment Act, 2007.

Committee Recommendation

The Committee recommends that the Governor ensures the Accounting Officer fully adheres to the provisions of the County Public Service Human Resource Manual and the Employment Act, 2007 regarding the engagement of casual workers; and that all future engagements receive approval from the County Public Service Board and comply with the Temporary Workers Engagement Policy, 2025.

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

Review of the Hospital's records and interviews on verification of services offered, equipment used and medical specialists in the Hospital as at the time of audit in October, 2025 revealed that the Hospital did not meet the requirements of Kenya Quality Model for Health Policy Guidelines due to staff deficits by twelve (12) or approximately 15% of the authorized establishment.

Staff Requirements	Level 4 Standard	Number in Hospital	Variance	Percentage % Variance
Anesthesiologists	2	0	2	100
General Surgeons	2	1	1	50
Radiologists	2	0	2	100

Kenya Registered Community Health Nurses	75	68	7	9
Total	81	69	12	15

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 % Variance
Newborn Unit Incubators	5	4	1	20
Functional ICU Beds	6	0	6	100
HDU Beds	6	0	6	100
Renal Unit with at least 5 Dialysis Machines	5	0	5	100

These deficiencies contravene the First Schedule of the Health Act, 2017 and imply that accessing the highest attainable standard of health, which includes the right to health care services, including Reproductive Health Care as required by Article 43(1) of the Constitution of Kenya, 2010 may not be achieved.

In the circumstances, the Hospital will not be able to deliver on its mandate.

Management Response

The management acknowledges the auditor's findings.

The county has a total of 1783 health care workers distributed across the 326 healthcare facilities. In the current financial year, the County Government planned for the recruitment of additional healthcare professionals. In January 2026, the county public service board advertised for the recruitment of 200 healthcare workers to alleviate staff shortages. Among the 200 are 2 (two) General Surgeons, 50 Kenya Registered Community Health Nurses (KRCHN) (See attached Kitui County Public Service Board Advertisement 2026).

The recruited healthcare workers will be deployed to various healthcare facilities across the county, including Mwingi Level IV Hospital, based on needs. The county ministry of health and sanitation has deployed one (1) radiologist to the hospital.

Additionally, the county public service board released one (1) officer to pursue masters in anesthesia and is expected to be back in September 2027. The hospital plans to acquire one

additional newborn unit incubator in the next financial year. The hospital has fully operationalized the renal unit, which is attending to two (2) to three (3) patients in a day. The hospital has reserved a space for ICU and HDU beds in our amenity unit, awaiting the procurement of the beds by the county government.

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 4 facility.

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. Failure to Dispose of Unserviceable Assets

The statement of financial position reflects a Nil balance of property, plant and equipment. However, field verification revealed unserviceable assets that have not been disposed of and remain unutilized. This is contrary to Section 164(1) of the Public Procurement and Asset Disposal Act, 2015, which states that the employee in charge of unserviceable, obsolescent, obsolete or surplus assets shall bring the matter to the attention of the Disposal Committee through the Head of the Procurement Function.

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

Management Response

The hospital wishes to state that the County Ministry of Health and Sanitation constituted a ministry disposal committee in line with section 163 of the Public Procurement and Disposal Act, 2015.

The committee mapped the assets into three (3) categories.

- i. Obsolete equipment
- ii. Obsolete motor vehicles and motorcycles

The obsolete equipment has been isolated and stored in the respective departments of use. The motor vehicles and motorcycles have been isolated and stored in the hospital. The hospital has compiled a list of all available assets.

Committee Observation

The Committee observed that unserviceable and obsolete assets had not been disposed of in accordance with Public Procurement and Asset Disposal Act, 2015.

3. Failure to Retain Facilities Improvement Funds (FIF) at the Hospitals

Review of the revenue records revealed that the Hospital collected a total of Kshs. 167, 583,664 towards the Health Facilities Improvement which includes a total of Kshs. 76,365,691 that was transferred to County Revenue Fund. This is contrary to section 5(1) of the Facilities Improvement Financing Act, 2023 which requires the monies raised or received by or on behalf of Public Health Facilities be retained by the Facility and be paid into a separate Facility Improvement Financing Account.

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

Management Response

Since devolution in 2013, the County Government of Kitui has been supporting the hospital through direct transfers of funds for operations from funds allocated by the County Ministry of Health and Sanitation. The process of implementing the FIF Act 2023 started in March 2024 with capacity building of healthcare workers in the 311 healthcare facilities, the County Executive Committee, Chief Officers, Advisors, and other stakeholders.

The County Ministry of Health and Sanitation thereafter implemented the National Facilities Improvement Financing (FIF) Act 2023 on 15th May 2025. The hospital has a separate revenue account where revenue is being deposited and swiped to the County

Revenue Collection Account weekly. Consequently, instructions were sent to the banks to stop the swiping from the hospital's revenue account.

In the FY 2024/2025, the hospital collected a total revenue of Kshs. 167,583,664 earned from rendering services. From 1st July 2024 to 14th May 2025, a total of Kshs. 76,365,691 had been received and swiped to the County Revenue Fund. As of the date of the stop order, the hospital had a total balance of Kshs. 32,200,660 in the Revenue collection account. Between 15th May 2025 and 30th June 2025, the hospital received and retained an additional Ksh20,743,743.

Additionally, on 7th November 2024, the County Government of Kitui, through the County Ministry of Health and Sanitation, forwarded to the Kitui County Assembly for enactment of the Kitui County Health Facilities Improvement Financing Bill, 2024.

Committee Observation

The Committee observed that the Facility Improvement Funds (FIF) of the amount the previously unauthorized transfers were reimbursed to the Hospital's FIF operational account.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

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

1. Expired Medical Supplies

The statement of financial position reflects inventories balance of Kshs. 21,622,141 as disclosed in Note 19 to the financial statements. Review of records on pharmaceuticals and non-pharmaceutical supplies revealed that twenty-eight (28) units of various drugs of undetermined value had expired.

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

Management Response

The management wishes to state that the list of the twenty-eight (28) expired drugs whose values had not been attached was determined based on their expiry dates. (See attached list of expiry drugs).

Several factors have contributed to the expiry of drugs, including:

- a) Donated Drugs that don't align with hospital needs or procurement guidelines
- b) Short Expiry medication procured for special programs (ARVs, TB Drugs) and supplied by the National government.
- c) Fluctuating patient traffic that leads to unpredictable usage of certain HPTs
- d) During the COVID-19 Pandemic, the hospital received a lot of medication with short expiry.
- e) The last drug disposal was carried out in 2017, leading to the accumulation of expired drugs.

To improve internal controls and manage expired drugs, on 30th July 2024, the County Chief Officer of Health and Sanitation constituted a disposal committee as per the attached letter of appointment, in line with section 163(1) and (2) of the Public Procurement and Disposal Act, 2015, which gives guidelines on how to manage the process.

The committee mapped all the expired drugs meant for disposal in all county public healthcare facilities and aggregated them at Mwingi Level IV Hospital (See attached report).

In compliance with the Pharmacy and Poisons Board Act, Cap 244, which regulates the use and disposal of drugs and non-pharmaceuticals, the County Government of Kitui applied for and received approval for the disposal of the expired drugs by the Pharmacy and Poisons Board (PPB) (See attached payment voucher)

The tender for the disposal was advertised on the County website on 6th May 2025, as attached. However, the tender was non-responsive, and was re-advertised on 15th January 2026. The deadline for submission of the bid documents was on 2nd February 2026. Therefore, evaluations and the awarding process are ongoing.

Committee Observation

The Committee observed that the Hospital had expired drugs in its stores, posing potential health risks and the management confirmed that proper disposal procedures have been initiated for all expired stock.

Committee Recommendation

The Committee recommends that the Governor ensures continuous monitoring and adherence to the Public Health Act, Cap. 242, and the Pharmacy and Poisons Act, Cap. 244, to prevent accumulation of expired drugs and Auditor -General to provide status in the subsequent audit cycle.

1. Stock-Out of Essential Medical Supplies

The statement of financial position reflects inventories balance of Kshs. 21,622,141 as disclosed in Note 19 to the financial statements. Review of the Hospital's stock cards for controlling stores indicated that the Hospital experienced stock-outs of medical supplies ranging from one (1) month to thirteen (13) months.

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

Management Response

The management acknowledges the auditors' findings.

The procurement of pharmaceuticals and non-pharmaceuticals encompasses a wide range of commodities for the treatment of various conditions. Some of the commodities can be substitutes for others (can be used interchangeably). The hospital places its orders based on the available stock status in KEMSA, taking into consideration commodities that can be used interchangeably.

The hospital records each commodity on its own bin cards. When a substitute is ordered, the bin cards will reflect a stock-out status for a specific commodity for the period during which the commodity is out of stock. Meanwhile, the client receives alternatives or substitutes for a particular commodity.

The county ministry of health and sanitation budgets for the procurement of pharmaceuticals and non-pharmaceuticals quarterly. In the FY 2024/2025, the ministry allocated a total of Ksh.424M for the procurement of commodities for the 311 health facilities.

In the FY 2024/2025, Mwingi Level IV Hospital received a total of Ksh 64,085,765 worth of pharmaceuticals and non-pharmaceutical supplies from the county allocation and its own allocations (See the attached Supplies Analysis)

This was occasioned by frequent stockouts of commodities in KEMSA and MEDS. In the same financial year, KEMSA and MEDs fill rate were 80% and 96%, respectively. This means the facility could not have all the required commodities.

Committee Observation

The Committee observed that the Hospital experienced stock-outs of essential medical supplies, with some commodities unavailable for periods ranging from one to thirteen months. Management explained that substitutes were provided to patients and attributed the stock-outs to supply gaps at KEMSA and MEDS.

Committee Recommendation

The Committee Recommends that the Governor ensures the Hospital strengthens internal controls over inventory management, including regular stock monitoring, timely ordering, and effective tracking of substitutes, in compliance with section 155 of the Public Finance Management Act, Cap. 412A, and the Pharmacy and Poisons Act, Cap. 244. The Hospital should also work closely with KEMSA and MEDS to mitigate supply gaps and ensure continuity of essential medical service

2.3. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR MUTOMO SUB COUNTY HOSPITAL FOR THE FINANCIAL YEAR 2024/2025.

The Governor of Kitui County, Hon. Dr. Julius Malombe, EGH, appeared before the Committee on Monday 26th January 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Mutomo Sub- County Hospital for the Financial Year 2024/2025. The Governor was accompanied by the following officers-

1. Mr. Peter Kilonzo - CECM Finance
2. Ms. Ruth Koki - CECM health
3. Dr. Dorcas Kwamboka - Medical Superintendent

REPORT ON THE FINANCIAL STATEMENTS

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

1.0 Non-Disclosure of Property, Plant and Equipment

The statement of financial position and as disclosed in Note 17 to the financial statements reflect property, plant and equipment balance of Kshs 1,410,970. Included in the balance is Kshs.1,215,770 for additions during the year. However, review of the Hospital's records and physical verification revealed assets including land, buildings and motor vehicles which were not disclosed in the financial statements. Further ownership documents for land and motor vehicles were not provided for audit review. In the circumstances, the accuracy, completeness and ownership of property, plant and equipment balance of Kshs.1,410,970 could not be confirmed.

Management Response

The assets disclosed in the financial statements of Kshs. 1,410,970 were acquired in the financial year 2024/2025 as an in-kind contribution from the Ministry of Health and Sanitation. During the audit in September 2025 by the Office of the Auditor General, the management shared a list of assets for the hospital, and the same were ascertained during the physical verification.

In the financial statements that were prepared, no value was assigned for the other assets because the valuation of the assets had not been done.

The county government of Kitui is committed to conducting a valuation of all county assets, and the process has already been initiated by the County Treasury. The process of

valuation is inline with the accrual adoption timeline, and is planned to be completed in the financial year FY 2026/2027.

The title deed for the hospital land had not been processed at the time of the audit. The titling process for Mutomo Level IV Hospital is underway, as evidenced by the attached correspondence between the hospital's Medical Superintendent and the chief officers of Medical Services and Lands and Housing.

The Department of Land and Housing has submitted a progress report to the chief officer of Medical Services on geo-referencing of 52 health facilities across the county, among them being Mutomo Level 4 Hospital. (Enclosed is the progress report and the list of facilities). The facility management will fast-track the process to have the title deed processed by the end of FY 2026/2027.

On matters related to motor vehicles, the custodian of the motor vehicle logbooks is the County Treasury. The county had written to the National Transport Safety Authority (NTSA) through a letter CGKTI/CS/ADM/VOL3/21/31 requesting the issuance of logbooks for vehicles transferred from the Ministry of Health to the County.

Enclosed herewith are;

- i. Letter from Mutomo Hospital Medical Superintendent to Chief Officer-Medical Services requesting Hospital land titling.
- ii. Letter from Chief Officer-Medical Services to Chief Officer-Lands & Housing requesting documents for the application of Health facilities title deeds.
- iii. Letter from Mutomo Hospital Medical Superintendent to CO-Medical Services requesting the valuation of all hospital assets.
- iv. Response letter from Chief Officer - Lands & Housing to Chief Officer - Medical Services confirming that the department has initiated the titling process.
- v. Letter from CECM - Finance to all County ministries for compilation and valuation of county assets.
- vi. Mutomo Hospital assets list.
- vii. Progress report on current status of titling of hospital land.

Committee Observation

The Committee observed that—

- i. the property, plant and equipment balance of Kshs. 1,410,970 was understated, as physical verification revealed additional assets including land, buildings, and

- motor vehicles that were not disclosed in the financial statements, and ownership documents for land and motor vehicles were not availed for audit review; and
- ii. although management acknowledged the omission and attributed it to the absence of asset valuation, and has since initiated the titling and valuation process, completion is not expected until FY2026/2027, meaning the financial statements for the year under review do not reflect the true and fair value of the Hospital's assets.

Committee Recommendation

The Committee recommends that—

- i. within sixty (60) days of the adoption of this report, the Governor, through the CECM responsible of health, engages with the Ministry of Health of the National Government to ensure the transfer of ownership documents for land and motor vehicles is fast-tracked;
- ii. the Governor ensures the management of the Hospital undertakes valuation of all assets and submits the valuation report to the Auditor-General for verification during the subsequent audit cycle;
- iii. upon completion of the transfer and valuation, the Accounting Officer prepares an updated asset register within 60 days of the adoption of this report and submits it to the Auditor-General for verification;
- iv. the Governor, through the Accounting Officer, ensures the Hospital maintains an up-to-date asset register in accordance with Section 149(2)(o) of the Public Finance Management Act, Cap. 412A and in the format prescribed by the Public Sector Accounting Standards Board (PSASB), failure to which the provisions of Section 199 of the Public Finance Management Act, Cap. 412A on penalties for offences shall apply; and
- v. the Accounting Officer ensures that prior year adjustments are carried out in the Hospital's financial statements of the subsequent year to correct the errors and reflect the true financial position of the Hospital.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

1.0 Deficiencies in implementation of Universal Health Coverage

Review of Hospital records and interviews on verification of services offered, equipment used and medical specialists in the Hospital as at the time of audit in September, 2025 revealed that the Hospital did not meet the requirements of Kenya Quality Model for Health Policy Guidelines due to staff deficits by 92 or approximately 91 % of the authorized establishment as detailed below;

Staffing Requirement	Level 4 Standard	Number in Hospital	Variance	Percentage %
Medical Officers	16	2	14	88
Anesthesiologists	2	0	2	100
General Surgeons	2	0	2	100
Gynecologists	2	0	2	100
Pediatricians	2	0	2	100
Radiologists	2	0	2	100
Registered Community Health Nurses	75	7	68	91
Total	101	9	92	91

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

Equipment and Machines	Level 4 Hospital Standard	Actuals in the Hospital	Variance	Percentage %
Beds	150	25	125	83
Incubators (Newborn)	5	3	2	40
Resuscitaire in Theatre	1	0	1	100
Resuscitaire in Labour Ward	2	1	1	50
Functional ICU Beds	6	0	6	100
HDU Beds	6	0	6	100
Renal unit with Dialysis Machines	5	0	5	100
Functional Operating Theaters Maternity and General	2	0	2	100

The deficiencies contravene the First Schedule of Health Act, 2017 and imply that accessing the highest attainable standard of health, which includes the right to health care

services, including reproductive health care as required by Article 43(1) of the Constitution of Kenya, 2010 may not be achieved. In the circumstances, the Hospital will not be able to deliver on its mandate.

Management Response

The County Government of Kitui has a total of 1,783 health care workers distributed across 326 healthcare facilities. In the FY 2025/2026, the County is recruiting an additional 200 healthcare workers of different cadres. The County Public Service Board has already advertised for the recruitment to alleviate staff shortages. Among the 200 to be recruited are 2 (two) General Surgeons, 3 radiographers, 12 clinical officers, 7 medical officers, and 50 Kenya Registered Community Health Nurses (KRCHN). Additionally, the County Ministry of Health and Sanitation plans to budget for the recruitment of additional anesthesiologists in FY 2026/2027.

The newly recruited personnel will be deployed to various facilities across the county, including Mutomo Level 4 Hospital, based on need. Attached is the Kitui County Public Service Board recruitment advert.

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 4 facility.

Committee Recommendation

The Committee recommends that—

- iii. 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**
- iv. 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.

2.0 Non-Compliance with Law on Ethnic Composition and Disabilities Distribution

During the year under review, the total number of employees of the Hospital was eighty (80) out of whom sixty-two (62) or approximately 78% were from the dominant ethnic community in the County. This is contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that ‘All public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff, and that ‘No public establishment shall have more than one third of its staff from the same ethnic community’.

In addition, Management did not employ any person living with disabilities contrary to Section 13 of the Persons with Disability Act, 2023 which requires that at least five percent (5%) of employment is given to persons with disabilities.

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

Management Response

The employment of healthcare workers, including persons with disabilities, is done by the County Public Service Board, and they are deployed to the facility by the Chief Officer in the County Ministry of Health and Sanitation on a need basis.

Committee Observation

The Committee observed that—

- i. 78% of total staff, were from the dominant ethnic community in the County, far exceeding the one-third threshold under Section 7(1) and (2) of the National Cohesion and Integration Act, 2008; and
- ii. the Hospital did not employ any person living with disabilities, contrary to Section 13 of the Persons with Disability Act, 2023, which requires that at least five percent (5%) of employment opportunities be reserved for persons with disabilities.

Committee Recommendation

The Committee recommends that—

- i. The Governor ensures the Board and the Accounting Officer make deliberate efforts to 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, and all future recruitment vacancies are advertised in newspapers of national circulation and on the County's website to attract applicants from diverse ethnic backgrounds;**
- ii. the Governor ensures the County Public Service Board, in its ongoing recruitment of 200 healthcare workers, gives effect to Section 13 of the Persons with Disability Act, 2023 by reserving at least five percent (5%) of the positions for persons with disabilities, and submits evidence of compliance to the Senate within 60 days of the adoption of this report.**

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

Basis for Conclusion

1.0 Lack of an Effective Audit Committee

During the year under review, the audit committee operated without an audit committee charter and they did not hold any meeting. This is contrary to Regulation 172(1) of the Public Finance Management (County Governments) Regulations, 2015 which requires the audit committee to meet at least once in every three months. Further, the Internal audit plan and budget of the Hospital were not approved by the audit committee.

In the circumstances, the effectiveness of the internal control mechanisms that could have an impact on achievement of the strategic objectives of the Hospital could not be confirmed.

Management Response

The execution of the hospital's internal audit activities is integrated within the county-wide framework. The auditing assignments for the hospital are currently being undertaken by the County Internal Audit Unit, which operates under the oversight and assurance of the County Audit Committee.

The Public Finance Management Regulations, including the stipulated meeting frequency, now that the committee's foundational charter is in place.

Management has taken proactive steps to rectify this situation. In December 2025, the Audit Committee formally convened and approved its charter, the internal audit workplan for period January 2026 to June 2026, annual internal audit workplan for the year 2026/2027 establishing a clear framework for its operations and responsibilities going forward.

Committee Observation

The Committee observed that the Hospital's Audit Committee operated during the year under review without an approved charter and did not hold any meeting, contrary to Regulation 172(1) of the Public Finance Management (County Governments) Regulations, 2015. However, the management confirmed that the Audit Committee formally convened, approved its charter, and adopted an internal audit workplan for the period January to June 2026.

Committee Recommendation

The Committee recommends that the Governor ensures the County Executive Committee Member (CECM) – Finance ensures that the Hospital's Audit Committee operates in full compliance with Regulation 172(1) of the Public Finance Management (County Governments) Regulations, 2015, meeting at least once every quarter with all meetings properly minute and internal audit plans approved in a timely manner;

2.4. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR IKANGA SUB COUNTY HOSPITAL FOR THE FINANCIAL YEAR 2024/2025.

The Governor of Kitui County, Hon. Dr. Julius Malombe, EGH, appeared before the Committee on Monday 26th January 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Ikanga Sub County Hospital for the Financial Year 2024/2025. The Governor was accompanied by the following officers-

1. Mr. Peter Kilonzo - CECM Finance
2. Ms. Ruth Koki - CECM health
3. Dr. Carolyne Kayeni - Medical Superintendent

REPORT ON THE FINANCIAL STATEMENTS

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

1. Failure to Charge Depreciation on Property, Plant and Equipment

The statement of financial position reflects a balance of Kshs.417,700 in respect to property, plant and equipment as disclosed in Note 19 to the financial statements. However, no depreciation was charged on the assets. In addition, the depreciation policy was not disclosed in the financial statements to indicate the rates of depreciation charged on various classes of assets. Further, ownership documents for land were not provided for audit review.

In the circumstances, the accuracy of property, plant and equipment balance of Kshs.417,700 could not be confirmed.

Management response.

The County Government of Kitui currently does not have a depreciation policy. The hospital management will customize a depreciation policy once a Kitui County policy is in place.

The management clarifies that the hospital land belongs to the county government, and as such, the county retains ownership of the land. However, management wishes to state that the titling process is underway, as evidenced by the attached correspondence between the

hospital Medical Superintendent and the Chief Officers for Medical Services and Lands & Housing.

The Department of Lands and Housing has submitted a progress report to the Chief Officer Medical Services on geo-referencing of 52 health facilities across the county, among them being Ikanga Sub-County Hospital (Enclosed is the progress report and the list of facilities). The facility management will fast-track the process to have the title deed processed by the end of FY 2026/2027.

Committee Observation

The Committee observed that—

- i. the Hospital reported a balance of Kshs.417,700 in respect to property, plant and equipment; however, no depreciation was charged on the assets, and no depreciation policy was disclosed in the financial statements;
- ii. although management indicated that the titling process for hospital land is underway, ownership documents for land were not provided for audit review.

Committee Recommendation

The Committee recommends that—

- i. **Governor ensures that the County Government develops and adopts a comprehensive depreciation policy and that the Hospital customizes and implements the policy immediately upon its adoption, in compliance with the applicable Public Sector Accounting Standards;**
- ii. **within sixty (60) days of the adoption of this report, the Governor, through the CECM responsible for Health, engages the Ministry of Lands and relevant authorities to fast-track the transfer of ownership and titling of hospital land;**
- iii. **the Governor ensures that valuation of all hospital assets is undertaken and the valuation report submitted to the Auditor-General for verification in the subsequent audit cycle; and**
- iv. **the Governor ensures the Accounting Officer ensures maintenance of an up-to-date asset register in compliance with Section 149(2)(o) of the Public Finance Management Act, Cap. 412A and PSASB guidelines, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply.**

2. Inaccuracies in the Statement of Comparison of Budget and Actual Amounts

The statement of comparison of budget and actual amounts reflects total budgeted revenue of Kshs.15,903,849 against actual revenue collected of Kshs.14,403,849. However, the amounts disclosed as actual expenditure were from the statement of financial performance which include accrued expenses. In addition, review of the approved budget revealed that revenue was not budgeted for during the year.

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

Management response

The original budget of Kshs. 15,903,849 consisted of transfers from the county treasury of KShs. 6,850,000, and the rendering of medical services income of Kshs. 9,053,849.

With the implementation of the Facility Improvement Financing (FIF) Act, 2023, starting 15th May 2025, the county government stopped further transfers to the hospital with a view to the hospital collecting, retaining, and utilising its revenue at source henceforth. However, the Social Health Authority (SHA) delayed reimbursement of claims for this period, resulting in the underfunding of the budget by KShs 1,500,000.

The amount disclosed on the actual expenditure on the statement of comparison and actual was erroneously captured on an accrual basis of accounting instead of a cash basis. The error will be corrected in the subsequent Financial Year.

Committee Observation

The Committee observed that an underfunding of Kshs.1,500,000 was attributed to delayed Social Health Authority (SHA) reimbursements the actual expenditure disclosed in the statement was erroneously captured on an accrual basis instead of a cash basis, contrary to the requirements for budget reporting.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures that the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of the Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**

- ii. the Governor ensures the Accounting Officer ensures that the error in the statement of comparison of budget and actual amounts is corrected as a prior year adjustment in the subsequent financial year to reflect the true financial position;
- iii. the Governor ensures that the Accounting Officer strengthens internal audit controls and ensures proper record keeping in line with section 155 of the Public Finance Management Act, Cap.412A; and
- iv. the Governor ensures that the Accounting Officer enhances the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and further invests in technology to enhance efficiency and improve the accuracy of financial statements.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

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

Review of the Hospital's records and interviews on verification of services offered, equipment used and medical specialists in the Hospital as at the time of audit in October 2025 revealed that the Hospital did not meet the requirements of Kenya Quality Model for Health Policy Guidelines due to staff deficits by ninety-one (91) or approximately 90% of the authorized establishment.

Staff Requirements	Level 4 Standard	Number in Hospital	Variance	Variance Percentage %
Medical Officers	16	1	15	94
Anesthesiologists	2	0	2	100
General Surgeons	2	0	2	100
Gynecologists	2	0	2	100
Pediatrics	2	0	2	100
Radiologists	2	0	2	100
Kenya Registered Community Health Nurses	75	9	66	88
Total	101	10	91	90

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

Service	Level Hospital Standard	Actuals in the Hospital	Variance	Variance Percentage %
Beds	150	41	109	73
Resuscitaire	2	5	0	0
New Born Unit Incubators	5	4	1	20
New Born Unit Cots	5	7	-2	-40
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	0	2	100

These deficiencies contravene the First Schedule of the Health Act, 2017 and imply that accessing the highest attainable standard of health, which includes the right to health care services, including Reproductive Health Care as required by Article 43(1) of the Constitution of Kenya, 2010 may not be achieved.

In the circumstances, the Hospital Management will not be able to deliver on its mandate and Universal Health Care Services may not be effectively delivered at the Hospital.

Management response

Kitui County government has a total of 1,783 health care workers distributed across 326 facilities. Management through a letter (see attached) to the Chief officer medical services requested additional staff. In the FY 2025/2026, the county is recruiting additional healthcare workers. In January 2026, Kitui County Public Service Board advertised for the recruitment of 200 health care workers, among whom are 7 medical officers, 50 enrolled nurses, 50 registered nurses, 7 pharmaceutical technologists, and 10 registered clinical officers. The newly recruited health care workers will be deployed to different health care facilities,

including Ikanga Sub-County Hospital, on a need basis. Attached is the Kitui County Public Service Board advert.

The facility has an operational Newborn unit. However, it lacks an intensive care unit (ICU), a high dependency unit (HDU), a renal unit, and operational theatres. Management is committed to increasing services offered in the facility so as to meet the Kenya Medical Practitioners and Dentists Council (KMPDC) requirements for the level 4 standard.

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.

Committee Recommendation

The Committee recommends that—

- v. 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**
- vi. 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-Deduction of Pay as You Earn (PAYE)

The statement of financial performance and as disclosed in Note 11 to the financial statements reflect employee costs totaling Kshs.1,392,908. However, review of the supporting documents revealed that three (3) employees were contracted during the year and paid Kshs.30,000 per month each. However, PAYE deductions were not affected from

their salaries as required by the Income Tax Act. In the circumstances, Management was in breach of the law.

Management response

The facility management engaged 2 clinical officers and 1 nurse on a locum basis during the last half of the financial year. 1 clinical officer was engaged from January 2025 to March 2025 to address the shortage due to the clinical officers' strike, after which the contract was terminated. The second clinical officer was engaged from April 2025 to June 2025. Additionally, 1 nurse was engaged from January 2025 to June 2025 to cover deficits in the nursing department and paid Kshs. 20,000 per month. The PAYE amounting to Ksh.4,386 was not deducted. The management has since then effected PAYE deductions as indicated in the attached payroll and bank receipt.

Committee Observation

The Committee observed that the management deducted the tax on all its employees and evidence of the payroll and bank receipt was provided and verified by the Auditor-General.

Committee Recommendation

The Committee recommends that the matter be marked as resolved

3.Failure to Retain Facilities Improvement Funds (FIF) at the Hospitals

Review of revenue records revealed that the Hospital collected a total Kshs.9,674,159 towards the Health Facilities Improvement which include a total of Kshs.6,788,069 that was transferred to County Revenue Fund. This is contrary to Section 5(1) of the Facilities Improvement Financing Act, 2023 which requires that monies raised or received by or on behalf of Public Health Facilities be retained by the Facility and be paid into a separate Facility Improvement Financing Account.

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

Management's response.

Since devolution in 2013, the County Government of Kitui has been supporting the hospital through direct transfers from budgets allocated by the County Ministry of Health and Sanitation. On 7th November 2024, the County Government of Kitui, through the County Ministry of Health and Sanitation, forwarded to the Kitui County Assembly for enactment of the Kitui County Health Facilities Improvement Financing Bill, 2024.

The process of implementing the FIF Act 2023 started in March 2024 with capacity building of healthcare workers in the 311 healthcare facilities, the County Executive Committee, Chief Officers, Advisors, and other stakeholders. The County Ministry of Health and Sanitation implemented the National Facilities Improvement Financing (FIF) Act 2023 on 15th May 2025. The hospital had a separate revenue account where revenue was being deposited and on a weekly basis swiped to the County Revenue Collection Account. With the implementation of FIF, instructions to stop the weekly swiping of funds from hospitals' revenue accounts to the County Revenue Fund were issued to the banks. (See attached stop order letters)

In the FY 2024/2025, the hospital collected a total revenue of Ksh. 9,674,159 on an accrual basis. From 1st July 2024 to 15th May 2025, a total of Kshs. 6,788,069 had been received and swiped to the County Revenue Fund before the implementation of FIF on 15th May 2025. From 15th May 2025 to 30th June 2025, the hospital received Ksh 947,022 from SHA. In the implementation of FIF, the hospital received an AIE of Ksh. 461,875 was swiped from the revenue account to the operations account on 20th June 2025.

Committee Observation

The Committee observed that the FIF Act, 2023 was implemented on 15th May 2025 and stop orders were subsequently issued to banks, after which the hospital retained Ksh.947,022 from SHA between 15th May 2025 and 30th June 2025.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

1.Lack of Segregation of Duties in Revenue Collection

The statement of financial performance reflects Kshs.9,053,849 in respect to rendering of services – medical service income and as disclosed in Note 8 to the financial statements. However, there was no segregation of duties in revenue collection as the same person received revenue, issued receipts and carried out the banking of revenue. This is contrary to Regulation 63.(1a) of the Public Finance Management (County Governments) Regulations, 2015. Further, revenue received from National Hospital Insurance Fund

(NHIF) and Social Health Authority (SHA) were recorded in the cashbook as lumpsum without the details of what the receipts relate to.

In the circumstances, internal controls regarding revenue collection could not be confirmed.

Management Response

Management wishes to state that all clients are billed at the respective service points. Payments are strictly cashless, and the hospital does not receive or handle cash at any point.

All payments are either made through MPESA Paybill Number: 4181869, Account Name: IKANGA or SHA claims. Upon payment, the revenue clerk confirms the transaction and issues a receipt. Periodic review is done by the accountant for reconciliation.

Management had requested 1 additional revenue clerk to spearhead SHA registration and claiming (see attached letter). The officer has since been deployed and assigned duties to segregate the services.

The lump-sum recording arose because SHA remits outpatient payments as consolidated amounts without detailed schedules indicating individual claims at the point of remittance. The NHIF system was shut down; therefore, access to payment details was not available. As a result, the hospital recorded the receipts based on the amounts credited to the bank.

Committee Observation

The Committee observed that management deployed one (1) additional revenue clerk who has been assigned specific duties to segregate revenue collection services.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

3. Unconfirmed Inventory Management

The statement of financial position reflects an inventories balance of Kshs.1,110,709 as disclosed in Note 18 to the financial statements. Review of the store's records on pharmaceuticals and non-pharmaceuticals supplies revealed that 77 units of various drugs of undetermined value had expired as at 24 September, 2024. In addition, Hospital stock cards were not provided for audit review. Further, there was no evidence of stock take

having been conducted to confirm the quantities, value and status of closing inventories balance as at 30 June, 2025.

In the circumstances, internal controls regarding inventory management could not be confirmed.

Management response

At the time of the audit, expired pharmaceuticals and non-pharmaceutical items had been identified and recorded; however, they had not been valued. The hospital has since valued all expiries to a total of KSh 615,826 (see attached list). This value is for expiries from the year 2017 to date. Most of the expired commodities are programme items like Anti-retrovirals, Tuberculosis, and Malaria drugs, which are at times supplied with short expiry dates.

The County Ministry of Health and Sanitation has constituted a disposal committee in line with section 163 of the Public Procurement and Disposal Act, 2015. The committee has established and mapped all the expired drugs meant for disposal and further issued an advisory that has initiated the disposal activities as per the enclosed documents. The tendering for the disposal of expired drugs was advertised on the county website on 6th May 2025. The tender was non-responsive. A re-advertisement was done on 15th January 2026. The deadline for submission of bid documents was 2nd February 2026. The tendering process is ongoing.

Management through a memo referenced MOH/IKSH/ADMIN/VOL.1.48 has taken corrective measures to improve inventory control, including:

1. Implementation of first expiry-first-out (FEFO) system to minimize stock expiries.
2. Conduct monthly and annual physical stock takes and properly document the results through stock-taking sheets.
3. Regularly update stock cards for all medical supplies, showing receipts, issues, and balances.
4. Regular monitoring of expiry dates to curb wastage.
5. Strengthen internal controls through regular supervision.

Committee Observation

The Committee observed that—

- i. the Hospital had 77 units of various drugs of undetermined value that had expired as at 24 September 2024, and stock cards were not provided for audit review;

- ii. no evidence of stock take was conducted to confirm the quantities, value, and status of closing inventories balance as at 30 June 2025; and
- iii. management has since valued expired items at Ksh.615,826 and a disposal committee has been constituted, with a re-advertisement for disposal tendering done on 15th January 2026.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures continuous monitoring and adherence to the Public Health Act, Cap. 242, and the Pharmacy and Poisons Act, Cap. 244, to prevent accumulation of expired drugs, and the Auditor-General to provide a status update in the subsequent audit cycle;
- ii. the Governor ensures the Accounting Officer ensures that stock cards are maintained and updated regularly for all medical supplies, showing receipts, issues, and balances, and that annual physical stock takes are properly documented;
- iii. the Governor ensures the Accounting Officer implements the First Expiry-First Out (FEFO) system to minimize stock expiries and ensures regular monitoring of expiry dates; and
- iv. the Governor ensures that the disposal of expired drugs is finalized expeditiously in compliance with the Public Procurement and Asset Disposal Act, 2015, and the Pharmacy and Poisons Board Act, Cap. 244.

3.Failure to Maintain an Updated Fixed Assets Register

Review of the list of assets owned by the Hospital revealed that the list did not include key details such as purchase date, number of items purchased, asset tag number, depreciation charge for the year, accumulated depreciation, and net book value. In addition, the assets were not tagged for ease of identification and reference.

In the circumstances, internal controls on fixed assets management could not be confirmed.

Management Response

The omission of key details in the fixed assets register arose due to the absence of a comprehensive asset valuation at the time of reporting. The County Treasury initiated the valuation process (see attached letter). The Ministry of Health and Sanitation appointed a focal person for coordinating asset valuation process. An updated list of assets is ready for submission to the valuer.

Management further states that the assets had not been physically tagged at the time of audit. Upon completion of the valuation exercise, Management is committed to ensuring that all assets are tagged to enhance identification and overall fixed assets control.

Committee Observation

The Committee observed that the Hospital's fixed assets register lacked key details including purchase date, number of items purchased, asset tag number, depreciation charge for the year, accumulated depreciation, and net book value; and assets were not physically tagged for ease of identification and reference, indicating weak internal controls over fixed assets management.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures that the asset valuation process initiated by the County Treasury is concluded expeditiously and the valuation report submitted to the Auditor-General for verification in the subsequent audit cycle;**
- ii. upon completion of the valuation exercise, the Accounting Officer prepares a comprehensive and updated fixed assets register incorporating all required details in the format prescribed by the Public Sector Accounting Standards Board (PSASB) and submits it to the Auditor-General for verification within sixty (60) days; and**
- iii. the Governor ensures that the Accounting Officer ensures that all hospital assets are physically tagged upon completion of the valuation to enhance identification and overall fixed assets control, in compliance with Section 149(2)(o) 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.**

2.5. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR TSEIKURU SUB COUNTY HOSPITAL FOR THE FINANCIAL YEAR 2024/2025.

The Governor of Kitui County, Hon. Dr. Julius Malombe, EGH, appeared before the Committee on Monday 26th January 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Tseikuru Sub County Hospital for the Financial Year 2024/2025. The Governor was accompanied by the following officers-

1. Mr. Peter Kilonzo - CECM Finance
2. Ms. Ruth Koki - CECM health
3. Dr. Issac Edward - Medical Superintendent

REPORT ON THE FINANCIAL STATEMENTS

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

1. Non-Disclosure of Property, Plant and Equipment

The statement of financial position reflects a Nil balance of property, plant and equipment. However, review of the Hospital records and physical verification revealed assets including land, buildings, motor vehicles, furniture, computers and equipment which were not disclosed in the financial statements. Further ownership documents for land were not provided for audit review.

In the circumstances, the accuracy, completeness and ownership of Nil balance of property, plant and equipment balance could not be confirmed.

Management Response

During the audit by the Office of the Auditor General in September 2025, the hospital shared a list of assets as per the attached list. A joint physical verification during the exercise ascertained the availability of the assets. The hospital could not assign values because the valuation of the assets had not been done.

The County Government of Kitui is committed to conducting the valuation of all the county assets, as demonstrated in the initiation letter by the Ministry of Finance attached below, and is expected to be finalized in the financial year 2026/2027. Once determined and transferred, the valuations of these assets will subsequently be disclosed in the facility's financial statements.

The management was able to acquire a title deed for the hospital land, which is attached herein, and is in the process of rectifying the holder's name to the facility's name from the stated Mwingi County Council, as evidenced by the request letter provided for verification.

Committee Observation

The Committee observed that —

- i. the Hospital reported a Nil balance for property, plant and equipment despite the existence of significant assets verified during audit, indicating material understatement of assets; and
- ii. although management has initiated valuation and titling processes, these are expected to be completed only in FY 2026/2027.

Committee Recommendation

The Committee recommends that —

- i. within sixty (60) days of the adoption of this report, the Governor, through the CECM responsible for Health, engages the Ministry of Health and relevant authorities to fast-track the transfer of ownership documents for land and motor vehicles;**
- ii. the Governor ensures that valuation of all hospital assets is undertaken and the valuation report submitted to the Auditor-General for verification in the subsequent audit cycle;**
- iii. upon completion of valuation and transfer, the Accounting Officer prepares and submits an updated asset register within sixty (60) days for audit verification; and**
- iv. the Accounting Officer ensures maintenance of an up-to-date asset register in compliance with Section 149(2)(o) of the Public Finance Management Act, Cap. 412A and PSASB guidelines —**

2. Uncollected Revenue from Social Health Insurance Fund.

The statement of financial performance and as disclosed in Note 8 to the financial statements reflect rendering of services-medical service income of Ksh.11, 010,988. Included in the amount is Ksh.4,089,220 in respect to outstanding revenue claim from Social Health Insurance Fund (SHIF).

In the circumstances, the completeness and recover-ability of the claims totaling Ksh.4,089,220 could not be confirmed.

Management response

Recovery of claims is a structured process whereby, immediately after submission, the Fund reviews all lodged claims to confirm compliance with the prescribed guidelines, documentation requirements, and necessary attachments before either approval or rejection by the Claims Department. This verification process takes time, during which facility management actively follows up on payment status through the local Social Health Authority (SHA) branch.

Since its inception on 14th October 2024, the Social Health Insurance Fund (SHIF) has been progressively remitting payments toward settlement of the outstanding revenue amounting to Ksh. 4,089,220, as well as subsequent claims.

S/NO	Description	Amount
1	SHIF Submitted Claims	Ksh.11,614,880
2	SHIF Paid Claims	Ksh.6,733,120
3	SHIF Claims Under Review (unpaid)	Ksh. 3,615,040
4	Returned	Ksh.981,840
5	Rejected	Ksh.284,880

SHA makes payments for the Primary Healthcare Fund (PHC) as a lump sum for claims lodged in outpatient, as opposed to individual claims observed with SHIF. Attached below is a statement of all submitted claims up to June 2025 and paid claims up to January 2026.

Hospital revenue comprises all claims submitted to SHA, but once the claims approval process is done some of them may end up as rejected claims where payment will not be received. Attached below is a statement of all rejected claims up until January 2026.

Committee Observation

The Committee observed that —

- i. outstanding SHIF revenue claims of Ksh. 4,089,220 could not be confirmed as recoverable at the time of audit;
- ii. of total submitted claims of Ksh. 11,614,880, claims worth Ksh. 3,615,040 remain under review and Ksh. 284,880 have been rejected outright; and
- iii. Ksh. 981,840 in claims were returned, indicating potential documentation or compliance deficiencies in the submission process.

Committee Recommendation

The Committee recommends that —

- i. the Governor ensures the Accounting Officer undertakes comprehensive follow-up with the Social Health Authority (SHA) to recover all outstanding

- claims and submits a status report to the Auditor-General within 60 days of the adoption of this report;
- ii. the Governor ensures the Accounting Officer prepares and submits a detailed debtors ageing analysis to the Auditor-General for verification and updates the Committee in the subsequent cycle; and
 - iii. the hospital strengthens its claims submission process to minimise rejections and returns, including staff training on SHA documentation requirements and rejected and returned claims are analysed and, where possible, rectified and resubmitted within the allowable period.

3. Long Outstanding Receivable's from Exchange Transactions.

The statement of financial position and as disclosed in Note 16 to the financial statements reflect receivables from exchange transactions balance of Kshs.4,546,891. Included in the balance are receivables totaling Kshs.457,671 which have been outstanding for more than a year. The Hospital Management did not provide measures put in place to recover the long outstanding receivables.

In the circumstances, the accuracy and recover-ability of receivables from exchange transactions balance of Ksh.457,671 could not be confirmed.

Management Response

The stated receivables are monies owed to the hospital by NHIF. The Social Health Authority (SHA) was established in October 2024 through the enactment of Social Health Insurance Act 2023 to replace the defunct National Hospital Insurance Fund (NHIF).

Through gazette notice no. 4069, the NHIF Fund Pending Medical Claims Verification Committee was gazetted on 28th March 2025 to review and verify NHIF pending bills of Ksh.33B in outstanding claims from July-1st 2022, to September 30th 2024. However; the high court in Eldoret nullified the committee on 11th August 2025, ruling it unconstitutional and lacking a legal basis.

The amount owed is Ksh. 457,671 from NHIF is broken down as tabulated below.

S/NO Description	Amount
NHIF Outstanding Outpatient Claims	Ksh.170,671
NHIF Outstanding Inpatient Claims	Ksh.287,000
Totals	Ksh.457,671

The management is following up with NHIF/SHA authorities to make sure all the pending claims are paid.

Committee Observation

The Committee observed that —

- i. receivables amounting to Ksh. 457,671 relating to NHIF claims (outpatient Ksh. 170,671 and inpatient Ksh. 287,000) have remained outstanding for over one year, raising doubts on their recoverability; and
- ii. despite follow-up efforts by management, the transition from NHIF to SHA and the subsequent High Court nullification of the NHIF Pending Bills Verification Committee on 11th August 2025 have delayed settlement of these claims.

Committee Recommendation

The Committee recommends that —

- i. the Governor ensures that the Accounting Officer undertakes comprehensive follow-up with the Social Health Authority (SHA) and the NHIF Transition Office to recover all outstanding claims, and submits a status report to the Auditor-General within 60 days of the adoption of this report;
- ii. the Governor ensures the Accounting Officer prepares and submits a detailed debtors ageing schedule to the Auditor-General for review and verification, and updates the Committee in the subsequent audit cycle; and
- iii. the Governor ensures the Accounting Officer to undertake a detailed analysis of its long outstanding trade receivables and with the Board's approval, write off the irrecoverable debts in line with the Section 130 (2) (d) of the Public Finance Management (County Governments) Regulations, 2015.

Emphasis of matter

1. Long Outstanding Trade and Other Payables

The statement of financial position and as disclosed in Note 19 to the financial statements reflect trade and other payables balance of Kshs.2,004,853. Included in the balance are payables amounting to Kshs.414,850 which has been outstanding for more than one (1) year. Although Management indicated that the payables had been outstanding for long due to financial constraints, no measures have been put in place to clear the payables.

Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

Management response

The hospital has been experiencing financial constraints emanating from outstanding NHIF/SHIF receivables, which has resulted to periodic under-funding. The facility's trade payables amounting to Ksh. 2,004,850 was distributed among our creditors as illustrated in the attachment below.

The hospital is nevertheless putting the necessary measures ensure the payables amounting to Ksh. 414,850 that have been outstanding for more than one year are paid. The management budgeted and made payment towards reducing its debts in the financial year 2025/2026.

The Management confirms that all creditors at the time of the hospital audit have since been paid their dues, except for Ksh.319,000 where the individual balances are broken down in the table below.

Part of the payments done include a pending bill of Ksh. 95,850 which was outstanding for more than a year (see attached voucher)

S/No.	PAYEE	AMOUNT	INVOICE DATE	AGEING
1	Jaytech Holdings	23,000	September/23	>1 YEAR
2	Masipal Enterprises	180,000	June/23	>1 YEAR
3	Jaytech Holdings	116,000	June/23	>1 YEAR
	TOTAL	319 000		

Committee Observation

The Committee observed that the Hospital had long outstanding payables amounting to Ksh. 414,850 which had remained unsettled for over one (1) year and no clear repayment plan had been put in place.

Committee Recommendation

The Committee recommends that —

- i. within sixty (60) days of the adoption of this report, the Governor ensures the Accounting Officer engages the relevant entities to formulate a repayment plan

- for the payables and files a report on the same with the Auditor-General for verification; the Auditor-General to provide a status update on the matter in the subsequent audit cycle;
- ii. the Governor ensures the hospital makes budgetary provision to clear the outstanding payables by the end of FY 2026/2027 and provides a status update to the Senate within 60 days of the adoption of this report; and
 - iii. the Governor ensures that the County Executive Committee Member in charge of Health continuously monitors the financial performance of the hospital in line with section 184 of the Public Finance Management Act, 2012 and reports on the same to the County Executive Committee, making recommendations on how the hospital can improve its financial performance.

2. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on a comparable basis of Kshs.20,662,588 and Kshs.17,445,002 respectively resulting to under-funding of Kshs.3,217,586 or approximately 16% of the budget.

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

Management Response

With the implementation of Facility Improvement Financing (FIF), 2023 starting 15th May 2025, the county government stopped further transfers to the hospitals with a view to the hospital collecting, retaining, and utilising its revenue at source henceforth. However, SHA delayed reimbursement of claims for the period of May and June 2025. The Kshs.3,217,586 balance is associated with rendering of services, and the claims submitted to the SHA portal but remained unpaid by the end of Q4 of FY 2024/2025. These claims were the receivables from SHIF that the hospital expected to receive within the audited period. Over the course of the last two months of FY 2024/2025, the hospital only received Ksh.982,640 from SHIF leading to the budget underfunding.

Committee Observation

The Committee observed that the Hospital experienced under-funding of Ksh. 3,217,586 (approximately 16%) against the approved budget. The shortfall was linked to delayed SHIF reimbursements for May and June 2025, coinciding with the introduction of Facility Improvement Financing (FIF) on 15th May 2025.

Committee Recommendation

The Committee recommends that —

- i. the Governor ensures the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap. 412A and section 47(2) of the Public Audit Act, Cap. 412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap. 412B and section 199 of the Public Finance Management Act, Cap. 412A on penalties for offences shall apply;
- ii. the County Government and hospital management engage SHA for a structured reimbursement schedule to ensure timely cash flows under the FIF model;
- iii. the Governor ensures the Accounting Officer strengthens internal audit controls and ensures proper record keeping in line with section 155 of the Public Finance Management Act, Cap. 412A, and submits a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap. 412A; and
- iv. the Governor ensures the Accounting Officer makes budget estimates for FY 2026/2027 realistic and informed by actual SHA payment trends, and the CECM Finance puts in place a contingency funding mechanism for hospitals during transitional periods of new financing models.

REPORT ON THE LAWFULLNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

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

Review of the Hospital's records and interviews on verification of services offered, equipment used and medical specialists in the Hospital as at the time of audit in September, 2025 revealed that the Hospital did not meet the requirements of Kenya Quality Model for Health Policy Guidelines due to staff deficits by eight-four (84) or approximately 83 % of the authorized establishment.

Staff Requirements	Level 4 Standard	Number in Hospital	Variance	Percentage %
Medical Officers	16	2	14	88
Anesthesiologists	2	0	2	100
General Surgeons	2	0	2	100

Gynecologists	2	0	2	100
Pediatrics	2	0	2	100
Radiologists	2	0	2	100
Kenya Registered Community Health Nurses	75	15	60	80
Total	101	17	84	83

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

Service	Level 4 Hospital Standard	Actual in the Hospital	Variance	Percentage %
Beds	150	72	78	52
Resuscitaire (2 in Labor & 1 in Theatre)	2	1	1	50
New Born Unit Incubators	5	3	3	60
Functional ICU Beds	6	0	6	100
High Dependency Unit (HDU) Beds	6	0	6	100
Renal Unit with at least 5 Dialysis Machines	5	0	5	100
Two Functional Operational Theatre -Maternity & General	2	1	1	50

These deficiencies contravene the First Schedule of Health Act, 2017 and imply that accessing the highest attainable standard of health, which includes the right to health care services, including reproductive health care as required by Article 43(1) of the Constitution of Kenya, 2010 may not be achieved.

In the circumstances, the Hospital will not be able to deliver on its mandate

Management response

The management is in the process of increasing services, staffing, and equipment to meet the KMPDC requirements of a level 4 facility.

The County Government of Kitui has a total of 1783 health care workers distributed across 326 healthcare facilities. In the FY 2025/2026, the County Government has planned for the recruitment of more healthcare professionals. The County Public Service Board has advertised for the recruitment of 200 (Two hundred) healthcare workers to alleviate staff shortages. Among the 200 are two (2) General Surgeons, 3 radiographers, 12 clinical officers, 7 medical officers, and 50 Kenya Registered Community Health Nurses (KRCHN). Attached are the approved intents that have since been advertised.

The newly recruited personnel will be deployed to various facilities across the county, including Tseikuru Sub-County Hospital, based on need. In the FY 2026/2027, the County Ministry of Health and Sanitation will budget for the recruitment of additional anesthesiologists.

Committee Observation

The Committee observed that the Hospital did not meet the minimum staffing, equipment, and service provision requirements as prescribed by the Kenya Quality Model for Health Policy Guidelines for a Level 4 facility, specifically.

Committee Recommendation

The Committee recommends that —

- i. within sixty (60) days of the adoption of this report, the Governor submits to the Senate a comprehensive plan outlining specific measures being taken to address the Hospital's staffing shortages, including both short-term and long-term solutions focusing on optimizing existing resources, improving employee welfare, and ensuring sustainable staffing levels moving forward;**
- ii. within ninety (90) days of the adoption of this report, the Governor ensures the Hospital develops and implements a comprehensive plan, with appropriate budgetary allocations, to acquire and operationalize the required facilities and equipment to provide all services required for a Level 4 hospital; the Auditor-General should monitor progress and keep this matter under review in the subsequent audit cycle; and**
- iii. the County Government prioritizes Tseikuru Sub County Hospital in the deployment of the 200 healthcare workers currently being recruited, with particular attention to specialist posts, and reports progress on UHC compliance to the Senate on a quarterly basis.**

2. Irregular Engagement of Casual Workers

As previously reported, the statement of financial performance and as disclosed in Note 10 to the financial statements reflect employee costs of Kshs.1,890,857 in respect to casuals and contractual workers. Review of documents revealed that Management engaged casual workers for more than three (3) months. This is contrary to Section 8.16(1) of the County Public Service Human Resource Manual of May, 2013 which states that (1) Casual workers shall be engaged only on urgent short-term tasks with the approval of the County Public Service Board and they shall not be engaged for more than three months as stipulated in the Employment Act,(2007).

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

Management Response

The management acknowledges the auditors' findings on the engagement of casuals for more than three months. The engagement of casual workers is done by the Kitui County Public Service Board, through advertisement and competitive recruitment. This is based on the hospital's areas of need, where most of the casuals are contracted for cleaning and sanitation purposes. The management further wishes to state that this has since been rectified and any further engagement of casuals is in line with the County Public Service Human Resource Manual of May, 2013 which states that (1) Casual workers shall be engaged only on urgent short-term tasks with the approval of the County Public Service Board and they shall not be engaged for more than three months, as stipulated in the Employment Act,(2007).

Additionally, the County Public Service Board has developed the Kitui County Temporary Workers Engagement Policy 2025 to guide the county on temporary workers' engagement. The County Public Service Board verified the temporary workers under the policy with a view to engaging them on 12-month contracts.

Committee Observation

The Committee observed that the Hospital engaged casual workers beyond the legally permitted three (3) months, contrary to the County Public Service Human Resource Manual and the Employment Act, 2007.

Committee Recommendation

The Committee recommends that-

- i. the Governor ensures the Accounting Officer fully adheres to the provisions of the County Public Service Human Resource Manual and the Employment Act, 2007 regarding the engagement of casual workers;**

- ii. the Governor ensures the Accounting Officer ensures that all future engagements receive prior approval from the County Public Service Board and comply with the Kitui County Temporary Workers Engagement Policy, 2025; and
- iii. the Governor ensures the Accounting Officer transitions any casuals requiring longer-term engagement to formal employment through competitive recruitment, with internal audit reviewing all casual worker engagements on a quarterly basis.

3. Un-Utilised Medical Equipment

As previously reported, the statement of financial position reflects a Nil balance of property, plant and equipment. However, review of the assets listing and physical verification revealed that an ultrasound machine of unknown value which was donated by the United States Agency for international Development (USAID) and delivered in the year 2020 was not in use. Although, Management attributed the non-utilization of the machine for the Hospital not having a radiology department which includes a sonographer and a radiology block, no measures have been put in place to ensure the machine is put into use.

In the circumstances, value for money in respect of the donated assets could not be confirmed.

Management Response

The hospital management engaged the county government of Kitui through the Ministry of Health and sanitation for operationalization of the radiology department, which would house the ultrasound machine. The radiology block has since been completed, and the ultrasound machine installed. Attached herein is the radiology department for reference.

The hospital management further states that the County has budgeted for the recruitment of 200 (Two hundred) healthcare workers in the FY 2025/2026 to alleviate staff shortages. Among the 200 are 3 radiographers. Attached are the approved Intents that have since been advertised.

Committee Observation

The Committee observed that —

- i. a donated ultrasound machine (USAID, 2020) remained unused for approximately five years, representing a failure to realize value from donated public assets; and

- ii. despite management's recent completion of the radiology block and installation of the machine, this matter has been previously reported, indicating slow remedial action.

Committee Recommendation

The Committee recommends that —

- i. **the Governor ensures the management of the Hospital ensures that at least one radiographer is deployed to Tseikuru Sub County Hospital from among the 200 healthcare workers currently being recruited in FY 2025/2026; and**
- ii. **the Governor ensures the management of the Hospital that a policy is established to ensure that all donated or procured equipment is operationalized within ninety (90) days of delivery, with delays formally reported to the Board of Management; the Auditor-General to provide a status update in the subsequent audit cycle.**

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

Basis for Conclusion

1.Lack of Hospital Management Board

As previously reported, review of records revealed that the Hospital operated for eleven (11) months during the year under review without a Board of Management that is supposed to direct the Hospital in achieving its strategic objectives. In addition, the financial statements were not signed by the Chairman of Board of Management.

In the circumstances, the Hospital may not be able to achieve its strategic objectives and goals.

Management Response

The county government of Kitui, through the Ministry of Health and Sanitation, gazette a hospital management board on 25h May 2025. The board chairperson was, however, unavailable for signing during the preparation of the facility's financial reports, due to unavoidable engagements outside the country.

The hospital management is committed to ensuring compliance with internal controls, leadership, and governance. The hospital management board currently meets on a quarterly basis to achieve the facilities' strategic goals.

Committee Observation

The Committee observed that —

- i. the Hospital operated for eleven (11) months without a functioning Board of Management, representing a serious governance lapse; and
- ii. the financial statements were not signed by the Board Chairperson, weakening accountability and compliance.

Committee Recommendation

The Committee recommends that —

- i. the Governor ensures the County Government ensures that a Board of Management is constituted and functional at all times, with no gap exceeding thirty (30) days upon expiry or vacancy, in compliance with the relevant statutory provisions;**
- ii. the Governor ensures the Board Chairperson signs all financial statements within the statutory timeframe, and management plans ahead to avoid recurrence of signing delays; and**
- iii. the Governor ensures the Board adopts a formal governance calendar including quarterly meetings, financial oversight sessions and annual sign-off processes; the Committee strongly cautions that recurrence of this finding in future audits will be treated as a serious accountability failure.**

2. Expired Medical Supplies

Statement of financial position reflects inventories balance of Kshs.1,529,995 as disclosed in Note 17 to the financial statements. Review of stores records on pharmaceuticals and non-pharmaceuticals supplies revealed that drugs valued at Kshs.1,033,648 had expired.

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

Management response

The management wishes to state that several factors had contributed to the expired drug inventory, including:

- a) Donated Drugs that don't align with hospital needs or procurement guidelines
- b) Short Expiry medication procured for special programs (ARVs, TB Drugs) and supplied by the National government.
- c) c)Fluctuating patient traffic that leads to unpredictable usage of certain HPTs

- d) During the COVID-19 Pandemic, the hospital received a lot of medication with short expiry.
- e) The last disposal of drugs was carried out in 2017, leading to the accumulation of expired drugs.

To improve internal controls and manage expired drugs, on 30m July 2024, the County Chief Officer of Health and Sanitation constituted a disposal committee as per the attached letter of appointment, in line with section 163(1) and (2) of the Public Procurement and Disposal Act, 2015, which gives guidelines on how to manage the process.

The committee mapped all the expired drugs meant for disposal in all county public healthcare facilities and aggregated them at Mwingi Hospital (report attached)

In compliance with the Pharmacy and Poisons Board Act, Cap 244, which regulates the use and disposal of drugs and non-pharmaceuticals, the County Government of Kitui applied for and received approval for the disposal of the expired drugs by the Pharmacy and Poisons Board (PPB) as per the attached payment voucher:

In compliance with the Pharmacy and Poisons Board Act, Cap 244, which regulates the use and disposal of drugs and non-pharmaceuticals, the County Government of Kitui applied for and received approval for the disposal of the expired drugs by the Pharmacy and Poisons Board (PPB) as per the attached payment voucher.

The tender for the disposal was advertised on the County website on 6th May 2025, as attached. However, the tender was non-responsive, and was re-advertised on 15th January 2026. The deadline for submission of the bid documents was on 2nd February 2026. Therefore, evaluations and the awarding process are ongoing.

Committee Observation

The Committee observed that the Hospital had expired drugs valued at Ksh. 1,033,648 in its stores, posing potential health risks, and that management confirmed that proper disposal procedures have been initiated for all expired stock.

Committee Recommendation

The Committee recommends that —

- i. the Governor ensures the Accounting Officer expeditiously concludes the re-advertised disposal tender (re-advertised January 2026) in compliance with the Pharmacy and Poisons Board Act, Cap. 244 and the Public Procurement and Asset Disposal Act, 2015;**

- ii. **the Governor ensures continuous monitoring and adherence to the Public Health Act, Cap. 242 and the Pharmacy and Poisons Act, Cap. 244 to prevent accumulation of expired drugs, with drug disposal henceforth conducted annually as a standing budget line item; and procurement of drugs especially those with short shelf-lives such as ARVs and TB regimens is aligned with actual patient volumes and consumption data, and donations of drugs are accepted only where a minimum shelf-life of twelve (12) months remains; the Auditor-General to provide a status update in the subsequent audit cycle.**

CHAPTER THREE: COUNTY CORPORATION

3.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR KITUI COUNTY TEXTILE CENTER FOR THE FINANCIAL YEAR 2024/2025.

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

1. Mr. Peter Kilonzo - CECM Finance
2. Mr. Peter Nkunda - CECM Water
3. Mr. Peter Yoma
- Ag. CEO

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified Opinion** on the financial statements of the Kitui County Textile Center on the following basis-;

1.0 Unconfirmed Property, Plant and Equipment Balance

The statement of financial position reflects property, plant and equipment balance of Kshs.55,509,579 which, as disclosed in Note 13 to the financial statements include land, motor vehicles, buildings and infrastructure with unknown value which were transferred from the County Government of Kitui. However, ownership documents and valuation reports were not provided for audit review. Further, an extension of the factory with an estimated value of Kshs.35,000,000 constructed by the County Government of Kitui had not been operationalized, having been completed five (5) years ago.

In the circumstances, the accuracy, completeness, existence and ownership of the property, plant and equipment balance of Kshs.55,509,579 could not be confirmed.

Management Response

The management acknowledged the auditor's observation that the accuracy, completeness, existence and ownership of the property, plant and equipment balance of Kshs. 55,509,579 and an extension of the factory with an estimated value of of Kshs. 35,000,000 couldn't be confirmed. The assets were transferred without ownership documents however, the KICOTEC management team is in the process of acquiring a valuer in order to value all the assets in KICOTEC in order to establish the true value of the assets. The extension of

the factory which is a mosquito net making machine took long to operate because there was no official handover of the project. Once the valuation of the asset is completed, the assets will now be transferred to KICOTEC and since it has been resolved the KICOTEC management team will start the process of implementing the project.

Committee Observation

The Committee observed that KICOTEC does not have ownership documents or valuation reports for assets totaling Kshs.55,509,579, including a factory extension valued at Kshs.35,000,000. Consequently, the Committee could not confirm the accuracy, existence, or ownership of these assets.

Committee Recommendation

The Committee recommends that-

- i. Within sixty (60) days of the adoption of this report, the Governor, through the CECM responsible for trade and industry, should engage with KICOTEC management to ensure the acquisition of ownership documents for all assets, including the factory extension valued at Kshs.35,000,000, is fast-tracked;**
- ii. The Governor ensures that the management engages a qualified valuer to conduct a full valuation of all assets totaling Kshs.55,509,579 and submits the valuation report to the Auditor-General for verification. The Auditor-General should provide a status update in the subsequent audit cycle;**
- iii. Upon completion of the transfer of ownership and valuation, the Accounting Officer should prepare an updated asset register within sixty (60) days of the adoption of this report and submit it to the Senate, with a copy to the Auditor-General for verification;**
- iv. The Governor should ensure that the Accounting Officer undertakes adjustments to KICOTEC's financial statements to reflect the true value of the assets, and the Auditor-General should monitor the matter in the subsequent audit cycle; and**
- v. The Accounting Officer ensures that KICOTEC maintains an up-to-date asset register in accordance with section 149(2)(o) of the Public Finance Management Act, Cap.412A, and in the format prescribed by the Public Sector Accounting Standards Board (PSASB), failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply.**

2.0 Undisclosed Direct Cost of Production

The statement of profit or loss and other comprehensive income and as disclosed in Note 7 to the financial statements reflect cost of sales of Kshs.8,956,915. However, direct costs such as labour, electricity, transport and other direct service costs were not included in the amount as part of the cost of sales. Further, the balance was not matched with specific job orders for accurate reporting.

In the circumstances, the accuracy and completeness of the cost of sales totaling Kshs.8,956,915 could not be confirmed.

Management Response

Management acknowledged the auditor's observation that the direct costs such as labour, electricity, transport and other direct service costs were not included in the amount as part of the cost of sales of Kshs. 8,956,915. However, these costs were included in the statement of profit or loss and other comprehensive income as administrative costs and as disclosed in Note 8 to the financial statements. Going forward the management will ensure such direct costs are treated as part of cost of sales.

Committee Observation

The Committee observed that the Company's cost of sales of Kshs. 8,956,915 did not include direct production costs such as labour, electricity, and transport, which were incorrectly treated as administrative expenses.

Committee Recommendation

The Committee recommends that—

- i. The Governor ensures that the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of the Public Audit Act, Cap.412B in preparing and managing financial records, specifically ensuring all direct production costs are properly classified in the cost of sales, 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;**
- ii. The Governor ensures that the Accounting Officer strengthens internal controls and implements proper review procedures to prevent misclassification of costs in future financial statements, in line with section 155 of the Public**

Finance Management Act, Cap.412A, and submits a quarterly report to the County Treasury and Controller of Budget as per section 168(3);

- iii. The Governor ensures that the Accounting Officer undertakes training for staff involved in financial reporting to improve capacity in applying Public Sector Accounting Standards for correct classification of costs; and
- iv. The Accounting Officer ensures that prior year adjustments are carried out in KICOTEC's subsequent financial statements to correct misclassified costs and reflect the true cost of production.

3.0 Long Outstanding Trade and Other Receivables

The statement of financial position and as disclosed in Note 15 to the financial statements reflect trade and other receivables balance of Kshs.90,215,266. However, review of the ageing analysis revealed that receivables totaling Kshs.52,238,524 have been outstanding for more than one hundred and eighty (180) days. Management did not provide measures put in place to recover the long outstanding receivables. Further, the entity does not have a Debt Management Policy and had not set a specific provision for the long outstanding debts despite the collectability of the debts being doubtful.

In the circumstances, the accuracy, completeness and recoverability of trade and other receivables balance of Kshs.52,238,524 could not be confirmed.

Management Response

We acknowledge the observation of the auditor general that the accuracy, completeness, and recoverability of trade and other receivables balance of Kshs. 52,238,524 could not be confirmed, however there has been a lot of efforts by the management in recovering the long outstanding debts through physical visit to the debtor's offices and communication follow up on the outstanding debts.

The management has also reached to the controller of budget for long outstanding debt e.g., County Government of Kiambu as shown by the attached letter from KICOTEC management and a copy of a letter from the controller of budget to county government of Kiambu.

Out of the Kshs. 52,238,524 million we have been able to recover Kshs. 4,127,586 million from Kiambu County leaving a balance of Kshs. 48,110,938 million. We are still making efforts, to ensure we have recovered the remaining balance. In the event we realize we are not able to recover these amounts we will start providing provision for bad debts.

The management has a debt management policy covered in the accounting and procedures manual.

Committee Observation

The Committee observed that—

- i. receivables totaling Kshs.52,238,524 that had been outstanding for more than one hundred and eighty (180) days, with no concrete measures put in place to recover the long outstanding amounts.
- ii. the entity did not have a Debt Management Policy and had not set a specific provision for the long outstanding debts despite the collectability of the debts being doubtful.

Committee Recommendation

The Committee recommends that—

- i. the Governor through the Accounting Officer ensures that KICOTEC undertakes debtors' circularization to confirm the authenticity of the receivables and provides a status update on the same to the Senate within sixty (60) days of the adoption of this report;
- ii. the Governor ensures the Accounting Officer submits, within sixty (60) days of the adoption of this report, a debtors' ageing schedule to the Auditor-General for review and verification, and the Auditor-General to provide a status update in the subsequent audit cycle;
- iii. the Governor ensures that the Accounting Officer submits, within sixty (60) days of the adoption of this report, an approved copy of the Debt Management Policy to the Auditor-General for verification, and the Auditor-General to verify the policy and submit a status update in the subsequent audit cycle;
- iv. the Governor ensures the Accounting Officer puts in place, within sixty (60) days of the adoption of this report, recovery measures for the outstanding amount with clear timelines, and the Auditor-General should review the implementation of the measures and provide a status update to the Committee in the subsequent audit cycle; and
- v. the Governor ensures the Accounting Officer undertakes a detailed analysis of the long outstanding trade receivables and, with the Board's approval, writes off irrecoverable debts in line with section 130(2)(d) of the Public Finance Management (County Governments) Regulations, 2015.

Emphasis of Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.95,000,000 and Kshs.59,455,795 respectively resulting to under-funding of Kshs.35,544,205 or approximately 37% of the budget.

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

Management Response

We acknowledge the observation that the entity never achieved its target of Kshs. 95 million. The institution had previously made high ambitious budget amounting to Kshs. 360 million per year. We downsized the amount to a realistic achievable amount of Kshs. 95 million however, we didn't meet the target due to economic constraints within the country. This current year we are almost within the budget. Going forward the management will put measures to improve on its sales proceeds.

Committee Observation

The Committee observed an underfunding of Kshs.35,544,205, representing approximately 37% of the approved budget of Kshs.95,000,000, against actual receipts of Kshs.59,455,795.

Committee Recommendation

The Committee recommends that—

- 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 Governor ensures the Accounting Officer prepares realistic and achievable budgets based on actual revenue trends and historical performance, and submits to the Senate, within sixty (60) days of the adoption of this report, a**

comprehensive revenue improvement plan with specific targets, timelines and responsible officers.

2. Long Outstanding Trade and Other Payables

The statement of financial position and as disclosed in Note 17 to the financial statements reflect trade and other payables balance of Kshs.118,694,033. Included in the balance are payables totaling Kshs.109,504,137 or approximately 92% of the total payables which have been outstanding for more than one (1) year and no measures have been put in place to settle the debts.

Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

Management Response

We acknowledge the observation of the Auditor General that KICOTEC payable balance of Kshs. 118,694,033 with approximate 92% outstanding for more than one year. This attributes to cash flow problems despite management putting efforts to recover the long outstanding receivables.

In July 2025, we received Kshs. 52 million from our debtors which Kshs. 24,105,891 was utilized to pay the creditors reducing payables outstanding for more than one (1) year to Kshs. 85,398,246. The management is putting efforts to clear the long outstanding liabilities.

Committee Observation

The Committee observed that long outstanding payables of Kshs. 85,398,246, representing approximately 72% of the total payables which have been outstanding for over one year, and although partial payments have been made, no comprehensive measures have been implemented to fully settle the remaining liabilities.

Committee Recommendation

The Committee recommends that-

- i. within sixty (60) days of the adoption of this report, the Governor ensures the Accounting Officer engages the relevant entities to formulate a repayment plan for the payables and file a report on the same with the**

- Auditor-General for verification. The Auditor-General to provide a status update on the matter in the subsequent audit cycle;**
- ii. the Governor to ensures to make budgetary provision to clear the outstanding payables and provide a status update to the Senate within 60 days of the adoption report; and**
 - iii. the Governor ensures that the County Executive Committee Member in charge of the company continuously monitors the financial performance of the water company in line with section 184 of the Public Finance Management Act, 2012 and report on the same to the County Executive Committee, making recommendations on how the company can improve its performance.**

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

Basis for Conclusion

1. Non-Remittance of Statutory Deductions

Review of records in respect to remittance of statutory deductions for the year under review revealed that Management failed to remit a total of Kshs.5,528,128 which was due to the National Social Security Fund (NSSF) and the Affordable Housing Levy. This is contrary to Section 19(4) of the Employment Act, 2007 which stipulates that an employer who deducts an amount from an employee's remuneration shall pay the amount so deducted in accordance with the time period and other requirements specified in the law.

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

Management Response

We acknowledge the observation by the Auditor General the management was in breach of the law on the unpaid statutory deduction. However, KICOTEC has been experiencing cash flow constraints and one of the strategy the management has put in place is to clear these NSSF and Housing Levy arrears before the end of the FY 2025/2026.

Committee Observation

The Committee observed that the management failed to remit statutory deductions totaling Kshs. 5,528,128, due to the National Social Security Fund (NSSF) and the Affordable Housing Levy contrary to Section 19(4) of the Employment Act, 2007.

Committee Recommendation

The Committee recommends that the Governor ensures the Accounting Officer of clears the outstanding statutory deductions of Kshs. 5,528,128 within FY 2025/2026, implements strict controls to guarantee timely remittance of statutory deductions in compliance with Section 19(4) of the Employment Act, 2007, and that failure to comply shall attract penalties under Section 199 of the Public Finance Management Act, Cap. 412A.

2. Laxity to Competitive Practices

Review of the operations and documentations revealed that since inception, Management has not put adequate effort to improve on the production, processing and marketing of the products. Further, there was no functional marketing department in the organization to expand and sustain clients. In addition, the Textile Centre Initiative was modelled around Export Processing Zone (EPZ) and it pays Export Processing Zone licenses amounting to Kshs.400,000 per year. However, it's not registered by the Export Processing Zone Authority (EPZA) as an EPZ hence the Centre does not benefit from the Association on the fees paid.

In the circumstances, value for money paid to EPZA amounting to Kshs.400,000 annually could not be confirmed.

Management Response

Management acknowledged the observation by the Auditor General however KICOTEC has been carrying out aggressive marketing and we have so far managed to retain and acquire more clients such as Kenya Police, Administration Police (APS), General Service Unit (GSU), Wildlife Research and Training Institute, Geothermal Development Company (GDC) among others. Thereby KICOTEC made a turnaround from a loss making of Kshs. 15 million to a profit of Kshs. 2,404,578 before tax in the financial year of reporting. During the half year of the financial year 2025/2026 KICOTEC had already acquired work worth Kshs. 97 million and surpassed the total revenue Kshs. 59 million it made during the year under review as per attached LPO'S.

KICOTEC was registered under export processing zone (EPZ) in the FY 2019/2020 of which Kshs. 400,000 was paid for registration. Since KICOTEC didn't engage itself in export processing business no other funds were paid going forward up to date. At the moment KICOTEC does not operate under EPZ setups. Currently we have a merchandizer who act as a marketer and plays the role of marketing our products and looking for more business for the entity sustainability.

Committee Observation

The Committee observed that –

- i. since inception, KICOTEC management had not put adequate effort into improving production, processing, and marketing of its products. The entity lacked a functional marketing department,
- ii. and although it paid Kshs. 400,000 annually for Export Processing Zone (EPZ) registration, it was not registered with the EPZA as an operational EPZ and therefore did not benefit from the associated advantages.

Committee Recommendation

The Committee recommends that-

- i. **Within sixty (60) days of the adoption of this report, the Governor should ensure that the Accounting Officer establishes a functional marketing department for KICOTEC to expand its client base and improve competitiveness, and submits a report to the Auditor-General on the steps taken. The Auditor-General shall provide a status update in the subsequent audit cycle.**
- ii. **The Governor should ensure that the Accounting Officer reviews the company's participation in the Export Processing Zone (EPZ) program and ensures compliance with all relevant EPZA requirements to maximize value for money, reporting progress to the Senate within sixty (60) days; and**
- iii. **The Governor should ensure that the County Executive Committee Member responsible for the company continuously monitors its operational and financial performance in line with section 184 of the Public Finance Management Act, Cap. 412A, and provides recommendations to the County Executive Committee on improving efficiency, competitiveness, and sustainability.**

3. Lack of Investment Assessment and Updating of the Investment Portfolio Management

Review of records revealed that Management had not been undertaking periodic assessment of the sustainability and competitiveness of its investments venture. This is contrary to Section 4(6) of the Kitui County Corporations Act, 2019 which states that the County Executive Committee Member responsible for Investment Portfolio Management in the County Treasury shall conduct regular review of the County Corporation to assess the relevance of the mandate and the justification for their continued existence and where necessary make recommendations to the County Executive Committee for the dissolution or merger of corporations.

Further, documentations showing the assessment by the County Treasury on the progress of the County Corporation were not prepared during the period under review. This is contrary to Section 4(5) of the Kitui County Corporations Act, 2019 which states that the County Government entity responsible for Investment Portfolio Management in the County Treasury shall be constantly updated on the progress of a County Corporation.

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

Management Response

We acknowledge the observation by the auditor general however the Management has been undertaking periodic assessment of the sustainability and competitiveness of its investments venture by preparing quarterly financial statements performance. The financial reports are normally discussed at Board of Directors Finance committee and at full Board of Directors meeting. The County Government entity responsible for Investment Portfolio Management in the County Treasury has been constantly updated on the progress of the County Corporation.

Committee Observation

The Committee observed that management indicated that quarterly financial statements were prepared and discussed at Board meetings. The Committee notes that these assessments and reporting had not been formally documented for audit verification

Committee Recommendation

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

Conclusion.

Basis for Conclusion

Lack of Internal Audit Function

The Textile Centre had not established an internal audit function contrary to Section 155 of the Public Finance Management Act, 2012 which provides for the establishment of the internal audit function. As such the Textile Centre did not benefit from the assurance and advisory services from the internal audit function. In the circumstances, the effectiveness of the internal controls could not be confirmed.

Management Response

Management acknowledged the observation by the Auditor General however, going forward the internal audit will be done by the county government as per attached workplan.

Committee Observation

The Committee observed that the Textile Centre had not established an internal audit function, contrary to Section 155 of the Public Finance Management Act, 2012.

Committee Recommendation

The committee recommends that—

- i. Within sixty (60) days of the adoption of this report, the Governor should ensure that the Accounting Officer establishes and operationalizes an internal audit function for the Textile Centre in accordance with Section 155 of the Public Finance Management Act, 2012, and submits evidence to the Auditor-General for verification. The Auditor-General shall provide a status update in the subsequent audit cycle; and**
- ii. The Governor should ensure that the internal audit function provides regular assurance and advisory services to strengthen internal controls, risk management, and governance within the entity, and submits periodic internal audit reports to the relevant oversight bodies.**

CHAPTER FOUR: FUND

4.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR KITUI COUNTY FUNDS FOR THE FINANCIAL YEAR 2024/2025

In accordance with Article 229(4) of the Constitution as read together with section 7(1) of the Public Audit Act, Cap. 412B, during the period under review, the Auditor-General audited the Financial Statement of Kitui County Empowerment fund in Kitui County. Consequently, and in accordance with Article 229(7) of the Constitution as read together with section 32(1) of the Act, the Auditor-General submitted the report to the Senate.

Committee Observation

The Committee takes note of the queries raised by the Auditor-General in the aforementioned report

Committee Recommendation

The Committee recommends that-

- i. the Governor through the respective accounting officers ensures that appropriate remedial actions are taken to address the issues raised in the Auditor-General's report on the financial statements for the Kitui County Empowerment Fund for the Financial Year 2024/2025 and submit a report to the Senate within 30 days of the adoption of this report and a copy to the Auditor-General; and**
- ii. the Auditor-General to keep the matter in view in the subsequent audit cycle.**

ANNEXTURES

Minutes of the Committee



13TH PARLIAMENT 5TH SESSION

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

PRESENT

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

ABSENT WITH APOLOGY

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

SECRETARIAT

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

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

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

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

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

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

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

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

1. Kajido County

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

2. Kiambu County

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

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

3. Homabay

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

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

4. Migori

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

5. Kisii

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

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

6. Machakos

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

7. Baringo

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

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

8. Isiolo

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

9. Busia

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

10. Kakamega

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

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

11. Bungoma

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

12. Kitui

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

13. Siaya-

- I. Sib0 Water and Sanitation Company Ltd
- II. Bondo Municipality
- III. Siaya Municipality
- IV. Ugunja Municipal Board
- V. Ambira Level 4 Hospital
- VI. Bondo Level 4 Hospital
- VII. Got Agulu Sub County Level Hospital
- VIII. Siaya County Referral Hospital
- IX. Siaya County Bursary Fund
- X. Siaya County Climate Change Fund

14. Laikipia

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

15. Turkana

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

16. Narok

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

17. Uasin Giishu

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

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

18. Nairobi

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

19. Meru

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

20. Trans-Nzoia

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

21. Nakuru

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

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

22. Kilifi

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

23. Kericho

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

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

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

Committee resolution

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

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

There was no any other business.

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

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

SIGNED: DATE:31.03.2026.....

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