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THE SENATE

THIRTEENTH PARLIAMENT – FIFTH SESSION

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

REPORT OF THE SELECT COMMITTEE ON COUNTY PUBLIC INVESTMENTS AND SPECIAL FUNDS ON THE CONSIDERATION OF THE AUDIT REPORTS OF MANDERA COUNTY WATER COMPANIES, MUNICIPALITIES, HOSPITALS AND FUNDS FOR THE FINANCIAL YEAR 2024/2025

SECTOR	NO.	ENTITY
WATER COMPANIES	2	MANDERA WATER AND SEWERAGE COMPANY (MANDWASCO)
		ELWAK WATER AND SANITATION COMPANY
MUNICIPALITIES	2	ELWAK MUNICIPALITY MANDERA MUNICIPALITY
HOSPITAL	7	BANISA SUB COUNTY HOSPITAL KOTULO SUB-COUNTY REFERRAL HOSPITAL LAFEY SUB-COUNTY HOSPITAL MANDERA CENTRAL SUB COUNTY HOSPITAL MANDERA COUNTY REFFERAL HOSPITAL MANDERA NORTH SUB COUNTY HOSPITAL MANDERA WEST SUB COUNTY HOSPITAL
FUNDS	2	MANDERA COUNTY CLIMATE CHANGE FUND
		MANDERA COUNTY EDUCATION BURSARY FUND

PAPERS LAID

DATE: 26/03/2026

TABLED BY: Gen. Cherian

COMMITTEE: CPJ & SF

CLERK AT THE TABLE: Behndah

26/03/26

APPROVED

T. HON. SEN. SON J. KINGO

MARCH, 2026

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ACRONYMS/ABBREVIATIONS

AGPO	Access to Government Procurement Opportunities
CBK	Central Bank of Kenya
CECM	County Executive Committee Member
CLSG	Conditional Liquidity Support Grant
COB	Controller of Budget
COG	Council of Governors
DPP	Director of Public Prosecution
EACC	Ethics and Anti-Corruption Commission
GAAP	Generally Accepted Accounting Principles
GIS	Geographical Information System
HDPE	High-Density Polyethylene
IFMIS	Integrated Financial Management Information System
IGRTC	Intergovernmental Relation Technical Committee
IPA	Intergovernmental Participatory Agreement
KEMSA	Kenya Medical Supplies Authority
KRA	Kenya Revenue Authority
MANDWASCO	Mandera Water and Sewerage Company
NSSF	National Social Security Fund
NRW	Non-Revenue Water
OAG	Office of the Auditor-General
PAA	Public Audit Act
PFM	Public Finance Management
PSASB	Public Sector Accounting Standards Board
PWDs	Persons with Disabilities
SHA	Social Health Authority
SHIF	Social Health Insurance Fund
SO	Standing Orders
TNT	The National Treasury
WASREB	Water Services Regulatory Board
WRA	Water Resources Authority
WSP	Water Service Provider

DEFINITION OF TERMS

1. **Unqualified opinion:** This refers to a clean opinion, which is the most desirable, in which the auditor states that the financial condition, position, and operations of an organization are fairly presented in the financial statements in accordance with Generally Accepted Accounting Principles (GAAP).
2. **Qualified opinion:** This is an opinion expressed by the auditor if the financial statements appear to contain a small deviation from Generally Accepted Accounting Principles (GAAP) but are otherwise fairly presented. It is also rendered if the organisation's management limits the scope of audit procedures.
3. **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 Embu County water companies, Municipality and Hospitals for the Financial Year 2024/2025. The entities covered are: Four (4) water companies (Ngandori Water and Sanitation Company Limited Plc, Ngagaka Water and Sanitation Company Limited, Embe Water and Sanitation Company Limited and Embu Water and Sanitation Company Limited); One (1) municipality (Embu Municipality) and Four (4) hospitals (Embu level 5 County Hospital, Mbeere Sub County Hospital, Runyenjes Sub-County Hospital, and Ishiara Sub County Hospital)

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

COMMITTEE MEMBERSHIP

The membership of the Committee comprises the following Senators-

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

COMMITTEE SECRETARIAT

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

ESTABLISHMENT OF THE COMMITTEE

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

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

EXECUTIVE SUMMARY

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

This report presents the findings and recommendations of the Select Committee on County Public Investments and Special Funds following its consideration of the Auditor-General's reports on thirteen (13) entities in Mandera County for the Financial Year 2024/2025. The entities under review comprised of two (2) water companies, namely Mandera Water and Sewerage Company (MANDWASCO) and Elwak Water and Sanitation Company; two (2) municipalities, namely Elwak and Mandera Municipalities, two (2) funds, namely the Mandera County Climate Change Fund and the Mandera County Education Bursary Fund and seven (7) Banisa Sub County Hospital, Kotulo Sub-County Referral Hospital, Lafey Sub-County Hospital, Mandera Central Sub County Hospital, Mandera County Refferal Hospital, Mandera North Sub County Hospital and Mandera West Sub County Hospital.

The key issues identified across the entities include, but are not limited to: material uncertainties regarding the going concern status arising from accumulated losses and negative working capital; Non-Revenue Water (NRW) levels significantly exceeding the regulatory benchmarks set by the Water Services Regulatory Board (WASREB); operation without valid WASREB licenses; irregular engagement of casual employees contrary to established human resource policies; persistent non-remittance of statutory deductions to relevant authorities; non-resolution of prior year audit matters; over-reliance on conditional and unconditional transfers from the County Government of Mandera; non-compliance with public procurement regulations; and significant weaknesses in internal controls and corporate governance practices.

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: This chapter presents a comprehensive record of the audit queries raised in the Auditor-General's reports on Mandera County Water Companies—specifically Mandera Water and Sewerage Company (MANDWASCO) and Elwak Water and Sanitation Company—for the Financial Year 2024/2025. For each audit query, the chapter details the Auditor-General's finding, the management response, the Committee's observations, and the corresponding recommendations of the Committee.

CHAPTER TWO: This chapter sets out a detailed account of the audit queries raised in the Auditor-General's report on Elwak and Mandera Municipalities for the Financial Year 2024/2025. Each audit query is presented alongside the management response, the Committee's observations, and the specific recommendations formulated by the Committee to address the identified deficiencies.

CHAPTER THREE: This chapter documents hospitals under the County Government of Madera which include Banisa Sub County Hospital, Kotulo Sub-County Referral Hospital, Lafey Sub-County Hospital, Mandera Central Sub County Hospital, Mandera County Referral Hospital, Mandera North Sub County Hospital and Mandera West Sub County Hospital. Due to time constraints, the Committee did not manage to interrogate the reports but has recommended that appropriate remedial actions are taken to address the issues raised in the Auditor-General's report and report is submitted to the Senate within 30 days pf the adoption of this report.

CHAPTER FOUR: This chapter documents the audit queries raised in the Auditor-General's reports on Mandera County Funds specifically the Mandera County Climate Change Fund and the Mandera County Education Bursary Fund for the Financial Year 2024/2025. For each fund, the chapter provides a thorough analysis of the audit findings, the responses from management, the observations of the Committee, and the resultant recommendations for remedial action.

GENERAL OBSERVATIONS FOR WATER COMPANIES

The Committee made the following general observations regarding the water companies in Mandera County under review:

1. **Material Uncertainty:** Material uncertainty relating to going concern, both companies reported negative working during the period under review, making them not meet their financial obligations as they fall due.
2. **Non-Revenue Water:** Non-Revenue Water (NRW) levels in Elwak Water company exceeded the 25% regulatory benchmark prescribed by the Water Services Regulatory Board (WASREB) while Mandera Water Company could not account for the amount of water loss.
3. **Operation Without Valid Licenses:** Both companies operated without valid licenses from WASREB during the financial year under review, in contravention of Section 85(1) of the Water Act, 2016. This breach of the law exposes the companies to regulatory sanctions and raises concerns regarding the legality of their service provision.
4. **Irregular Engagement of Casual Employees:** The companies continued to engage casual employees for periods exceeding three months, contrary to the provisions of the Employment Act, 2007. This practice not only contravenes the law but also exposes the companies to potential litigation and contingent liabilities arising from unfair labor practices.
5. **Excessive Staff Costs:** Staff costs as a percentage of operating and maintenance costs in both companies exceeded the benchmarks prescribed by WASREB. This indicates potential overstaffing, operational inefficiencies, and the need for rationalization of human resources to align with industry standards and financial sustainability.
6. **Unresolved Prior Year Audit Issues:** Numerous audit issues from prior financial years remain unresolved, pointing to inadequate follow-up mechanisms, weak accountability structures, and a lack of commitment by management and boards to address recurring audit queries. The failure to resolve prior year matters perpetuates a cycle of non-compliance and undermines public confidence in the governance of the entities.

GENERAL RECOMMENDATIONS FOR WATER COMPANIES

The Committee makes the following general recommendations with respect to the water companies:

1. **Financial Recovery and Sustainability Plans:** The Governor of Mandera County should ensure that both water companies prepare and implement comprehensive financial recovery and sustainability plans within sixty (60) days of the adoption of this report. These plans shall include clear timelines, realistic revenue enhancement strategies, cost containment measures, and targets for achieving positive working capital and eliminating accumulated losses within a period not exceeding twenty-four (24) months.
2. **Regularization of Licensing Status:** The Governor should ensure that the water companies expedite the conclusion of their Water Services Regulatory Board (WASREB) license applications and obtain valid licenses within ninety (90) days of the adoption of this report. The County Executive Committee Member for water should provide technical support to facilitate compliance with all licensing requirements and submit a progress report to Senate and the Auditor-General.
3. **Non-Revenue Water:** The Governor should ensure that the water companies report levels of non-revenue water, segregate those losses into physical and commercial and put in place comprehensive measures to mitigate.
4. **Regularization of Casual Employment:** The Governor should ensure that the Board of both water companies regularize the employment status of all staff engaged on casual terms for periods exceeding three months, in full compliance with the Employment Act, 2007.
5. **Resolution of Prior Year Audit Queries:** The Governor ensures that the Accounting officer resolves outstanding audit issues as required by the PFM act and submits the status report on the mitigation measures taken to resolve prior year matters to the Senate and a copy to the Auditor General.
6. **Enhanced Monitoring and Reporting:** The County Executive Committee Member in charge of water should, pursuant to Section 184 of the Public Finance Management Act, 2012, undertake regular quarterly monitoring of the financial and operational performance of both water companies. Monitoring reports shall be submitted to the Senate and Auditor General should include analysis of compliance with WASREB benchmarks, implementation status of the foregoing recommendations, and remedial actions taken to address underperformance.

GENERAL OBSERVATIONS FOR MUNICIPALITIES

The Committee made the following general observations on the two (2) municipalities under review, namely Elwak Municipality and Mandera Municipality:

1. **Lack of Own-Source Revenue Generation:** The Municipalities were entirely financed through transfers from the County Government of Mandera during the year under review, contrary to Section 172(a) of the Public Finance Management Act, 2012, which mandates municipalities to generate own-source revenue to support their operations and ensure financial autonomy. This over-reliance on county transfers undermines the operational independence of the Municipality as contemplated under the Urban Areas and Cities Act, 2011.
2. **Irregular Engagement of Casual Employees:** The Municipalities engaged casual employees for periods exceeding three months, in violation of the Employment Act, 2007. This practice not only contravenes the law but also exposes the Municipality to potential litigation and contingent liabilities arising from unfair labour practices and claims for conversion to permanent employment.
3. **Non-Remittance of Statutory Deductions:** Statutory deductions, including contributions to the National Social Security Fund (NSSF) and the Social Health Insurance Fund (SHIF), were not remitted within the prescribed timelines. This constitutes a breach of the Retirement Benefits Act, Cap. 197, and the Income Tax Act, Cap. 470, and exposes the Municipality to the accrual of interest, penalties, and potential legal action by the relevant authorities.
4. **Unresolved Prior Year Audit Issues:** Five audit issues from prior financial years remain unresolved, pointing to persistent weaknesses in governance structures, financial management systems, and internal controls. The failure to address recurring audit queries indicates inadequate follow-up mechanisms and a lack of commitment by management to implement corrective actions, perpetuating a cycle of non-compliance and eroding public confidence.

GENERAL RECOMMENDATIONS FOR MUNICIPALITIES

The Committee makes the following general recommendations with respect to the municipalities under review:

1. **Operational Autonomy and Adequate Funding** - The Governor ensures that the operationalization of municipalities is undertaken according to the functions delegated as gazetted by the County Government. Further, the Governor should ensure that municipalities are adequately funded in accordance with section 172 of the Public Finance Management Act, 2012, to enhance their operational independence and enable effective service delivery. The Governor should further ensure that all municipalities in the county are operationalized to undertake their delegated functions in line with law by the commencement of the Financial Year 2026/2027.
2. **Regularization of Casual Employment:** The Governor should direct the Accounting Officer to regularize the employment status of all staff engaged on casual terms for periods exceeding three months, in full compliance with the Employment Act, 2007.
3. **Settlement of Outstanding Statutory Deductions:** The Governor should ensure that the Accounting Officers undertake an immediate reconciliation of all outstanding statutory deductions, including NSSF and SHIF contributions, and remits the full amount due, together with any accrued interest and penalties, within sixty (60) days. A payment plan shall be developed where full settlement is not immediately feasible and shall be submitted to the relevant statutory bodies and the Auditor-General for approval and monitoring.
4. **Resolution of Prior Year Audit Queries:** The Governor ensures that the Accounting officer resolves outstanding audit issues as required by the PFM act and submits the status report on the mitigation measures taken to resolve prior year matters to the Senate and a copy to the Auditor General.
5. **Enhanced Oversight by County Government:** The County Executive Committee Member responsible for urban development should, pursuant to the Urban Areas and Cities Act, 2011, undertake regular quarterly monitoring of the financial and operational performance of the Municipalities.

GENERAL OBSERVATIONS FOR FUNDS

The Committee made the following general observations on Mandera County funds:

1. **Legal gap:** The Bursary Fund continued to operate beyond its statutory ten-year lifespan without formal approval for renewal or extension, while the Climate Fund had no supporting regulations. These irregularities raise fundamental questions regarding the legal basis for the Funds continued existence and its operations during the period under review.
2. **Unresolved Prior year matters:** Both Funds continued to have unresolved prior year matters.

GENERAL RECOMMENDATIONS FOR FUNDS

The Committee makes the following general recommendations with respect to Mandera County funds:

1. **Legal gap:** The Governor through the County Attorney and County Executive Committee Member for Finance ensures the funds in the County have the necessary supporting legislation and provide status update on the same within 60 days of the adoption of this report.
2. **Resolution of Prior Year Audit Queries:** The Governor ensures that the Accounting officer resolves outstanding audit issues as required by the PFM Act and submits the status report on the mitigation measures taken to resolve prior year matters to the Senate and a copy to the Auditor General.

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COMMITTEE	
CLERK AT THE TABLE	

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: 

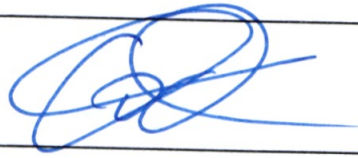
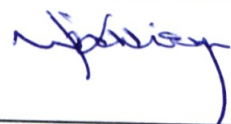
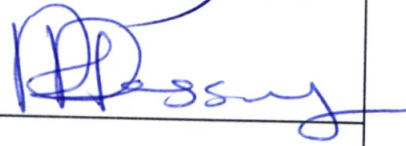
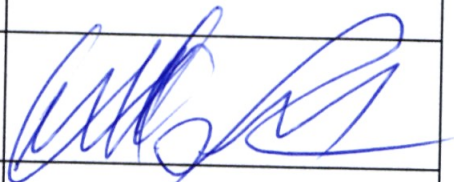

DATE: 23/03/2026

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

ADOPTION OF THE REPORT OF THE SELECT COMMITTEE ON COUNTY PUBLIC INVESTMENTS AND SPECIAL FUNDS ON THE CONSIDERATION OF THE AUDIT REPORTS OF MANDERA COUNTY WATER COMPANIES, MUNICIPALITIES, HOSPITALS AND FUNDS FOR THE FINANCIAL YEAR 2024/2025

SECTOR	NO.	ENTITY
WATER COMPANIES	2	MANDERA WATER AND SEWERAGE COMPANY (MANDWASCO)
		ELWAK WATER AND SANITATION COMPANY
MUNICIPALITIES	2	ELWAK MUNICIPALITY MANDERA MUNICIPALITY
HOSPITAL	7	BANISA SUB COUNTY HOSPITAL KOTULO SUB-COUNTY REFERRAL HOSPITAL LAFEY SUB-COUNTY HOSPITAL MANDERA CENTRAL SUB COUNTY HOSPITAL MANDERA COUNTY REFFERAL HOSPITAL MANDERA NORTH SUB COUNTY HOSPITAL MANDERA WEST SUB COUNTY HOSPITAL
FUNDS	2	MANDERA COUNTY CLIMATE CHANGE FUND
		MANDERA COUNTY EDUCATION BURSARY 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, C, MP	
6.	Sen. Beth Kalunda go, 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 MANDERA WATER AND SEWERAGE COMPANY (MANDWASCO) FOR THE FINANCIAL YEAR 2024/2025

The Governor of Mandera County, Hon. Mohamed Adan Khalif, EGH, appeared before the Committee on 2nd February 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Mandera Water and Sewerage Company (MANDWASCO) for the Financial Year 2024/2025. The Governor was accompanied by the following officers:

1. Mr. Ibrahim Mohamed Adan – CECM, Finance & Economic Planning
2. Dr. Mahamud Eda – CECM, Water, Energy, Environment and Natural Resources
3. Mr. Kassim Haji Abdinoor – Chief Executive Officer, MANDWASCO

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a Qualified Opinion on the financial statements of the Mandera Water and Sewerage Company for the period under review on the following basis:

1. Undisclosed Material Uncertainty Relating to Going Concern

The statement of profit or loss and other comprehensive income reflects a loss of Kshs.93,219,202 for the year under review. Further, the Company made successive losses of Kshs.27,400,835, Kshs.17,413,551 and Kshs.20,009,010 in the financial years 2023/2024, 2022/2023 and 2021/2022 respectively, decreasing the revenue reserves by Kshs.132,210,023 to negative Kshs.225,420,225 as at 30 June 2025. This condition indicates the existence of a material uncertainty, which may cast significant doubt on the Company's ability to continue as a going concern.

In addition, out of the total revenue of Kshs.209,727,279 for the year, the Company generated only Kshs.16,795,000 representing 8% of the total revenue. Further, the statement of financial position reflects current liabilities balance of Kshs.143,767,744 which exceeded the total current assets of Kshs.129,343,322, resulting in negative working capital of Kshs.14,424,422. This is an indication that the Company may not be able to settle its obligations when they fall due. The material uncertainty relating to going concern and measures put in place to improve the Company's financial performance were not disclosed in the financial statements. In the circumstances, the Company is technically insolvent, and its continued operations are dependent on the continued support from creditors and the County Government of Mandera.

Management Response

Mandera Water and Sewerage Company is a wholly owned entity of the County Government of Mandera, mandated to provide water and sewerage services to residents within Mandera Municipality. While currently the Company's budget is largely supported by a grant from the County Executive, management is undertaking several measures including expansion of the water production system through construction of eight (8) more sump wells, expansion of the water distribution system through construction of forty kilometres (40 km) of HDPE pipeline, purchase and installation of two thousand (2,000) water meters, and a tariff review application with WASREB.

Committee Observation

The committee observed that the Company is technically insolvent with negative working capital of Kshs.14,424,422 and accumulated losses of Kshs.225,420,225. The Company generates only 8% of its total revenue from own sources, making it heavily dependent on County Government grants.

Committee Recommendation

The Committee recommends that-

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

updated assets register that reflect the current financial position. Further, management to determine and ascertain their commercial viability as required by the Public Sector Accounting Standards Board (PSASB).

2. Long Outstanding Trade and Other Receivables

The statement of financial position reflects a trade and receivables balance of Kshs.57,306,349. Review of records supporting the aging analysis revealed that a receivables balance of Kshs.51,539,089, representing 90%, were outstanding for more than one hundred and twenty (120) days. Management did not make provision for bad and doubtful debts.

In the circumstances, the accuracy and recoverability of the trade and receivables balance of Kshs.57,306,349 could not be confirmed.

Management Response

The Company has put in place continuous and deliberate measures to recover outstanding water bills from customers. These measures include issuing formal demand and disconnection notices to customers with overdue accounts. Customers with long-outstanding balances are regularly visited by field revenue clerks and commercial officers to follow up on settlement of arrears. Some customers were disconnected after the notice period lapsed before they paid. As a result of these efforts, some customers have made partial payments. Management anticipates improved collection following the ongoing meter installation programme and review of tariffs.

Committee Observation

Ninety percent (90%) of trade receivables (Kshs.51,539,089) have been outstanding for over 120 days without provision for bad debts, indicating weak debt recovery mechanisms and potential revenue losses.

Committee Recommendation

The Committee recommends that-

- i. the Governor through the Accounting Officer should ensure that the water company undertakes debtor's circularization to confirm the authenticity of the receivables and provide a status update on the same to the Senate within sixty (60) days of the adoption of this report;**
- ii. the Governor ensures the Accounting Officer should, within 60 days of the adoption of this report, submit a debtors' ageing schedule to the Auditor-General for review and verification and update the Committee in the subsequent audit cycle;**

- iii. the Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, submit an approved copy of the Debt Management Policy to the Auditor-General for verification. The Auditor-General to verify the policy and submit a status update on the same in the subsequent audit cycle;
- iv. the Governor ensures the Accounting Officer should, within 60 days of the adoption of this report, put in place recovery measures for the outstanding amount with clear timelines. The Auditor-General should review the implementation of the measures put in place provide a status update the Committee on the matter in the subsequent audit cycle; and
- v. 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.

3. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects a final revenue budget and actual on a comparative basis of Kshs.472,322,091 and Kshs.357,176,448 respectively, resulting in budget underfunding of Kshs.115,145,643 or 24%. Similarly, the statement reflects a final expenditure budget of Kshs.333,906,656 against actual revenue of Kshs.357,176,448, resulting in under-absorption of Kshs.23,269,792 or 7% of the available revenue.

The actual revenue shortfall resulted in the Company operating below its approved budget, potentially affecting its ability to deliver services effectively.

Management Response

The budget deficit was primarily attributable to underperformance in both own-source collections and grant allocations from the County Executive. Own-source revenue, particularly from water sales, is highly dependent on the seasonal River Daua, which serves as the Company's only source of water. During the period, reduced river flows significantly constrained water production capacity, resulting in lower-than-budgeted water sales. Additionally, the Company received reduced grant allocations compared to the approved budget. The under-absorption of Kshs.23,269,792 was mainly attributable to delayed payments under the ongoing CLSG II project, which had a closing balance of Kshs.19,355,875 pending issuance of interim or final completion certificates.

Committee Observation

The Company experienced budget underfunding of 24% (Kshs.115,145,643) and under-absorption of 7% (Kshs.23,269,792), indicating weak budget preparation, planning, and execution processes.

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 complies with Regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures to address the budget underfunding of Kshs.115,145,643 (24%) and under-absorption of Kshs.23,269,792 (7%) recorded in the financial year 2024/2025.**
- iii. the National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties;**
- iv. the Governor ensures the Accounting Officer strengthens internal audit controls and ensures proper record keeping in line with section 155 of the Public Finance Management Act, Cap.412A and 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;**
- v. 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**
- vi. the Accounting Officer ensures that prior year adjustments are carried out in the company's financial statements of the subsequent year to correct the errors to reflect the true financial position of the company.**

4. Unresolved Prior Year Matters

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

Management Response

The management acknowledges the Auditor's observation and confirms its willingness to address and resolve the issues raised in the Company's previous audit reports. The management appeared before the Senate Committee on 17th September 2025 and is currently awaiting the Committee's resolution report.

Committee Observation

Numerous prior year audit issues remain unresolved, indicating weak follow-up mechanisms and inadequate accountability in the implementation of audit recommendations.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures that the Accounting Officer resolves all outstanding prior year issues as required by Section 149(2)(l) of the Public Finance Management Act, Cap.412A, failure to which the provisions of Section 199 of the Public Finance Management Act on penalties for offences may apply; and
- ii. the Governor ensures the Accounting Officer submits a detailed status report on the mitigation measures taken to resolve all prior year matters to the Auditor-General and the Senate within sixty (60) days of the adoption of this report.

5. Excess Wage Bill

The statement of profit or loss and other comprehensive income reflects staff costs of Kshs.53,420,862, which represents 59% of the total operating and maintenance cost of Kshs.91,245,777. This percentage is above the maximum recommended threshold of 29% under Section 8.3 of the Commercial Viability Guidelines on Clustering of Water Service Providers 2018 by WASREB.

The excessive percentage of 30 percentage points translates to a personnel cost of Kshs.26,461,855 which should have been utilised on operational and maintenance costs, resulting in enhanced service delivery and improved water sales revenue. In the circumstances, the water company was in breach of WASREB commercial viability guidelines in respect of personnel cost as a percentage of operational and maintenance cost.

Management Response

A significant portion of the reported staff cost relates to salaries for staff seconded to the Company by the County Executive. These costs, which form a substantial component of the total personnel expenses, are borne by the County Government and reported in the financial statements as in-kind contributions. The personnel costs directly incurred by the Company relate mainly to lower-cadre staff engaged on contractual terms, whose total remuneration amounted to Kshs.23,201,790, which is below the maximum threshold of 29% of total operating and maintenance costs.

Committee Observation

Staff costs represent 59% of operating and maintenance costs, exceeding the WASREB benchmark of 29% by 30 percentage points, indicating overstaffing and operational inefficiency.

Committee Recommendation

The Committee recommends that the Governor ensures that the Board develops and implements a staff rationalisation plan with specific annual reduction targets to achieve the WASREB benchmark of 29% within a maximum period of 90 days after adoption of this Report.

6. Failure to Constitute a Complete Board of Directors

The Company's board comprised six (6) board members including two (2) officials representing the County Government of Mandera. This is contrary to Regulation 10(1) of the Water Service Regulations 2021, which requires that each county water services provider shall have a board of directors comprising between seven (7) and nine (9) members. In the circumstances, management was in breach of the law.

Management Response

The board of directors comprises seven (7) members, inclusive of the Chief Executive Officer (CEO), who was appointed and gazetted together with the other board members on 12th September 2023. The CEO attends board meetings and serves as the Secretary to the Board.

Committee Observation

While management claims seven members including the CEO, the CEO should not be counted as part of the board composition under Regulation 10(1) of the Water Service Regulations 2021, which requires seven to nine non-executive board members.

Committee Recommendation

The Committee recommends that the Governor ensures that the Board of the water company is constituted in accordance with Regulation 10(1) of the Water Service Regulations 2021, with the CEO serving ex-officio and provide status of the mitigations taken to address the matter to the Senate within 60 days of the adoption of this report.

7.0 Inappropriate Shareholding of the Water Company

The Company's certificate of incorporation (CR12) issued by the Registrar of Companies on 28th May 2025 indicates that the County Executive Member for Finance, County Executive Member for Water, and the County Secretary are listed as shareholders, each holding two hundred and fifty (250) shares out of the total one thousand (1,000) shares. This is contrary to the provision of paragraph 3.3.1.4 of the WASREB Corporate Governance Standards (2024), which requires that nominees holding shares based on their respective functional mandates in relation to water services should each hold one share. In the circumstances, management was in breach of the Water Services Regulatory Board Corporate Governance Standards.

Management Response

The process of amending the Company's CR12 has already been initiated to align the shareholding with the requirements of paragraph 3.3.1.4 of the WASREB Corporate Governance Standards (2024). Upon completion of this process, this will regularise to ensure full compliance with the applicable regulatory framework.

Committee Observation

The shareholding structure does not comply with WASREB Corporate Governance Standards (2024), with shareholders holding 250 shares each instead of the required one share each.

Committee Recommendation

The Committee recommends that the Governor ensures that the water company finalises the process of updating the CR12 forms with the Registrar of Companies to reflect the correct shareholding structure within sixty (60) days of the adoption of this report, in compliance with paragraph 3.3.1.4 of the WASREB Corporate Governance Standards (2024); and provide a status update to the Senate and the Auditor-General.

7. Use of Unapproved Water Tariffs

According to records provided for audit, the Company billed its customers based on a flat rate of Kshs.1,000 per customer, which was not approved by the Water Services Regulatory Board (WASREB). Management did not seek approval from WASREB for the tariffs. This was contrary to Section 72(1)(b) of the Water Act, 2016, which states that the powers and

functions of the Water Services Regulatory Board include evaluation and recommendation of water and sewerage tariffs to county water services providers and approval of the imposition of such tariffs in line with consumer protection standards. In the circumstances, management was in breach of the law.

Management Response

The temporary adoption of a flat-rate tariff was necessitated by the absence of functional water metering infrastructure and was implemented solely to ensure continuity of water service provision and sustain revenue collection during the interim period. The Company has since procured water meters, and installation is currently underway. Further, a tariff application has been duly submitted to WASREB, and the requisite public participation process has been undertaken. The Company is currently awaiting formal approval from WASREB.

Committee Observation

The Company operated using unapproved flat-rate tariffs of Kshs.1,000 per customer in contravention of Section 72(1)(b) of the Water Act, 2016, compromising consumer protection and regulatory oversight.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures the Accounting Officer engages WASREB to fast-track the approval of a consumption-based water tariff to replace the current unapproved flat rate of Kshs.1,000 per customer, and provides a status update to the Senate within sixty (60) days from the adoption of this report; and**
- ii. the Governor ensures the Accounting Officer and the Board of Directors of the water company always make tariff applications or seeks extensions two (2) years in advance to avoid the lapse before renewal.**

– 8. Provision of Water Services Without a License

Review of the Company's statutory compliance and registration documents and discussions with management revealed that the Company had been issued with an interim license for two (2) years from 1st September 2021 to 31st August 2023 to operate as a licensee providing water services under the provisions of the Water Act 2016. However, the Company did not renew the service provision agreement and was therefore providing water services without authorisation during the year under review. This is contrary to Section 85(1) of the Water Act 2016, which states that a person shall not provide water services except under a license issued by the regulatory board. In the circumstances, management was in breach of the law.

Management Response

The Company duly submitted an application for renewal of its water services license to WASREB upon expiry of the interim license. The application is currently under review by WASREB, and management confirms that the requisite public participation process has already been undertaken in accordance with the provisions of the Water Act, 2016. The Company is awaiting the issuance of the renewed license and remains committed to ensuring full compliance with all statutory and regulatory requirements governing water service provision.

Committee Observation

The Company operated without a valid WASREB license from September 2023 onwards, in direct contravention of Section 85(1) of the Water Act 2016.

Committee Recommendation

The Committee recommends that the Governor ensures the water company engages WASREB and fast tracks license renewal application process within ninety (60) days of the adoption of this report and submits a status update to Senate; and

9. Failure to Settle Trade Payables as a First Charge

The statement of financial position reflects trade and other payables balance of Kshs.143,767,744. Included in the balance are trade payables totalling Kshs.102,959,964 which were outstanding for over one (1) year. Further, trade payables amounting to Kshs.8,622,929 relate to other payables (accrued salaries) which have remained outstanding since the 2015/2016 financial year. Management did not provide an explanation for the failure to provide debt service as a first charge on the 2024/2025 budget. This was contrary to Regulation 41(2) of the Public Finance Management (County Government) Regulations 2015. In the circumstances, management was in breach of the law.

Management Response

Budgetary constraints continue to pose a significant challenge to county government entities due to limited resource allocations amid competing priorities. The Company relies substantially on financial support from the County Executive and development partners to meet its operational and financial obligations. Outstanding trade payables are being settled progressively. During the 2024/2025 financial year, pending bills amounting to Kshs.21,321,733 were settled. The outstanding balance of Kshs.8,622,929 relates to a historical liability incurred prior to 2018. A validation exercise is being undertaken to establish the legitimacy of the accrued salary claims.

Committee Observation

Trade payables of Kshs.102,959,964 have been outstanding for over one year, and accrued salaries of Kshs.8,622,929 have remained unpaid since 2015/2016.

Committee Recommendation

The Committee recommends that -

- i. The Committee recommends that the Governor ensure the Accounting Officer prioritizes settlement of all prior-year pending bills as a first charge on the budget, in strict compliance with Regulation 41(2) of the Public Finance Management (County Governments) Regulations, 2015;**
- ii. the Governor ensures that the Accounting Officer expedites the validation exercise for the accrued salaries of Kshs.8,622,929 within sixty (60) days; and**
- iii. the Auditor-General to review and provide a status update on the implementation of these recommendations in the subsequent audit cycle.**

10. Failure to Hold Annual General Meeting

Review of board meeting and other accompanying documentation revealed that there was no evidence that the Company held its Annual General Meeting (AGM) or submitted annual returns to the Registrar of Companies since its incorporation on 11th April 2007. This is contrary to the requirements of Section 310 of the Companies Act 2015, which provides that every public company shall hold a general meeting as its Annual General Meeting within six (6) months from and including the day following its accounting reference date in each year. In the circumstances, management was in breach of the law.

Management Response

The delay in convening AGMs since incorporation was occasioned by historical governance and operational challenges, particularly during the transition from the defunct local authority to the County Government following the enactment of the Water Act 2016. Management is aligning ongoing processes to ensure that once concluded, an AGM will be convened to update stakeholders on the Company's performance, strategic plans, and compliance matters. Management assures that going forward, AGMs will be held without fail in full compliance with the Companies Act.

Committee Observation

The Company has not held any Annual General Meeting since incorporation in 2007, representing nearly two decades of non-compliance with Section 310 of the Companies Act 2015 and demonstrating fundamental corporate governance failures.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures that the County Executive directs management to convene the Annual General Meeting within sixty (60) days of the adoption of this report, regardless of the status of license renewal or tariff approval processes, as AGM obligations are not contingent on other operational activities;
- ii. the Governor ensures that the Company Secretary files all outstanding annual returns with the Registrar of Companies within Sixty (60) days and pays any applicable penalties for late filing; and
- iii. the Governor ensures that the Board establishes a corporate governance calendar that includes mandatory AGM dates aligned to the Companies Act requirements, with automatic triggers for convening notices at least three (3) months before the statutory deadline.

11. Inability to Account for Non-Revenue Water

During the year under review, the Company's estimated annual water production was 145,556 m³. However, only the Suftu and Neboi production sources were equipped with master meters, which were non-functional during the period, while the other three production sources in Shafshafey, Headquarter, and Hajji Kerrow were based on estimates of pump discharge and monthly pumping hours. In addition, data on the volume of water consumed could not be determined since all customers were unmetered. In the circumstances, the effectiveness of control measures put in place to improve efficiency in production and management of non-revenue water could not be confirmed.

Management Response

The Company has initiated a comprehensive metering programme under the Conditional Liquidity Support Grant (CLSG) II programme, which is funded by the World Bank. The programme entails procurement and installation of water meters and is currently underway. Upon full implementation, the initiative is expected to significantly enhance the accuracy of water production and consumption data, strengthen accountability in water management, and enable effective measurement, monitoring, and control of non-revenue water.

Committee Observation

The Company cannot accurately account for non-revenue water due to non-functional master meters at production sources and the absence of customer meters.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures that the Accounting Officer reports levels of Non-Revenue Water in the Financial Statements of the Water Company and the Auditor General to review the matter in the next audit cycle
- ii. the Governor ensures that the Accounting Officer puts in place comprehensive measures to mitigate Non-Revenue Water (NRW), covering both physical and commercial losses. As an immediate priority, the Company must repair and commission functional master meters at all five production sources (Suftu, Neboi, Shafshafey, Headquarter and Hajji Kerrow) and complete the ongoing meter installation programme to enable customer-level measurement. Further measures should include replacement of dilapidated infrastructure and application of Geographical Information System (GIS) to receive real-time data for the detection of bursts and leakages. The Auditor-General to review the implementation of these measures and provide a status update in the subsequent audit cycle;
- iii. the Governor ensures the Accounting Officer, once metering infrastructure is in place, segregates NRW into Physical and Commercial losses so that the water company can ascertain and identify the specific mitigating measures to undertake to reduce Non-Revenue Water; and
- iv. 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 that contribute to commercial NRW losses.

12. Lack of Effective Internal Audit Unit

Review of the operations of the Company revealed that there was an internal audit unit in place. However, during the year under review, the internal audit department did not carry out any audit or issue any report to the audit committee for deliberation. In the circumstances, it was not possible to confirm the existence of effective internal controls, risk management and governance structures in the Company.

Management Response

The internal audit function has been in place and operational. During the period under review, the internal audit function focused on reviewing overall company policies and the control governance framework, including assessing the availability and adequacy of policies and controls across various departments. In the same period, the department also developed and approved an audit committee charter to strengthen governance and oversight and reviewed the internal audit charter. Management remains committed to further strengthening the internal audit function through structured, risk-based audit planning and

formal reporting to the audit committee in full compliance with applicable regulatory and governance requirements.

Committee Observation

The Committee observed that the water Company has put in place an internal audit unit though this was done after the audit process.

Committee Recommendation

Noting the mitigations by the management, the Committee recommends that the matter be marked as resolved.

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

The Governor of Mandera County, Hon. Mohamed Adan Khalif, EGH, appeared before the Committee on 2nd February 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Elwak Water and Sanitation Company for the Financial Year 2024/2025. The Governor was accompanied by the following officers:

2. Mr. Ibrahim Mohamed Adan – CECM, Finance & Economic Planning
3. Dr. Mahamud Eda – CECM, Water, Energy, Environment and Natural Resources
4. Mr. Issack Hassan Adan – Chief Executive Officer, ELWASCO

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a Qualified Opinion on the financial statements of the Elwak Water and Sanitation Company for the period under review on the following basis:

1. Unconfirmed Ordinary Share Capital

The statement of financial position reflects ordinary share capital of Kshs.100,000 as disclosed in Note 18 to the financial statements. However, Management did not disclose the shareholding and did not present the share certificate, Articles and Memorandum of Association for audit review. In the circumstances, the accuracy and completeness of the share capital of Kshs.100,000 could not be confirmed.

Management Response

The management acknowledges the auditor's observation and confirms that corrective action has been initiated. Progress has been made following changes in directorship, with the new directors now reflected in the CR12 shareholding records. The Company is currently processing the transfer of shares. Attached are copies of the current and previous CR12 documents and Articles and Memorandum of Association appearing on page 1–14 Volume 1.

Committee Observation

- a) The Committee observed that share capital of Kshs.100,000 could not be confirmed due to lack of shareholding disclosure and the non-presentation of share certificates, Articles and Memorandum of Association for audit review.
- b) The Committee further observed that some shares were originally allotted to directors who have since left the Company, resulting in outdated records that no

longer reflect the Company's current position both internally and at the Registrar of Companies.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures that the Accounting Officer finalises the process of updating the CR12 forms with the Registrar of Companies to show the most current shareholding of the water company within 90 days of the adoption of this report;**
- ii. the Governor ensures that the Accounting Officer expedites the completion of the share transfer processes and submits all required incorporation documents, including updated share certificates, Articles and Memorandum of Association, to the Auditor-General within 90 days of the adoption of this report;**
- iii. the Governor ensures that the Accounting Officer takes appropriate administrative action on responsible officers within the Company who fail to maintain and update complete corporate records in accordance with the Companies Act, 2015 and in line with their terms and conditions of appointment or employment; and the Auditor-General to keep this matter in view and provide a status update in the subsequent audit cycle.**

2. Undisclosed Material Uncertainty Relating to Going Concern

The statement of financial position reflects current assets of Kshs.1,329,772 against total current liabilities of Kshs.10,324,456 resulting in negative working capital of Kshs.8,994,684. This is an indication that the Company may not be able to settle its obligations when they fall due.

In addition, the Company had accumulated negative retained earnings of Kshs.49,515,664 as a result of losses incurred by the Company for the last five years. This condition indicates existence of a material uncertainty, which may cast significant doubt on the Company's ability to continue as a going concern. The material uncertainty relating to going concern and measures put in place to improve the Company's financial performance was not disclosed in the financial statements. In the circumstances, the Company is technically insolvent, and its continued operations are dependent on the continued support from the creditors and the County Government of Mandera.

Management Response

The management notes the Auditor's observation regarding the material uncertainty related to the Company's ability to continue as a going concern arising from negative working

capital and accumulated losses. While the financial position reflects short-term liquidity constraints, management emphasizes that several corrective and mitigating measures have been initiated and are already yielding positive results. During the period under review, the Company received an operational grant amounting to Kshs.86,400,000. The Company's own-source revenue increased from Kshs.3,336,000 in FY 2023/2024 to Kshs.7,074,000 in FY 2024/2025.

Committee Observation

- a) The Committee observed that the Company is technically insolvent with negative working capital of Kshs.8,994,684 and accumulated negative retained earnings of Kshs.49,515,664.
- b) The Committee further observed that the material uncertainty relating to going concern was not disclosed in the financial statements contrary to applicable public sector accounting standards.

Committee Recommendation

The Committee recommends that—

- i. **the Governor ensures that the Accounting Officer discloses all material uncertainties relating to going concern in the financial statements in compliance with applicable public sector accounting standards and the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- ii. **the Governor ensures that the Accounting Officer complies with regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures, failure to which the provisions of section 199 of the Public Finance Management Act on and the Auditor-General provides a status update on the progress made in improving the Company's financial position in the subsequent audit cycle;**
- iii. **the Governor ensures that the Board, Accounting Officers and the County Governments to put in place strategic and innovative measures for recovery and to boost the financial health of the water companies for self-sustainability. The Board should indicate if the financial support is a conditional grant or donation in their books of account and it should not be a direct transfer from the County Executive. Further, the County Governor through the County Executive Committee member for water should monitor the financial operations of the water companies pursuant to section 184 of the Public Finance Management Act.**

3. Unresolved Prior Year Issues

In the prior years' audit reports, several issues were raised under the 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 the Company in 2024/2025 revealed that fourteen (14) issues remained unresolved.

Committee Observation

The Committee observed that the query remains unresolved as the management of the water company did not take adequate action in resolving the queries raised in the report of the Auditor-General for the financial year 2023/2024. Fourteen (14) prior year audit issues remain outstanding.

Committee Recommendation

The Committee recommends that —

- i. the Governor ensures that the Accounting Officer resolves all outstanding prior year audit matters as required by Section 149(2)(l) of the Public Finance Management Act, Cap.412A, failure to which the provisions of Section 199 of the Public Finance Management Act on penalties for offences shall apply; and**
- ii. the Governor ensures that the Accounting Officer submits a comprehensive status report on all mitigation measures taken to resolve all prior year matters, to the Senate and copies the Auditor-General for verification within 90 days of the adoption of this report.**

4. Operating Without a Valid License from WASREB

The Company has been providing water services without a valid license from the Water Services Regulatory Board (WASREB), which is contrary to the Water Act, 2016 and applicable regulatory requirements.

Management Response

Management wishes to emphasize that water is an essential commodity and, to continue providing uninterrupted services to the residents of Elwak, the Company operated while the license application process was ongoing. An application for the license has been duly submitted to WASREB, and public participation on the license and proposed tariffs was scheduled to take place jointly on Friday, 13th February 2026.

Committee Observation

The Committee observed that the water company operated without a valid water license from the Water Services Regulatory Board (WASREB) contrary to the Water Act, 2016.

Committee Recommendation

The Committee recommends that the Governor ensure that the water company concludes the application process for the WASREB water license and the public participation process within 90 days of the adoption of this report and submits certified evidence of valid licensing to the Committee within 30 days thereafter, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A.

5. Irregular Engagement of Casual Employees

The statement of profit and loss and other comprehensive income for the year reflects staff costs of Kshs.40,539,005. The amount includes Kshs.16,740,874 in respect of casual workers' wages. Review of records from the human resources department revealed that payments were for casual employees who were engaged for periods beyond three (3) **months** continuously during the financial year. This was contrary to Section 37(1)(a) and (b) of the Employment Act, 2007 which provides that where a casual employee performs work which cannot reasonably be expected to be completed within a period amounting in the aggregate to the equivalent of three (3) months or more, the contract of service of the casual employee shall be deemed to be one where wages are paid monthly. In the circumstances, Management was in breach of the law.

Management Response

Management notes the Auditor's observation regarding the engagement of casual employees over three (3) months. All casual employment contracts are structured to be renewed quarterly and are formally approved by the Board in accordance with the provisions of the Employment Act.

Committee Observation

The Committee observed that casual employees were engaged continuously beyond three (3) months contrary to Section 37(1) of the Employment Act, 2007, and that casual wages amounted to Kshs.16,740,874.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures that no member of staff of the water company is engaged as a casual employee continuously for more than three (3) months in contravention of Section 37(1) of the Employment Act, 2007, and that the**

Accounting Officer regularises the employment status of all affected staff in accordance with the law within 90 days of the adoption of this report and;

- ii. **the Governor ensures that the Accounting Officer takes appropriate administrative action on responsible officers within the Human Resource department who approved irregular casual engagements contrary to Section 37(1)(a) and (b) of the Employment Act, 2007, in line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply and;**
- iii. **the Board of Directors ensures the water company adheres to Section 19(4) of the Employment Act, Cap.226 in regards to the engagement and remuneration of employees in accordance with the law; and the Auditor-General to keep this matter in view in the subsequent audit cycle.**

6. High Levels of Non-Revenue Water

The statement of profit and loss and other comprehensive income reflects operating revenue of Kshs.6,690,237 for the year under review. Review of revenue records revealed that the Company produced 113,436 cubic meters (M³) of water, out of which only 72,223 M³ was billed to customers. The balance of 41,213 M³ or 36% of the total water volume produced, with an estimated sale price of Kshs.4,945,560 at the rate of Kshs.120 per M³, represented Non-Revenue Water (NRW) which was 11% over and above the allowable water loss of 25% as per the Water Services Regulatory Board (WASREB) guidelines. The high level of Non-Revenue Water represents loss of public resources and may negatively affect the sustainability of the operations of the Company.

Management Response

The Company has developed a comprehensive NRW Reduction Plan aimed at reducing water losses from 36% to the regulatory target of 25% by 2030. The NRW Reduction Plan focuses on key interventions, including meter replacement, rapid response to leaks and bursts, pressure management, and optimisation of water infrastructure.

Committee Observation

The Committee observed that the Non-Revenue Water (NRW) stood at 36%, which was well above the sector benchmark of 25% prescribed by the Water Services Regulatory Board (WASREB) guidelines, resulting in estimated lost revenue of Kshs.4,945,560.

Committee Recommendation

The Committee recommends that—

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

7. Anomalies in the Presentation of Financial Statements

Review of the financial statements presented for audit revealed errors and anomalies in the presentation as indicated below:

- i. The referencing of notes in the statement of profit and loss and other comprehensive income did not match the actual notes in the financial statements.
- ii. The statement of financial position refers to components such as trade receivables, cash and bank balances as non-current assets and trade and other payables as non-current liabilities.

In the circumstances, the financial statements are not fully compliant with the Annual Reporting Template provided by the Public Sector Accounting Standards Board (PSASB).

Management Response

Upon receipt of the Draft Audit Report on 17th November 2025, management promptly rectified the identified errors and prepared revised financial statements in full compliance with the Annual Reporting Template as provided by the Public Sector Accounting Standards Board (PSASB).

Committee Observation

The Committee observed that there were inaccuracies in the presentation of the financial statements arising from mismatched note references and misclassification of current items

as non-current, indicating non-compliance with the PSASB Annual Reporting Template contrary to section 81(3) of the Public Finance Management Act, 2012.

Committee Recommendation

The Committee recommends that—

- vii. **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;**
- viii. **the National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties;**
- ix. **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;**
- x. **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**
- xi. **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.**

8. Failure to Achieve Recommended Economic Efficiency Performance Targets

Review of the Company's operations for the year revealed staff costs of Kshs.17,868,885 and operating and maintenance costs of Kshs.45,597,003. The staff costs translate to 39% of operating and maintenance costs, which is higher than the industry sector performance benchmark limit of 30% by 9 percentage points, thus earning the category of 'poor' in economic efficiency as provided under Section 3.6 of WASREB Impact Report Number 15 on performance analysis and ranking. In the circumstances, the Company was operating below the recommended Economic Efficiency Performance Targets.

Management Response

The management of Elwak Water and Sewerage Company is fully committed to ensuring compliance with WASREB's performance analysis and ranking framework. Deliberate measures have been put in place to contain staff costs, enhance operational efficiency, and ensure the sustainability of the Company, including strict control of staff numbers through rationalised recruitment, redeployment of existing staff to priority operational areas, and alignment of staffing levels with the Company's approved organisational structure and revenue capacity.

Committee Observation

The Committee observed that staff costs represented 39% of operating and maintenance costs, exceeding the WASREB benchmark of 30% by 9 percentage points, resulting in a 'poor' economic efficiency rating under WASREB Impact Report Number 15.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures that the Accounting Officer develops and implements a staff rationalisation plan with specific annual reduction targets to achieve the WASREB economic efficiency benchmark of 30% within a maximum period of eighteen (18) months reports submitted to the Auditor General;**
- ii. the Governor ensures that the Accounting Officer complies with regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures to contain staff costs and;**
- iii. the Governor ensures that the Accounting Officer fast-tracks the automation of billing systems, meter reading, and customer management processes to reduce dependency on manual labour and improve operational efficiency.**

CHAPTER TWO: MUNICIPALITIES

2.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR ELWAK MUNICIPALITY, MANDERA COUNTY FOR THE FINANCIAL YEAR 2024/2025

The Governor of Mandera County, Hon. Mohamed Adan Khalif, EGH, appeared before the Committee on 2nd February 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Elwak Municipality for the Financial Year 2024/2025. The following officials were present:

1. Mr. Ibrahim Mohamed Adan – CECM, Finance & Economic Planning
2. Dr. Mahamud Eda – CECM, Water, Energy, Environment and Natural Resources
3. Mr. Abdi Hassan Abdulla – Municipal Manager, Elwak Municipality

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a Qualified Opinion on the financial statements of Elwak Municipality for the financial year ended 30th June 2025 on the following basis:

1. Over-Reliance on Transfers from County Government

Section 172(a) of the Public Finance Management Act, 2012 requires that urban areas and cities generate their own revenue from rates, fees, levies, charges and other revenue-raising measures. During the period under review, the Municipality received Kshs.93,870,000 from the County Government of Mandera, indicating that it was solely financed through County Government allocations without generating any own-source revenue.

Management Response

Management submitted that Elwak Municipality was established in late 2020 and is still in the process of building institutional frameworks, governance structures, and operational systems. The Municipality was designated as a receiver of revenue in December 2023, upon which it initiated own-source revenue collection. Management reported that the Municipality has since collected Kshs.3,652,324 in FY 2023/2024, Kshs.4,984,372 in FY 2024/2025, and Kshs.2,544,270 in the first half of FY 2025/2026, demonstrating a positive trend towards compliance.

Committee Observations

The Committee observed that—

- a) the Municipality was entirely financed through County Government transfers amounting to Kshs.93,870,000 during the period under review, contrary to section 172(a) of the Public Finance Management Act, 2012,

- b) while the Municipality has since commenced own-source revenue collection, the amounts realized remain minimal and do not reflect meaningful financial autonomy.

Committee Recommendations

The Committee recommends that-

- i. within sixty (60) days of the adoption of this report, the Board of the Municipality ensures the Integrated Development and Economic Plan and the Integrated Strategic Urban Development Plan (ISUDP) for the Municipality is put in place in line with section 20(1)(c) of the Urban Areas and cities Act, Cap.275;**
- ii. the takes all the necessary steps to ensure the Municipality achieves full operational independence in accordance with sections 12 (management independence), 20 (functional independence), 45 and 46 (financial independence) of the Urban Areas and Cities Act, cap.275 and the Auditor General to verify the implementation of this recommendation in the next audit cycle;**

Unresolved Prior Year Matters

Several matters raised in prior year audit reports remained unresolved during the audit of Elwak Municipality for the financial year 2023/2024. The following issues were identified as outstanding:

No.	Financial Year	Audit Issue
1	2023/2024	Budgetary Control and Performance
2	2023/2024	Overreliance on funding from County Government
3	2023/2024	Ineffective management of accounts payable
4	2023/2024	Delayed transfer of functions to Municipality
5	2023/2024	Failure to establish Audit Committee

Management Response

Management submitted that these matters were deliberated upon by the Senate when the entity appeared before the County Public Investments and Special Funds Committee on 17th September, 2025. Management is yet to receive the Committee's report for implementation. Notwithstanding, management affirmed that it has continued to

implement corrective actions within its mandate and remains committed to full implementation of all recommendations upon tabling and adoption of the Committee's report.

Committee Observations

The Committee observed that the five audit issues raised in the financial year 2023/2024 report remain unresolved, indicating persistent weaknesses in the Municipality's governance and financial management systems.

Committee Recommendations

The Committee recommends that —

- i. the Governor ensures that the Accounting Officer resolves all outstanding prior year audit matters as required by Section 149(2)(l) of the Public Finance Management Act, Cap.412A, failure to which the provisions of Section 199 of the Public Finance Management Act on penalties for offences shall apply; and
- ii. the Governor ensures that the Accounting Officer submits a comprehensive status report on all mitigation measures taken to resolve all prior year matters, to the Senate and copies the Auditor-General for verification within 90 days of the adoption of this report.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

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

1. Irregular Engagement of Casual Employees

The statement of financial performance reflects staff costs amounting to Kshs.44,511,390 as disclosed in Note 8 to the financial statements. Included in this amount are casual salaries totaling Kshs.38,240,577. An examination of the muster roll revealed that the casual employees were engaged for periods exceeding three (3) months, contrary to Section 37(1)(a) and (b) of the Employment Act, 2007, which provides that where a casual employee works for a period amounting in aggregate to the equivalent of not less than one month, or performs work which cannot reasonably be expected to be completed within three months or more, the contract of service shall be deemed to be one where wages are paid monthly. This was also contrary to Section 35 of the Employment Act, 2007.

Management Response

Management acknowledged the observation and submitted that the engagement of casual employees was undertaken to address temporary operational requirements, with approval from the Board, and that engagements were reviewed and renewed on a three-month basis. Management recognised that continued engagement beyond statutory thresholds was not consistent with Sections 35 and 37 of the Employment Act, 2007, and committed to reviewing its human resource engagement practices, developing clearer guidelines, and adopting appropriate contractual arrangements going forward.

Committee Observations

The Committee observed that—

- a) the Municipality engaged casual employees for periods exceeding three (3) months, in violation of Sections 35 and 37(1)(a) and (b) of the Employment Act, 2007; and
- b) casual salaries amounting to Kshs.38,240,577 constituted approximately 85.9% of total staff costs of Kshs.44,511,390.

Committee Recommendations

The Committee recommends that—

- i. **the Governor ensures that the Accounting Officer takes immediate steps to regularize the employment status of all casual employees engaged beyond the statutory three-month threshold, in compliance with Sections 35 and 37 of the Employment Act, 2007, and submits evidence of compliance to the Auditor-General within sixty (60) days of the adoption of this report;**
- ii. **the Board of the Municipality ensures that all future casual engagements strictly conform to the provisions of the Employment Act, 2007, and that no casual employee is engaged beyond the lawful period without conversion to an appropriate contract; and**
- iii. **the Accounting Officer should take appropriate administrative action against the responsible officers who engaged casual employees contrary to the law.**

2. Non-Remittance of Statutory Deductions

a) National Social Security Fund (NSSF)

The statement of financial position reflects trade and other payables amounting to Kshs.51,451,875 as disclosed in Note 16 to the financial statements. Included in this amount is Kshs.3,672,000 in respect of National Social Security Fund (NSSF) deductions from casual employees that had not been remitted to the Fund. This was contrary to Section 27(1) of the NSSF Act, 2013, which provides that

failure to remit contributions within one month after the end of the contribution period attracts a penalty of five percent (5%) of the amount due for each month or part of a month that the amount remains unpaid.

Management Response

Management acknowledged the delayed remittance of NSSF deductions amounting to Kshs.3,672,000, attributing the delay to cash flow constraints arising from delayed disbursement of funds from the County Government. Management submitted that it has commenced remittance of the outstanding deductions and has engaged the National Social Security Fund to agree on a structured payment plan for full clearance within an agreed timeframe, and has ring-fenced all payroll-related statutory obligations to prevent recurrence.

Committee Observations

The Committee observed that the Municipality failed to remit NSSF deductions amounting to Kshs.3,672,000, contrary to Section 27(1) of the NSSF Act, 2013, exposing the Municipality to statutory penalties of 5% per month on the outstanding amount.

Committee Recommendations

The Committee recommends that—

- i. the Governor ensures that the Accounting Officer remits all outstanding NSSF deductions amounting to Kshs.3,672,000, together with any accrued penalties, within sixty (60) days of the adoption of this report, and submits proof of remittance to the Auditor-General for verification; and**
- ii. the Accounting Officer ensures that all NSSF deductions are remitted monthly as and when due, in compliance with Section 27(1) of the NSSF Act, 2013, failure to which the applicable penalties shall be borne personally by the responsible accounting officer.**

b) Social Health Insurance Fund (SHIF)

The statement of financial position reflects trade and other payables amounting to Kshs.51,451,875 as disclosed in Note 16 to the financial statements. Included in this amount is Kshs.911,016 in respect of Social Health Insurance Fund (SHIF) deductions from casual employees that had not been remitted. This was contrary to Regulation 6 of the Social Health Insurance (General) Regulations, 2024, which requires that the national government and county government remit the amounts

payable within nine days from the date when the annual contribution of the beneficiaries is due.

Management Response

Management acknowledged the audit observation and attributed the delay to cash flow constraints arising from delayed disbursement of funds. Management submitted that it has commenced remittance of the outstanding SHIF deductions, instituted monthly compliance reviews, and has ring-fenced all payroll-related statutory obligations to prioritize statutory deductions and prevent recurrence.

Committee Observations

The Committee observed that the Municipality failed to remit SHIF deductions amounting to Kshs.911,016, contrary to Regulation 6 of the Social Health Insurance (General) Regulations, 2024.

Committee Recommendations

The Committee recommends that—

- i. the Governor ensures that the Accounting Officer remits all outstanding SHIF deductions amounting to Kshs.911,016, together with any applicable penalties and interest, within sixty (60) days of the adoption of this report, and submits proof of full remittance to the Auditor-General for verification; and**
- ii. the Accounting Officer ensures that all SHIF deductions are remitted within nine days as required under Regulation 6 of the Social Health Insurance (General) Regulations, 2024, and that monthly compliance certificates are maintained and submitted to the County Treasury.**

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

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

5. Failure to Establish Audit Committee

During the year under review, the Municipality did not have an Audit Committee as required by Regulation 167 of the Public Finance Management (County Governments) Regulations, 2015, which provides that each County Government entity shall establish an audit committee. The absence of an Audit Committee may lead to reduced oversight of

financial reporting, increasing the risk of errors, misstatements, or fraud in financial records and reports.

Management Response

Management submitted that the Municipality has an Internal Audit Unit with an auditor seconded by the County Treasury to undertake internal audit functions. Audit reports generated are tabled before and deliberated upon by the Audit, Governance and Risk Committee of the Municipal Board, which provides oversight. Management acknowledged that this arrangement does not substitute the statutory requirement for a standalone Audit Committee and committed to engaging the County Government and relevant oversight bodies to facilitate the establishment of a compliant Audit Committee.

Committee Observations

The Committee observed that the Municipality operated throughout the financial year without a statutory Audit Committee as required under Regulation 167 of the Public Finance Management (County Governments) Regulations, 2015.

Committee Recommendations

This Committee resolved that be marked resolved.

2.2. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR MANDERA MUNICIPALITY FOR THE FINANCIAL YEAR 2024/2025

The Governor of Mandera County, H.E. Mohamed Adan Khalif, EGH, appeared before the Committee on 2nd February 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Mandera Municipality for the Financial Year 2024/2025. The Governor was accompanied by the following officers—

1. Mr. Ibrahim Mohamed Adan -County Executive Committee Member (CECM), Finance and Economic Planning, Mandera County
2. Mr. Matker M. Noor - Municipal Manager, Mandera Municipality
3. Mr. Adan Baraka-Finance Officer, Mandera Municipality.

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified Opinion** on the financial statements of Mandera Municipality for the period under review on the following basis—

1. Variance Between Revenue Collected and Revenue Reported to the Municipality

The statement of financial performance reflects own source revenue of Kshs. 38,660,445 as disclosed in Note 6 to the financial statements. However, review of revenue records revealed that the Municipality collected a total of Kshs. 39,773,790 during the year as own source revenue resulting in an unexplained and unreconciled variance of Kshs. 1,113,345. In the circumstances, the accuracy and completeness of own source revenue of Kshs. 38,660,445 could not be confirmed.

Management Response

Management acknowledged the variance and submitted that the difference of Kshs. 1,113,345 was attributed to revenue collections from July 2025 that did not fall within the current financial year and were reported under the FY 2025/2026 revenue collections. Management stated that revenue pertaining to the subsequent financial year (2025/2026) was inadvertently recorded in the 2024/2025 financial year, and that the correct and validated revenue records for the year under review (2024/2025) have since been segregated and reconciled.

Committee Observation

The Committee observed that own source revenue of Kshs. 38,660,445 reported in the statement of financial performance was understated by Kshs. 1,113,345 against actual collections of Kshs. 39,773,790, contrary to section 149(2)(b) of the Public Finance

Management Act, Cap. 412A. The variance remained unexplained and unreconciled at the time of audit, the Management later reconciled addressing the matter.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

2. Unsupported Trade and Other Receivables

The statement of financial position reflects trade and other receivables balance of Kshs. 95,000,000 as disclosed in Note 13 to the financial statements. However, management did not provide supporting documents in the form of debtors' ledgers or a schedule of additional transactions during the year, and payments received during the year to confirm the closing balance.

In the circumstances, the accuracy and completeness of the trade and other receivables balance of Kshs. 95,000,000 could not be confirmed.

Management Response

Management clarified that the balance of Kshs. 95,000,000 does not represent typical trade debtors from third parties but constitutes approved budgetary allocations due from the County Treasury that had not been disbursed to Mandera Municipality as at 30th June 2025. Management stated that in strict compliance with the International Public Sector Accounting Standards (IPSAS) on an accrual basis, these committed funds were appropriately recognised as receivables, pending physical transfer. Management further submitted that a comprehensive Account Receivable Movement Schedule detailing the opening balance, total grant receivable, amounts received during the year, and the resultant closing balance was compiled and provided as supporting evidence.

Committee Observation

The Committee noted that the management clarified that Kshs. 95,000,000, constitutes of approved budgetary allocations that were not disbursed by the County Treasury and the Management provided sufficient explanation.

Committee Recommendation

The Committee recommends that the matter be marked resolved

3. Unsupported Payables Balance

The statement of financial position reflects trade and other payables balance of Kshs. 97,275,252 as disclosed in Note 16 to the financial statements. However, supporting

schedules, invoices, supplier statements, and reconciliation details for the reported balances were not provided for audit review.

In the circumstances, the accuracy and completeness of the payables balance of Kshs. 97,275,252 could not be confirmed.

Management Response

Management confirmed that the payables balance of Kshs. 97,275,252 is valid and represents genuine outstanding obligations to various suppliers and service providers for goods and services received during the financial year. Management submitted that detailed schedules categorised by supplier, copies of relevant invoices, demand notes, and reconciliation statements were compiled and attached as supporting evidence.

Committee Observation

The Committee noted that the Management provided sufficient schedules, invoices and other supporting evidence.

Committee Recommendation

The Committee recommends that the matter be marked resolved

4. Unsupported Property, Plant and Equipment Balance

The statement of financial position reflects a property, plant and equipment balance of Kshs. 77,874,495 as disclosed in Note 15 to the financial statements. Included in the balance are biological assets valued at Kshs. 10,042,313 with an annual depreciation of Kshs. 1,255,280. However, supporting documentation on the value of biological assets and the basis for the annual depreciation on the biological assets was not provided for audit review.

In the circumstances, the accuracy of the property, plant and equipment balance of Kshs. 77,874,495 could not be confirmed.

Management Response

Management clarified that the amount of Kshs. 1,255,280 charged against the biological assets represents an impairment loss and not depreciation, which was necessitated by the severe drought conditions experienced in the region during the year, which significantly deteriorated the health and fair value of the biological assets. Management submitted that the impairment assessment was performed in line with IPSAS standards considering the observable adverse environmental conditions, and that supporting evidence was provided for audit review.

Committee Observation

The Committee observed that the property, plant and equipment balance of Kshs. 77,874,495 could not be confirmed, as biological assets valued at Kshs. 10,042,313 lacked supporting valuation documentation, contrary to paragraph 49 of IPSAS 17. Further, an impairment charge of Kshs. 1,255,280 was applied without a supporting impairment assessment report as required under IPSAS 21.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures that the accounting officer undertakes adjustments to the financial statement so as to reflect the true value of the assets and the Auditor-General should keep the matter in view in the subsequent audit cycle;**
- ii. the Governor ensures the Accounting Officer maintains a comprehensive and up-to-date fixed asset register in compliance with National Treasury Circular No. 5/2020 and submits the updated register to the Auditor-General for verification within 30 days of the adoption of this report;**
- iii. the Governor ensures that an independent valuation of all assets, including biological assets, is carried out by a recognised valuer and that the valuation report is submitted to the Auditor-General for verification within 60 days of the adoption of this report, and the Auditor-General provides a status update on the completion of the valuation exercise in the subsequent audit cycle; and**
- iv. the Governor ensures that the Municipality concludes the process of developing a Depreciation and Impairment Policy within 60 days of the adoption of this report; further the Municipality should ensure the development of the policy is done in accordance with the PSASB requirements.**

5. Unsupported Opening Balance on Capital/Development Grants

The statement of financial position comparative balance for the year 2023/2024 disclosed a nil balance in respect of capital/development grants. However, the statement of changes in net assets disclosed a capital grants opening balance of Kshs. 115,065,449, resulting in an unexplained and unreconciled variance of Kshs. 115,065,449 between the statement of financial position and the corresponding disclosure in the statement of changes in net assets.

Further, recomputation of the net assets/equity balance for the year 2023/2024 yielded a negative Kshs. (10,688,179) against a disclosed balance of Kshs. 74,410,635, resulting in an unreconciled variance of Kshs. 85,098,814.

In the circumstances, the accuracy, fair presentation and disclosure of the net assets/equity balance of Kshs. 75,607,767 in the statement of financial position could not be confirmed.

Management Response

Management acknowledged the presentation error and submitted that the discrepancy arose from a clerical oversight during the final amendment and compilation of the financial statements. The opening balance of Kshs. 115,065,449 was correctly captured in the underlying accounting records and in the Statement of Changes in Net Assets but was erroneously omitted from the comparative column in the Statement of Financial Position. Management stated that the error was purely a formatting error with no impact on the underlying accounting transactions or the closing net assets position of Kshs. 75,607,767, and provided extracts from the finalised 2023/2024 financial statements as supporting evidence.

Committee Observation

The Committee observed that the capital/development grants opening balance of Kshs. 115,065,449 was disclosed in the statement of changes in net assets but omitted from the statement of financial position comparative column, contrary to IPSAS 1. This resulted in a further unreconciled net assets variance of Kshs. 85,098,814 between the disclosed balance of Kshs. 74,410,635 and the recomputed figure of negative Kshs. 10,688,179.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures that the Accounting Officer undertakes prior year adjustments to reconcile the variance of Kshs. 115,065,449 in the statement of financial position in the subsequent audit cycle FY 2025/2026. The Auditor-General to keep this in view in the subsequent audit cycle;**
- ii. the Governor ensures that the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap. 412A and section 47(2) of the Public Audit Act, Cap. 412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap. 412B and section 199 of the Public Finance Management Act, Cap. 412A on penalties for offences shall apply;**
- iii. the National Treasury should enhance awareness and training on changes made to accounting standards to all public officers handling financial matters in Counties; and**
- iv. the Governor ensures the Accounting Officer strengthens internal audit controls and ensures proper record keeping in line with section 155 of the Public Finance Management Act, Cap. 412A and submits a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap. 412A, failure to which the**

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

EMPHASIS OF MATTER

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. 438,720,877 and Kshs. 324,721,082 respectively, resulting in an under-funding of Kshs. 113,999,795 or 26% of the budget. Similarly, the Municipality spent Kshs. 324,712,559 against actual receipts of Kshs. 324,721,082 resulting in an under-utilization of Kshs. 8,523 or 100% absorption. The under-funding affected the planned activities and may have impacted negatively on the operations of the Municipality.

Management Response

Management concurred with the observation and submitted that the under-funding was a result of delays in the release of exchequer funds from the National Government to the County Treasury, which subsequently affected transfers to the Municipality. Management stated that the shortfall directly contributed to the accumulation of both receivables and payables, as the Municipality incurred obligations in anticipation of funding. Management further submitted that the delayed activities had been prioritised in the current financial year's (2025/2026) budget and cash flow plan, and that engagements with the County Treasury had been initiated to improve the predictability of fund flows.

Committee Observation

The Committee observed that the Municipality received Kshs. 324,721,082 against a final approved budget of Kshs. 438,720,877, representing an under-funding of Kshs. 113,999,795 or 26%, contrary to regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 and section 172 of the Public Finance Management Act, 2012. The shortfall was attributed to delayed exchequer disbursements from the National Government to the County Treasury.

Committee Recommendation

The Committee recommends that—

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

- ii. **the Governor ensures the County Treasury adequately funds the Municipality so that delivery of services to the residents is as envisaged in the Municipality Charter in accordance with section 172 of the Public Finance Management Act, 2012, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply; and**
- iii. **the National Treasury should ensure timely disbursement of funds to Counties in accordance with the disbursement schedule passed by the Senate.**

OTHER MATTERS

1. Unresolved Prior Year Audit Matters

In the prior years' audit reports, several issues were raised under the 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 the audit of Mandera Municipality in 2024/2025 revealed that the following eight (8) issues remained unresolved—

No.	Financial Year	Audit Issue
1	2023/2024	Unsupported Property, Plant and Equipment
2	2023/2024	Failure to Maintain Accounts Payable Register
3	2023/2024	Lack of Ownership Documents for Land and Motor Vehicles
4	2023/2024	Budgetary Control and Performance
5	2023/2024	Delayed Transfer of Functions to the Municipality
6	2023/2024	Failure to Implement E-Procurement
7	2023/2024	Failure to Publish and Publicize Municipality Budget Estimates
8	2023/2024	Failure to Establish Audit Committee

Management Response

Management submitted that substantial progress had been made in resolving the legacy audit issues. Management confirmed that five (5) of the eight (8) prior-year matters had been fully addressed at the Municipality level, namely: Unsupported Property, Plant and Equipment; Lack of Ownership Documents for Land and Motor Vehicles; Failure to

Implement E-Procurement; Failure to Publish and Publicize Municipality Budget Estimates; and Failure to Establish an Audit Committee. Management stated that for the remaining three (3) issues, which primarily require inter-governmental deliberation or policy direction, supporting documents had been presented to the relevant Senate Committee and management was awaiting final directives to proceed.

Committee Observation

The Committee observed that eight (8) audit queries from the 2023/2024 audit report remained unresolved at the time of the 2024/2025 audit, contrary to section 149(2)(l) of the Public Finance Management Act, Cap. 412A. Three (3) issues which are Budgetary Control and Performance, Delayed Transfer of Functions, and Failure to Establish an Audit Committee, remained outstanding notwithstanding management's claim of partial resolution.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures that the Accounting Officer resolves any issues resulting from an audit that remain outstanding as required by section 149(2)(l) of the Public Finance Management Act, Cap. 412A, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences may apply; and**
- ii. the Governor ensures the Accounting Officer submits a detailed status report on the mitigation measures taken to resolve prior year matters within 60 days of the adoption of this report.**

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

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

1. Delayed Transfer of Functions to the Municipality

A review of the Municipality's operations revealed that many of the functions stipulated in Sections 3 and 5 of the Municipal Charter continued to be carried out by the County Executive of Mandera. These functions include—

- Construction and maintenance of urban roads and related infrastructure;
- Development, maintenance, and regulation of municipal markets and abattoirs;

- Promotion and provision of municipal sports and cultural activities;
- Enforcement of development control and implementation of municipal plans;
- Construction and maintenance of rehabilitation centres, and control of drugs and substance abuse;
- Greening Programme and environmental management; and
- Solid waste management and storm drainage systems.

The continued performance of these functions by the County Executive rather than by the Municipality constitutes a failure to implement the Municipal Charter and undermines the Municipality's operational autonomy, contrary to sections 12, 20, 45 and 46 of the Urban Areas and Cities Act, Cap. 275.

Management Response

Management acknowledged that several functions listed in the Municipal Charter continued to be executed by the County Executive. Management submitted that the Municipality had been engaging with the County Executive on a structured transfer framework, and that preliminary steps including identification of staff, infrastructure, and budget lines for transfer had been initiated. Management indicated that full operationalisation of the Municipality's mandate is a priority and that a timeline for progressive function transfer had been developed.

Committee Observation

The Committee observed that the County Executive of Mandera continued to discharge functions formally transferred to the Municipality under Sections 3 and 5 of the Municipal Charter, contrary to sections 12, 20, 45 and 46 of the Urban Areas and Cities Act, Cap. 275. Functions withheld include road maintenance, solid waste management, markets regulation, greening, and development control.

Committee Recommendation

The Committee recommends that—

- i. **the Governor of Mandera County takes all necessary steps to ensure the Municipality of Mandera achieves full operational and financial independence in accordance with sections 12 (management independence), 20 (functional independence), 45 and 46 (financial independence) of the Urban Areas and Cities Act, Cap. 275, and provides a structured transition timeline to the Auditor-General within 60 days of the adoption of this report;**
- ii. **the Governor ensures that the operation of the Municipality is undertaken pursuant to the delegated functions as gazetted by the County Government,**

and that the Municipality is adequately funded in accordance with section 172 of the Public Finance Management Act, 2012, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply; and

- iii. the Auditor-General keeps the transfer of functions process in view and provides a status update in the subsequent audit cycle.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Pursuant to Article 229(6) of the Constitution, based on audit procedures performed by the Auditor-General, the following matters formed the basis for conclusion that internal controls, risk management and governance systems of Mandera Municipality were not effective—

1. Failure to Maintain Accounts Payable Register

A review of the Municipality's financial records revealed that the Accounting Officer did not maintain an accounts payable register as required by regulation 73(4) of the Public Finance Management (County Governments) Regulations, 2015. The absence of an accounts payable register made it difficult to verify the accuracy and completeness of the payables balance of Kshs. 97,275,252 disclosed in the financial statements.

Management Response

Management submitted that an accounts payable register had since been established following internal management reviews. Management provided a copy of the current accounts payable register as evidence and committed to maintaining it in line with the applicable regulations going forward.

Committee Observation

The Committee observed that the Municipality did not submit an accounts payable register in breach of regulation 73(4) of the Public Finance Management (County Governments) Regulations, 2015 at the time of audit.

Committee Recommendation

The Committee recommends that the Governor ensures the Accounting Officer establishes and maintains an up-to-date accounts payable register in compliance with regulation 73(4) of the Public Finance Management (County Governments) Regulations, 2015, and submits the updated register to the Auditor-General for verification within 30 days of the adoption of this report

2. Non-Collection of Own Generated Revenue

A review of the Municipality's revenue performance revealed significant under-collection of own source revenue relative to the Municipality's mandate under the Municipal Charter. Several revenue streams gazetted under the Municipality's functions, including markets, solid waste management and local levies, continued to be collected by the County Executive rather than the Municipality. This affected the Municipality's financial independence and capacity to meet its operational obligations.

Management Response

Management acknowledged the limited revenue collection capacity of the Municipality and attributed it to the delayed transfer of revenue-generating functions from the County Executive. Management submitted that upon full transfer of functions, the Municipality would be in a position to independently collect and retain its own revenues.

Committee Observation

The Committee observed that the Municipality collected only Kshs. 38,660,445 in own source revenue against its mandated functions, as revenue streams including markets, solid waste and local levies continued to be collected by the County Executive in breach of sections 45 and 46 of the Urban Areas and Cities Act, Cap. 275. The Municipality's financial viability is further constrained by the County Treasury's failure to adequately fund it under section 172 of the Public Finance Management Act, 2012.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures the operation of the Municipality is undertaken pursuant to the delegated functions as gazetted by the County Government, and that the Municipality is adequately funded in accordance with section 172 of the Public Finance Management Act, 2012; and**
- ii. the Governor ensures the Accounting Officer develops and implements a revenue enhancement strategy for the Municipality, in line with the Municipal Charter functions, and submits the strategy to the Auditor-General for review within 60 days of the adoption of this report.**

CHAPTER THREE: HOSPITALS

3.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR MANDERA COUNTY HOSPITALS FOR THE FINANCIAL YEAR 2024/2025.

In accordance with Article 229(4) of the Constitution as read together with section 7(1) of the Public Audit Act, Cap. 412B, during the period under review, the Auditor-General audited the financial statements of various hospitals in Mandera County. Consequently, and in accordance with Article 229(7) of the Constitution as read together with section 32(1) of the Act submitted the following reports to the Senate-

1. Banisa Sub-County Hospital
2. Kotulo Sub-County Referral Hospital
3. Lafey Sub-County Hospital
4. Mandera Central Sub- County Hospital
5. Mandera County Referral Hospital
6. Mandera North Sub- County Hospital
7. Mandera West Sub-County Hospital

Committee Observations

The Committee takes note of the queries raised by the Auditor-General in these reports.

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 Mandera County Hospitals 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.

CHAPTER FOUR: FUNDS

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

The Governor of Mandera County, Hon. Mohamed Adan Khalif, EGH, appeared before the Committee on 2nd February to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Mandera County Climate Change Fund for the Financial Year 2024/2025 (1st July, 2024 to 30th June, 2025). The following officials were present:

1. Mr. Ibrahim Mohamed Adan – CECM, Finance & Economic Planning
2. Sarah Adow-Fund Administrator-Mandera County Climate Change
3. Dr. Mahamud Eda – CECM, Water, Energy, Environment and Natural Resources

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified Opinion** on the financial statements of Mandera County Climate Change Fund for the financial year ended 30th June 2025 on the following basis:

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects a final income budget of Kshs.458,522,025 against actual receipts of Kshs.293,447,747, resulting in an underfunding variance of Kshs.165,074,278, representing 36% of the approved budget. Similarly, the Fund spent Kshs.239,562,056 against a recurrent expenditure budget, leaving an unutilized balance of Kshs.53,795,691, equivalent to 18% of receipts.

Management Response

Management submitted that the underfunding and corresponding underperformance arose from the non-disbursement of anticipated donor grant financing from the World Bank amounting to Kshs.165,074,278 during the year under review, which was beyond management's control. Management further submitted that expenditure was prudently aligned to actual receipts, and that the unutilized balance represented committed but unpaid obligations rather than idle funds.

Committee Observations

The Committee observed that the Fund recorded a significant budget-to-actual variance of Kshs.165,074,278 (36%) on the income side, arising from the non-disbursement of anticipated World Bank donor grant financing.

Committee Recommendations

The Committee recommends that—

- i. the Governor ensures that the Accounting Officer prepares realistic budgets grounded on confirmed funding commitments and avoids incorporating anticipated but unconfirmed donor disbursements as approved budget lines, in compliance with the Public Finance Management Act, 2012; and
- ii. the Accounting Officer puts in place formal donor funds tracking mechanism to monitor disbursement timelines and proactively engage development partners to minimize funding gaps.

2. Unresolved Prior Year Matters

In the prior year audit report, two issues were raised under the Report on Lawfulness and Effectiveness in the Use of Public Resources: failure to operationalize the Climate Change Fund and late submission of financial statements.

Management Response

Management submitted that the delay in operationalization arose because the financial year 2023/2024 was the first year the Fund prepared a separate set of financial statements, and that formal communication on submission timelines was received late. Management confirmed that the Fund has since been fully operationalized with governance and administrative arrangements in place.

Committee Observations

The Committee observed that the two prior year audit matters, failure to operationalize the Climate Change Fund and late submission of financial statements have been partially addressed, with the Fund now operationalized.

Committee Recommendations

The Committee recommends that —

- i. the Governor ensures that the Accounting Officer resolves all outstanding prior year audit matters as required by Section 149(2)(l) of the Public Finance Management Act, Cap.412A, failure to which the provisions of Section 199 of the Public Finance Management Act on penalties for offences shall apply; and

- ii. **the Governor ensures that the Accounting Officer submits a comprehensive status report on all mitigation measures taken to resolve all prior year matters, to the Senate and copies the Auditor-General for verification within 90 days of the adoption of this report.**

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

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

3. Absence of Regulations to Operationalize the Mandera County Climate Change Act, 2021

The Mandera County Climate Change Act, 2021 has been enacted; however, the enabling regulations required under Section 21(1) of the Climate Change Act, 2016 had not been developed or approved by the County Executive and County Assembly. The absence of these regulations means the Fund operates without a clear legal and regulatory framework for the administration, coordination, and financing of climate actions, contrary to the provisions of the law.

Management Response

Management acknowledged the absence of approved regulations and submitted that the process of developing the regulations is at an advanced stage. Management confirmed that in the interim, all climate-related expenditures are undertaken strictly in accordance with the Public Finance Management Act, 2012, the Mandera County Climate Change Act, 2021, and established financial controls.

Committee Observations

The Committee observed that the Mandera County Climate Change Act, 2021 remains operationally incomplete due to the absence of enabling regulations, contrary to Section 21(1) of the Climate Change Act, 2016.

Committee Recommendations

The Committee recommends that the Governor ensures that the enabling regulations under the Mandera County Climate Change Act, 2021 are finalized, approved by the County Executive, and tabled before the County Assembly for adoption within ninety (90) days of the adoption of this report, in compliance with Section 21(1) of the Climate Change Act, 2016 and the Auditor-General reviews the status of the

regulations in the subsequent audit cycle and provides a status update to the Committee.

4. Non-Compliance with Access to Government Procurement Opportunities

The approved procurement plan for the Mandera County Climate Change Fund reflects a total procurement budget of Kshs.279,610,713 for goods, services and works. However, the budget allocation specifically targeted for women, youth, and persons with disabilities (PWDs) fell below the mandatory thirty percent (30%) threshold required under Regulation 149 of the Public Procurement and Asset Disposal Regulations, 2020, which implements the Access to Government Procurement Opportunities (AGPO) programme.

Management Response

Management acknowledged the non-compliance with Regulation 149 of the Public Procurement and Asset Disposal Regulations, 2020 and committed to ensuring that at least 30% of the annual procurement budget is allocated to enterprises owned by youth, women, and persons with disabilities in subsequent procurement plans.

Committee Observations

The Committee observed that the Fund's approved procurement plan did not comply with the mandatory 30% AGPO allocation requirement under Regulation 149 of the Public Procurement and Asset Disposal Regulation, 2020.

Committee Recommendations

The Committee recommends that—

- i. the Governor ensures that the Accounting Officer reviews and revises the procurement plan to allocate at least thirty percent (30%) of the annual procurement budget to enterprises owned by youth, women, and persons with disabilities, in compliance with Regulation 149 of the Public Procurement and Asset Disposal Regulations, 2020, and submits evidence of the revised plan to the Auditor-General within sixty (60) days of the adoption of this report;
- ii. the Accounting Officer ensures that all future procurement plans embed the AGPO requirement from the planning stage and that compliance is monitored and reported quarterly.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

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

5. Weakness in Imprest Management

The statement of financial performance reflects use of goods and services actual expenditure amounting to Kshs.26,292,402, of which Kshs.14,143,600 was spent on domestic travel and subsistence allowances. A review of payment records revealed that imprests were not issued using the government-prescribed FO.24 Imprest Warrant Forms, no imprest register was maintained to control and track the issuance and surrender of imprests, and some imprests were not surrendered within the prescribed timelines, contrary to Regulation 93(4)(c) of the Public Finance Management (County Governments) Regulations, 2015.

Management Response

Management acknowledged the weaknesses and attributed them to erratic IFMIS connectivity challenges during the period under review, which disrupted timely processing of imprests. Management submitted that officers were facilitated through reimbursements supported by approved travel authorizations and valid expenditure receipts. Management confirmed that corrective measures have since been put in place, including mandatory use of FO.24 Imprest Warrant Forms, maintenance of a comprehensive imprest register, and enhanced supervisory review.

Committee Observations

The Committee observed that the Fund operated without the prescribed FO.24 Imprest Warrant Forms and without an imprest register, in contravention of Regulation 93(4)(c) of the Public Finance Management (County Governments) Regulations, 2015.

Committee Recommendations

The Committee recommends that—

- i. the Governor ensures that the Accounting Officer implements a fully functional imprest management system, including mandatory use of FO.24 Imprest Warrant Forms, maintenance of an imprest register, and enforcement of surrender timelines, in compliance with Regulation 93 of the Public Finance Management (County Governments) Regulations, 2015, and submits evidence of compliance to the Auditor-General within sixty (60) days of the adoption of this report;**
- ii. the Accounting Officer takes appropriate administrative action against officers responsible for the imprest management failures identified during the audit period.**

4.2. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR MANDERA COUNTY EDUCATION BURSARY FUND FOR THE FINANCIAL YEAR 2024/2025

The Governor of Mandera County, Hon. Mohamed Adan Khalif, EGH, appeared before the Committee on 2nd February 2026 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Mandera County Education Bursary Fund for the Financial Year 2024/2025 (1st July, 2024 to 30th June, 2025). The following officials were present:

1. Mr. Ibrahim Mohamed Adan - CECM, Finance & Economic Planning
2. Mr. Abdullahi Mohamed -Fund Administrator, Mandera County Education Bursary Fund

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified Opinion** on the financial statements of the Mandera County Education Bursary Fund for the financial year ended 30th June, 2025 on the following basis:

1. Unsupported Bursary Payments

Bursary disbursements amounting to Kshs.1,068,200 were not supported by acknowledgement receipts from the beneficiary institutions. As a result, the validity and accuracy of the disbursements could not be confirmed by the Auditor-General.

Management Response

Management submitted that challenges were encountered in obtaining acknowledgement receipts from beneficiary institutions due to the need for those institutions to confirm clearance of issued cheques with their respective banks. Management further explained that the Fund issues a single cheque per institution covering multiple students, and that geographical distances and limited resources make physical delivery and follow-up of receipts difficult.

Committee Observations

The Committee observed that Management submitted acknowledgment of bursary disbursements amounting to Kshs.1,068,200 with supporting acknowledgement receipts.

Committee Recommendations

The Committee recommends that matter be marked as resolved.

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects a final revenue budget and actual receipts of Kshs.461,915,266 each, representing 100% funding. However, the Fund spent Kshs.447,495,319 against an expenditure budget of Kshs.461,815,266, leaving an unutilized balance of Kshs.14,319,947, equivalent to 3.1% of the approved budget.

Management Response

Management submitted that the under-utilization arose from delayed release of funds from the National Treasury and legal challenges raised by the Controller of Budget on the mandate of County Governments in the dissemination and implementation of bursary funds. Management stated that the unutilized balance was carried forward to the subsequent financial year 2025/2026.

Committee Observations

The Committee observed that the Fund recorded an unutilized expenditure balance of Kshs.14,319,947 (3.1% of the approved budget of Kshs.461,815,266), arising from delayed fund releases from the National Treasury.

Committee Recommendations

The Committee recommends that the matter be marked resolved.

1.Unresolved Prior Year Matters

several issues raised in previous audit reports remained unresolved at the time of the audit for the financial year ended 30th June 2025.

Management Response

Management acknowledged that timely resolution of audit findings is essential to ensure transparency, accountability, and compliance. Management submitted that the issues remained unresolved as they were yet to be deliberated upon by the Senate County Public Investments and Special Funds Committee and committed to cooperating fully with the Committee to expedite the resolution process.

Committee Observations

The Committee observed that prior year audit matters remain unresolved, with management attributing non-resolution to the pending Senate Committee process without demonstrating proactive corrective actions within its own mandate.

Committee Recommendations

The Committee recommends that the Governor ensures that the Accounting Officer resolves all outstanding prior year audit matters and submits a comprehensive status report to the Auditor-General within sixty (60) days of the adoption of this report, in accordance with section 149(2)(l) of the Public Finance Management Act, Cap. 412A.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

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

2. Lack of an Approved Budget

The Fund operated without an approved budget during the year under review, contrary to Section 25(1) and (3) of the Mandera County Education Bursary Act, 2014, which requires the Board to cause estimates of revenue and expenditure to be prepared and approved before the commencement of each financial year.

Management Response

Management acknowledged the requirement under Section 25(1) and (3) of the Mandera County Education Bursary Act, 2014, and submitted that a budget for the Fund was prepared during the year under review. Copies of the approved budget, Board Minutes, and supporting documents were provided for audit review.

Committee Observations

The Committee observed that the Fund operated without an approved budget during the financial year ended 30th June, 2025, contrary to Section 25(1) and (3) of the Mandera County Education Bursary Act, 2014.

Committee Recommendations

The Committee recommends that the Governor ensures that the Accounting Officer prepares and secures Board approval of the annual budget estimates before the commencement of each financial year, in strict compliance with Section 25(1) and (3) of the Mandera County Education Bursary Act, 2014, and submits evidence of the approved budget for the financial year 2025/2026 to the Auditor-General within thirty (30) days of the adoption of this report.

3. Operation of the Fund After Lapse of its Lifespan

The Mandera County Education Bursary Fund was established on 11th July 2014. Regulation 197(1)(i) of the Public Finance Management (County Governments) Regulations, 2015 provides that the initial approval for establishment of a county public fund shall be for a period not exceeding ten (10) years. The Fund's ten-year lifespan therefore lapsed on 11th July 2024, yet the Fund continued to operate without evidence of approval for renewal or extension of its mandate.

Management Response

Management submitted that prior to the lapse of the Fund's lifespan, the County Government had initiated processes to extend the Fund and promulgate regulations thereunder. However, the Controller of Budget Circular No. 1/2025 dated 14th January, 2025 substantially altered the bursary disbursement framework, making renewal subject to the terms of an Intergovernmental Participatory Agreement (IPA). Management reported that following negotiations involving the Ministry of Education, the Council of Governors, the Controller of Budget, IGRTC, and the Office of the Attorney General, an IPA was signed. The Office of the County Attorney is in the process of developing new county-specific bursary legislation for tabling before the County Assembly in February 2026.

Committee Observations

The Committee observed that the Fund continued to operate beyond its statutory ten-year lifespan without formal approval for renewal or extension, contrary to Regulation 197(1)(i) of the Public Finance Management (County Governments) Regulations, 2015.

Committee Recommendations

The Committee recommends that the Governor ensures that the County Government expedites the enactment of new county-specific bursary legislation and obtains the necessary approvals for the renewal or continuation of the Fund's mandate, in compliance with the signed Intergovernmental Participatory Agreement and applicable public finance law; and the Auditor-General reviews the legal status of the Fund in the subsequent audit cycle and provides a status update to the Committee.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

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

4. Failure to Enact Bursary Fund Regulations

The Mandera County Education Bursary Fund Act, 2014 was assented to on 11th July, 2014. However, as at the time of audit in October 2025, the Fund had not enacted regulations as provided under Section 31 of the Mandera County Education Bursary Act, 2014, which requires the Board to make regulations for the better carrying out of the provisions of the Act.

Management Response

Management submitted that the promulgation of regulations was tied to the renewal of the Fund's lifespan and the intergovernmental negotiations on the bursary framework. Following the signing of the IPA and the ongoing development of new county-specific bursary legislation, draft regulations have been prepared and copies were provided for audit review.

Committee Observations

The Committee observed that the Fund has operated for over ten years without enacting the regulations mandated under Section 31 of the Mandera County Education Bursary Act, 2014, and that draft regulations had not been formally approved and gazetted at the time of audit.

Committee Recommendations

The Committee recommends that the Governor ensures that the enabling regulations under the new bursary legislation are finalized, approved by the Board, and gazetted alongside the enactment of the new county bursary Act, and submits evidence of the same to the Auditor-General within ninety (90) days of the adoption of this report; and the Auditor-General reviews the status of the enacted regulations in the subsequent audit cycle and provides a status update to the Senate.

5. Absence of a Risk Management Policy

The Fund had not adopted a formal Risk Management Policy during the period under review, contrary to section 158(1) of the Public Finance Management (County Governments) Regulations, 2015, which requires each county government entity to put in place appropriate risk management systems.

Management Response

Management acknowledged the initial absence of a written Risk Management Policy and submitted that the Fund subsequently adopted a Risk Management Policy developed by the County Government, which was approved by the Board to strengthen the Fund's internal control environment and compliance with Public Finance Management Regulations.

Committee Observations

The Committee observed that the Fund operated without a formally adopted Risk Management Policy during the financial year ended 30th June, 2025, contrary to section 158(1) of the Public Finance Management (County Governments) Regulations, 2015, with the policy only adopted by the Board after the audit period.

Committee Recommendations

The Committee recommends that the matter be marked as resolved.

PAPERS LAID	
DATE	26/3/2026
TABLED BY	Sen Cherarkey
COMMITTEE	CPI & SIF
WORK AT THE TABLE	Belindah

ANNEXTURES

Minutes

PAPERS Laid	
DATE	26/3/2026
TABLED BY	Sen. Cherankey
COMMITTEE	C.P.I.S.S.F
CLERK AT THE TABLE	Behindah



13TH PARLIAMENT 5TH SESSION

MINUTES OF THE FIFTY FIRST SITTING OF THE COUNTY PUBLIC INVESTMENTS AND SPECIAL FUNDS COMMITTEE HELD ON TUESDAY, 24TH MARCH 2026 IN COMMITTEE ROOM 10, BUNGE TOWER AT 3.00 P.M.

PRESENT

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

ABSENT WITH APOLOGY

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

SECRETARIAT

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

A. OFFICE OF THE AUDITOR GENERAL

Mr. Mark Gachanja	Liasion
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B. ETHICS AND ANTI CORRUPTION COMMISION

Mr. Patrick Kinoti	-Liaison Officer
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MIN. NO. SEN/CPICSF/377/2026

PRAYER

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

MIN. NO. SEN/CPICSF/378/2026 ADOPTION OF THE AGENDA

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

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

MIN. NO. SEN/CPICSF/379/2026 CONSIDERATION AND ADOPTION OF REPORTS

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

1. Embu Report

Sector	No.	Entity
Water Companies	4	Ngandori water and sanitation company
		Nyagaka water and sanitation
		Embe water and sanitation company limited
		Embu water and sanitation company
Municipality	1	Embu municipality
Hospitals	4	Embu level 5 hospital
		Mbeere sub county hospital
		Runyenjes sub county hospital
		Ishiara sub county hospital
Funds	5	Embu county education support fund
		Embu county climate change fund
		Embu county executive car & mortgage fund
		Embu county government emergency fund

2. Kirinyaga Report

Sector	No.	Entity
Water Companies	2	Kirinyaga County Water and Sanitation plc(KICOWASCO)
		Rukanga Makutano Water and Sanitation plc. (RUMAWASCO)
Municipalities	1	Kerugoya -kutus municipal
Hospitals	3	Sagana sub - county level 4 hospital
		Kianyaga sub county level 4 hospital
		Kimbimbi sub county level 4 hospital
Funds	6	Kirinyaga county executive emergency fund
		County Government of Kirinyaga Executive Mortgage Fund
		Kirinyaga executive car loan & mortgage fund
		Kirinyaga county alcoholic drinks control fund
		Kirinyaga county climate change fund
		Kirinyaga county executive bursary fund

3. Lamu

Sector	No	Entity
Water company	1	Lamu water and sewerage company limited.
Municipality	1	Lamu municipality
Hospitals	3	Lamu county referral hospital
		Faza sub-county hospital
		Mpeketoni sub-county hospital
Funds	4	Lamu county bursary and scholarship fund

		Lamu county climate change fund
		Lamu county emergency fund
		Lamu county executive staff housing fund.

4. Mandera Report

Sector	No.	Entity
Water companies	2	Mandera water and sewerage company (MANDWASCO)
		Elwak water and sanitation company
Municipalities	2	Elwak municipality
		Mandera municipality
Hospital	7	Banisa Sub-County Hospital Kotulo Sub-County Referral Hospital Lafey Sub-County Hospital Mandera Central Sub- County Hospital Mandera County Referral Hospital Mandera North Sub- County Hospital Mandera West Sub-County Hospital
Funds	2	Mandera county climate change fund
		Mandera county education bursary fund

5. Mombasa Report

Sector	No.	Entity
Water company	1	Mombasa water supply and sanitation company
Hospitals	5	Likoni sub-county level 4 hospital
		Tudor sub-county level 4 hospital
		Mrima sub-county level 4 hospital

		Portreitz Sub-County level 4 hospital
		Coast General Teaching & Referral Hospital
Funds	2	Mombasa Alcohol Drinks Control Fund
		Mombasa County Elimu Scheme

6. Murang'a Report

Sector	No.	Entity
Water companies	5	Gatamathi water and sanitation company Gatanga water and sanitation plc Kahuti (Murang'a west) water and sanitation company limited Murang'a south water and sanitation company (MUSWASCO) Murang'a water and sanitation company (MUWASCO) limited
Municipalities	3	Kangari Municipality Kenol Municipality Murang'a Municipality
Hospitals	4	Kandara Sub-County Hospital Kigumo level 4 hospital Maragua Sub- County level 4 hospital Murang'a level 5 hospital
Funds	4	Murang'a county government education and scholarship fund Murang'a county agricultural farm inputs subsidy & incentive fund (afis fund) Murang'a county climate change fund Murang'a county youth fund

7. Nyamira Report

sector	no.	entity
Municipality	1	Nyamira municipality
Hospitals	4	Esani level 4 hospital
		Manga level 4 hospital
		Masaba level 4 sub-county hospital
		Nyamira county referral hospital
Funds	4	Nyamira county education support fund
		Nyamira county emergency fund
		Nyamira county mortgage & car loan (executive) fund
		Nyamira county climate change fund

8. Tana River Report

Sector	No.	Entity
Water company	1	Tana River Water and Sanitation Company Limited
Municipality	1	Hola municipality
Funds	3	Tana river county climate change fund
		Tana river county disaster risk management fund
		Tana river county ward bursary fund

9. Tharaka Nithi Report

Sector	No.	Entity
Water company	1	Nithi water and sanitation company limited
Municipalities	2	Chuka municipality
		Kathwana municipality
Hospitals	3	Chuka referral hospital

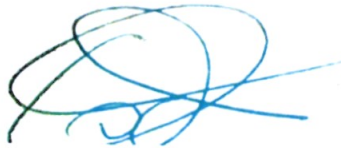
4. Iten County Referral Hospital
5. Tambach Sub-County Hospital
6. Elgeyo Marakwet County Assembly Catering Services Revolving Fund
7. Elgeyo Marakwet Alcoholic Drinks and Control Fund-Executive
8. Elgeyo Marakwet Car and Mortgage Revolving Fund-Executive
9. Elgeyo Marakwet County Climate Change Fund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

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

There was no any other business.

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

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



SIGNED: DATE: 24/3/2026

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