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THE SENATE

THIRTEENTH PARLIAMENT – FIFTH SESSION

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

SECTOR	NO.	ENTITIES
WATER COMPANIES	5	MATHIRA WATER AND SANITATION COMPANY LIMITED
		NARUMORU WATER AND SANITATION COMPANY LIMITED
		NYERI WATER AND SANITATION COMPANY LIMITED
		OTHAYA-MUKURWEINI WATER AND SANITATION COMPANY
		TETU WATER AND SANITATION COMPANY LIMITED
MUNICIPALITY	1	NYERI MUNICIPALITY
HOSPITALS	5	KARATINA SUBCOUNTY LEVEL 4 HOSPITAL
		MT KENYA SUBCOUNTY REFERRAL HOSPITAL
		MUKUREINI SUB COUNTY HOSPITAL
		NYERI COUNTY REFERRAL HOSPITAL
		OTHAYA SUB COUNTY HOSPITAL
FUNDS	4	NYERI COUNTY CLIMATE CHANGE FUND
		NYERI COUNTY ELIMU FUND
		NYERI COUNTY ENTERPRISE FUND
		NYERI COUNTY HEALTH SERVICES FUND

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

30/03/26
 APPROVED
 RT. HON. SEN
 ANTHONY J. PINO
 MARCH 2026

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ACRONYMS/ABBREVIATION

CBK	Central Bank of Kenya
CECM	County Executive Committee Member
COB	Controller of Budget
COG	Council of Governors
DPP	Director of Public Prosecution
EACC	Ethics and Anti-Corruption Commission
FIF	Facilities Improvement Financing Act
GAAP	Generally Accepted Accounting Principles
HDU	High Dependency Unit
ICU	Intensive Care Unit
IFMIS	Integrated Financial Management Information System
IGRTC	Intergovernmental Relation Technical Committee
IHMS	Integrated Hospital Management System
IMS	Inventory Management System
KEMSA	Kenya Medical Supplies Authority
KRA	Kenya Revenue Authority
NHIF	National Health Insurance Fund
NRW	Non-Revenue Water
NSSF	National Social Security Fund
OAG	Office of the Auditor-General
PAA	Public Audit Act
PFM	Public Finance Management
PSASB	Public Sector Accounting Standards Board
RWWDA	Regional Water Works Development Agency
SHA	Social Health Authority
SO	Standing Orders
TNT	The National Treasury
UHC	Universal Health Coverage
WASREB	Water Services Regulatory Board
WRA	Water Resources Authority
WSP	Water Service Provider

DEFINITION OF TERMS

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

PREFACE

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

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

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

This report covers the consideration by the Committee of the Auditor-General's reports on the financial statements of Nyeri County water companies, municipalities, and hospitals for the Financial Year 2024/2025. The entities considered include Mathira Water And Sanitation Company Limited, Narumoru Water And Sanitation Company Limited, Nyeri Water And Sanitation Company Limited, Othaya-Mukurweini Water And Sanitation Company, Tetu Water And Sanitation Company Limited, Nyeri Municipality, Karatina Subcounty Level 4 Hospital, Mt Kenya Subcounty Referral Hospital, Mukureini Sub County Hospital, Nyeri County Referral Hospital and Othaya Sub County Hospital.

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

COMMITTEE MEMBERSHIP

The membership of the Committee comprises of the following Senators-

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

COMMITTEE SECRETARIAT

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

ESTABLISHMENT OF THE COMMITTEE

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

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

EXECUTIVE SUMMARY

In the execution of its mandate, the Committee relied on the reports of the Auditor-General on audited Accounts of Mathira Water And Sanitation Company Limited, Narumoru Water And Sanitation Company Limited, Nyeri Water And Sanitation Company Limited, Othaya-Mukurweini Water And Sanitation Company, Tetu Water And Sanitation Company Limited, Nyeri Municipality , Karatina Subcounty Level 4 Hospital, Mt Kenya Subcounty Referral Hospital, Mukureini Sub County Hospital, Nyeri County Referral Hospital and Othaya Sub County Hospital for the Financial year 2024/2025 (1st July, 2024 to 30th June 2025) as the primary documents for the interrogation. The Committee invited the Governor, as the Chief Executive Officer of Nyeri County pursuant to Article 179(4) as witness to respond to the audit queries raised in the reports under consideration on Thursday, 29th January 2026 for the water companies and municipalities and Monday, 16th February 2026 for the hospitals.

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

Some of the key findings across the entities include: unsupported property, plant and equipment balance, non-revenue water at levels exceeding regulatory benchmarks; long outstanding receivables, budgetary control issues, inaccuracies in financial statements, material uncertainty related to going concern, failure to settle pending bills, unresolved prior year matters, lack of operational independence of the municipality and late submission of documentation.

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

REPORT STRUCTURE

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

CHAPTER ONE is a record of the audit queries raised in the Auditor-General's report on Nyeri Water Companies (Mathira Water And Sanitation Company Limited, Narumoru Water And Sanitation Company Limited, Nyeri Water And Sanitation Company Limited, Othaya-Mukurweini Water And Sanitation Company and Tetu Water And Sanitation Company Limited) for the Financial Year 2024/25, along with the Committee's observations and recommendations for each audit query.

CHAPTER TWO is a record of the audit queries raised in the report of the Auditor-General for Nyeri Municipality (Nyeri Municipality) for the Financial Year 2024/25, along with the Committee's observations and recommendations for each audit query.

CHAPTER THREE is a record of the audit queries raised in the report of the Auditor-General for Nyeri Hospitals (Karatina Subcounty Level 4 Hospital, Mt Kenya Subcounty Referral Hospital, Mukureini Sub County Hospital, Nyeri County Referral Hospital and Othaya Sub County Hospital) for the Financial Year 2024/25, along with the Committee's observations and recommendations for each audit query.

CHAPTER FOUR is a record of Funds audited by the Auditor-General for financial year 2024/2025, whose reports were not considered by the Committee.

GENERAL OBSERVATIONS FOR THE WATER COMPANIES

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

1. **Late submission of documents and inaccuracies in Financial Statements** – The Committee observed a pattern of late submission of audit documents and financial statements that contained numerous inaccuracies. The delays hinder the audit process and may indicate an attempt to falsify records, while the prevalence of errors suggests a lack of competence that could potentially facilitate fraudulent activities.
2. **Non-Revenue Water (NRW)** – The Committee observed that the Water Company recorded NRW levels that significantly exceeded the sector benchmark of 25% prescribed by the Water Services Regulatory Board (WASREB). This was mostly attributed to physical losses from dilapidated infrastructure, commercial losses from inaccurate meter reading and billing, and illegal connections.
3. **Deficiencies in Financial Reporting** – The Committee noted widespread inaccuracies and errors in the preparation and presentation of financial statements. Furthermore, both Accounting Officers and Managing Directors exhibited challenges in complying with Section 62 of the Public Audit Act, Cap. 412B, by failing to submit supporting documents to auditors on time. This impedes the accountability and audit process, while the persistent delays in finalizing complete financial statements point to a lack of requisite competencies and experience within the entities.
4. **Non-Adherence to Accounting Standards** – The committee observed that accountants across several Water Companies faced challenges in fully adopting the International Public Sector Accounting Standards (IPSAS) framework. The Committee noted that while the Public Sector Accounting Standards Board (PSASB) periodically updates these standards to reflect emerging issues and best practices, many water companies struggle with their application, as evidenced by recurring audit queries.

GENERAL RECOMMENDATIONS FOR THE WATER COMPANIES

The Committee makes the following recommendations to address the observed deficiencies and enhance the performance, compliance, and sustainability of the Water Companies: -

1. **Enhancement of Record Keeping and Audit Compliance** – The Governor ensures that the Board and Accounting Officer have proper record keeping and provide all requisite supporting documents to the Auditor-General in accordance with Section 9(1)(e) of the Public Audit Act, Cap. 412B, within the stipulated audit timelines. Adherence to the provisions of the Accountants Act, Cap. 531,

is mandatory. Failure to comply with these requirements shall necessitate the invocation of Section 62 of the Public Audit Act by the Committee.

2. **Mitigation of Non-Revenue Water** – The Governor to ensure that the Board of Directors and Accounting Officer institute comprehensive measures to reduce Non-Revenue Water, addressing both physical and commercial losses. These measures should include the adoption of Geographic Information System (GIS) technology for real-time detection of bursts and leakages, installation of smart meters to ensure accurate billing, rehabilitation of dilapidated infrastructure, and the development of institutional anti-corruption policies with robust enforcement mechanisms to curb illegal connections. Furthermore, management should disclose the proportional breakdown of physical and commercial losses, expressed as percentages, in their periodic reports.
3. **Capacity Building on Financial Reporting Standards** – The Governor ensures that the Board of Directors, in consultation with the Public Sector Accounting Standards Board (PSASB), facilitate continuous capacity building for finance officers and management on International Public Sector Accounting Standards (IPSAS) to improve the quality of financial reporting and enhance compliance. The Governor ensures that the Board ensure that all accounting personnel possess the requisite competency and experience as mandated by the Accountants Act. Additionally, the Governor ensures the Accounting Officer enforce strict adherence to the financial reporting template prescribed by the National Treasury. These measures will strengthen the maintenance of books of account, improve the accuracy of financial statements, and ensure their timely submission to the Auditor-General.
4. **Strengthening Financial Sustainability and Asset Management** – The Governor ensures that the Board, accounting Officers and the County Governments should implement strategic and innovative measures to enhance the financial health and self-sustainability of water companies. This includes reviewing and regularizing existing assets, finalizing service provider agreements from the defunct local authorities, and maintaining updated asset registers that accurately reflect the current financial position. Companies must determine and ascertain their commercial viability as required by the PSASB. Any financial support received from the County Executive should be clearly classified in the books of account as either a conditional grant or a donation, and should not be treated as a direct transfer. Furthermore, Governor, through the County Executive Committee member responsible for water, is urged to monitor the financial operations of water companies pursuant to Section 184 of the Public Finance Management Act, Cap. 412A.

GENERAL OBSERVATIONS FOR THE MUNICIPALITY

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

1. **Late Submission of Audit Documents**– The Committee noted that the Auditor-General encountered significant challenges due to the late submission of supporting documents during the audit process. This delay hinders the accountability and audit process and contravenes Section 62 of the Public Audit Act, Cap. 412B, which mandates timely provision of documentation.
2. **Lack of Operational Autonomy of Municipality** – The Committee observed that the municipalities lacked operational independence from the County Executive in areas of management, function and finances. This contravened sections 12 on Management independence, 20 on functional independence, 45 and 46 on financial independence of the Urban Areas and Cities Act, 2011 CAP. 275, which collectively guarantee municipalities the autonomy necessary for effective governance.
3. **Deficiencies in Financial Reporting and Standards Compliance** – The Committee observed that there were numerous inaccuracies and errors in the financial statements of the municipality, raising concerns about the capacity of the officers responsible for their preparation. Furthermore, the municipality faces persistent challenges in adapting to the International Public Sector Accounting Standards (IPSAS) framework required for the preparation of their financial statements.
4. **Challenges in Applying Updated Accounting Standards**- The Committee observed that the Public Sector Accounting Standards Board (PSASB) periodically reviews IPSAS to address emerging issues and align with best practices. The Municipality struggled to apply the updated standards, as evidenced by the audit queries.

GENERAL RECOMMENDATIONS FOR THE MUNICIPALITIES

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

1. **Timely Submission of Audit Documents** – The Governor ensures that the Municipal Manager and the head of finance ensure that all supporting documents requested by the Auditor-General are submitted within the timelines stipulated in Section 62 of the Public Audit Act, Cap. 412B. The Municipal Board shall institute an internal tracking mechanism to monitor compliance, and any officer found to have caused undue delay shall be subject to disciplinary action.
2. **Enforcement of Municipal Autonomy** – The Governor ensures that the County Executive Committee member responsible for lands, housing, and urban

development should, within sixty (60) days of the adoption of this report, take immediate steps to operationalize Sections 12, 20, 45, and 46 of the Urban Areas and Cities Act, 2011, by formally delegating management, functional, and financial powers to the Municipal Boards and Managers. The Municipal Boards shall thereafter provide a compliance report to the County Assembly and the Senate Committee on County Public Investments and Special Funds.

3. **Strengthening Financial Reporting Capacity-** the Governor ensures that the Municipal Manager and the head of finance shall, in consultation with the County Treasury and the Public Sector Accounting Standards Board (PSASB), develop and implement a continuous capacity-building program for all finance officers on the application of International Public Sector Accounting Standards (IPSAS). This program shall commence within sixty (60) days of the adoption of this report and shall be repeated quarterly to ensure updated knowledge of revised standards. Further, the Governor ensures that the Municipal Manager shall ensure that all financial statements prepared from the financial year 2024/25 onwards fully comply with the most current IPSAS framework as issued by the PSASB. Any deviation shall be explicitly explained and justified in the notes to the financial statements.

GENERAL OBSERVATIONS FOR THE HOSPITALS

The Committee observed that-

1. **Non-Compliance with Kenya Quality Model for Health Policy Guidelines –**
The Committee observed that the hospitals did not fully comply with the Universal Healthcare standards, as they were inadequately staffed and were not equipped with all the medical equipment required for Level 4 hospitals to be fully operational. Mt Kenya Sub-County Hospital recorded a staff deficit of 533 out of the required 603 personnel, severely impairing its capacity to deliver Level 4 services.
2. **Inaccuracies and Deficiencies in Financial Statements –** The Committee observed widespread inaccuracies and errors in the preparation and presentation of financial statements across all hospitals. Othaya Sub-County Hospital had anomalies including inconsistent revenue figures between reports, incorrect capital fund balances, and unexplained budget variances. Nyeri County Referral Hospital had unreconciled revenue variances of Kshs. 56,121,150 due to funds erroneously deposited in a different facility. The persistent inaccuracies indicate inadequate quality control and a lack of requisite competencies in hospital finance departments.
3. **Incomplete and Unsupported Property, Plant and Equipment –** The Committee observed that all hospitals had significant deficiencies in the management and disclosure of Property, Plant and Equipment (PPE). None of the hospitals maintained complete fixed asset registers supported by independent valuation reports from qualified valuers. Most hospitals inherited assets from the National Government and defunct Local Authorities which have never been formally transferred, resulting in inability to disclose accurate asset values in the financial statements.
4. **Long-Outstanding Receivables from SHA and NHIF –** The Committee noted that hospitals carry significant long outstanding receivables from the Social Health Authority (SHA) and defunct National Health Insurance Fund (NHIF). Karatina Sub-County Hospital had Kshs. 25,214,422 outstanding from defunct NHIF for over two years while Nyeri County Referral Hospital had Kshs. 194,053,134 in unsupported receivables. The failure to recover these amounts adversely affects the hospitals' ability to procure medicines and meet operational obligations.
5. **Failure to Retain Facilities Improvement Funds at the Hospital Level –** The Committee observed that Mt Kenya Sub-County Hospital collected Kshs. 33,384,597 in health facility improvement funds which were transferred to the County Revenue Fund contrary to Section 5(1) of the Facilities Improvement

Financing Act, 2023. Nyeri County has relied on its own Health Services Fund Act, 2021, which has not been harmonized with the national Act.

6. **Unresolved Prior Year Audit Matters** – The Committee noted that all hospitals had unresolved prior year audit matters, indicating a systematic failure to implement audit recommendations in a timely manner. Mt Kenya Sub-County Hospital had six unresolved issues from the prior year, three of which remained outstanding. Mukurweini Sub-County Level 4 Hospital had persistent issues on PPE, employee contracts, and UHC compliance.
7. **Deficiencies in Internal Controls and Governance** – The Committee observed that some hospitals lacked critical policy documents and internal audit functions. Mt Kenya Sub-County Hospital did not have a dedicated internal audit unit, lacked approved training policy, business continuity plan, Finance Manual, and IT Security Policy. Mukurweini Sub-County Level 4 Hospital had assets worth Kshs. 149,614,231 that were untagged, preventing physical verification of ownership and location.

GENERAL RECOMMENDATIONS FOR HOSPITALS

The Committee recommends that—

1. **Compliance with Kenya Quality Model for Health Policy Guidelines** – The Governor submits to the Senate a comprehensive staffing plan outlining specific measures being taken to address hospitals' staffing shortages, targeting full compliance with KQMH guidelines within six months. The Governor should allocate supplementary funding in the 2025/2026 budget for critical equipment and infrastructure to ensure all hospitals effectively deliver their designated level of services under the Health Act, 2017.
2. **Capacity Building on Financial Reporting Standards** – The Governor ensures hospital management teams, in consultation with the Public Sector Accounting Standards Board (PSASB); facilitate continuous capacity building on financial reporting standards for finance officers. The hospital management teams should ensure that accountants possess the requisite competency and experience in financial management. Furthermore, the Accounting Officer should ensure compliance with the financial reporting template prescribed by the National Treasury and PSASB, and quality control reviews are conducted on financial statements before submission for audit.
3. **Expediting Asset Transfer, Valuation and Documentation** – The Governor should engage the Inter-Governmental Relations Technical Committee (IGRTC) to fast-track the transfer and valuation of all assets inherited from the National Government and defunct Local Authorities. The Accounting Officers should,

within sixty (60) days of adoption of this report, prepare updated asset registers and submit to the Auditor-General for verification. A dedicated budget line for asset valuation should be established in the 2026/2027 fiscal year across all hospitals.

4. **Recovery of Long Outstanding Receivables** – The Governor ensures the hospital Accounting Officers implement aggressive receivables recovery strategies, including formal circularization of debtors, engagement with SHA on outstanding claims, and liaison with the NHIF/SHA transition team on historic NHIF receivables. Each hospital should file a status update with the Auditor-General within 60 days of adoption of this report.
5. **Compliance with Facilities Improvement Financing Act, 2023** – The Governor directs the County Department of Health and County Attorney to conduct a legal harmonization review within 90 days to align the Nyeri County Health Services Fund Act, 2021 with the Facilities Improvement Financing Act, 2023, ensuring at least 80% retention at the facility level for health facility improvements as envisaged by the national framework.
6. **Strengthening Internal Controls and Governance** – The Governor directs the County Treasury and Department of Health to establish dedicated internal audit functions within six months across all hospitals, allocating budgetary resources in the 2026/2027 fiscal year to sustain these units in compliance with Regulation 155(2) of the Public Finance Management (County Governments) Regulations, 2015. All hospitals should also expedite development and Board approval of critical policy documents including Training Policy, Business Continuity Plan, Finance Manual, and IT Security Policy.

ACKNOWLEDGEMENTS

The Committee wishes to acknowledge the support it received from the Office of the Speaker and the Clerk of the Senate in the execution of its mandate. I also take this opportunity to thank the Members of the Committee for their due diligence and commitment in the consideration of the audit reports. The Committee further wishes to express its appreciation to the able secretariat for their support and services in facilitating the Members and the Committee in its operations.

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



SIGNED:

DATE: 24/03/2026

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

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

SECTOR	NO.	ENTITIES
WATER COMPANIES	5	MATHIRA WATER AND SANITATION COMPANY LIMITED
		NARUMORU WATER AND SANITATION COMPANY LIMITED
		NYERI WATER AND SANITATION COMPANY LIMITED
		OTHAYA-MUKURWEINI WATER AND SANITATION COMPANY
		TETU WATER AND SANITATION COMPANY LIMITED
MUNICIPALITY	1	NYERI MUNICIPALITY
HOSPITALS	5	KARATINA SUBCOUNTY LEVEL 4 HOSPITAL
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		NYERI COUNTY REFERRAL HOSPITAL
		OTHAYA SUB COUNTY HOSPITAL
FUNDS	4	NYERI COUNTY CLIMATE CHANGE FUND
		NYERI COUNTY ELIMU FUND
		NYERI COUNTY ENTERPRISE FUND
		NYERI COUNTY HEALTH SERVICES FUND

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

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

CHAPTER ONE: WATER COMPANIES

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

The Governor of Nyeri County, Hon. Mutahi Kahiga appeared before the Committee on Thursday, 29th January 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Mathira Water And Sanitation Company financial year 2024/2025. The Governor was accompanied by:

1. Ms. Margaret W Macharia - Ag. CECM Finance
2. Mr. Stephen Kioni Mwangi - Chief Officer Finance
3. Mr. David Gathogo -MD MAWASCO

REPORT ON THE FINANCIAL STATEMENTS

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

1. Long Outstanding Trade and Other Receivables

The Statement of Financial Position reflects a net balance of Kshs. 48,151,195 for Trade and Other Receivables as disclosed in Note 22 to the financial statements. Trade receivables worth Kshs. 44,738,579 have been outstanding for between one (1) to four (4) years rendering them potentially uncollectible. Further, the existing general provision appears significantly inadequate. In the circumstances, the accuracy, completeness and recoverability of the stated net trade receivables could not be confirmed.

Management Response

The company has a credit management policy which was being applied in management of trade and other receivables. This include establishment of a debt collection team comprising of revenue assistants, non-revenue water officers, billing officers, technical officers and headed by the Commercial Manager. Their mandate involves analysis of all the connections and making follow up on debts that include issuance of demand letters for the overdue accounts. Some customers have also entered into part payment agreement and disconnection of water and sewerage services for overdue accounts is also done to ensure non accumulation of more arrears. Specific provisions are also being made for accounts whose debts are not recoverable either due to death of account holders and billing on dry lines. This is after debt analysis and all recover-ability efforts are exhausted with a report by debt committee recommending for writing off to the board. The company also engages Water Police Unit in pursuing debts from problematic consumers However, failure on timely payment of water bills by both National and

County Government institutions undermines efforts to have significant reduction in receivables. These institutions include National Police Service (Police Stations/Posts), public schools and County Government Departments.

Further, included in the outstanding balance is a significant amount that relates to water connections inherited from the Ministry of Water & Irrigation. Majority of these connections are categorized as dormant since they have not been billed for years while they have accumulated balances. To address this, a dedicated team has been engaged for a period of six months to undertake a comprehensive customer identification and verification exercise. The findings of this exercise shall facilitate recommendation for write off of specific debts that shall have been established as unrecoverable.

Committee Observation

The Committee observed that the water company had trade receivables amounting to Kshs. 44,738,579 have been outstanding for between one (1) to four (4) years.

Committee Recommendation

The Committee recommends that—

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

2. Non-Revenue Water

The financial statements at Note 6 reflects Kshs 184,224,700 in respect of operating revenue. Included in this amount is water sales of Kshs 126,134,818. During the

financial year the company produced 2,054,129m³ of water out of which only 1,347,370m³ was billed to customers, leaving a balance of 706,759m³ which represent approximately 34.41% of the total volume of water produced as Non-Revenue Water (NRW). The Non- Revenue Water of 34.41% was over and above the allowable loss of 25% set by water services regulatory board guideline. The high non-revenue water may have contributed negatively on the profitability of the company, its ability to sustain the service and high reliance from County for grant support.

Management Response

The Company has continued to apply established Non-Revenue Water (NRW) Management strategies aimed at reducing NRW to within the allowable limit set by the regulator, Water Services Regulatory Board (WASREB). Various activities and initiatives were being undertaken towards NRW reduction in the recent past as per attached detailed progress report on NRW management.

These measures have led to decrease on NRW levels from 36% reported in 2023/2024fy to 34.4% in 2024/2025fy. Further, as tabulated below the NRW levels have been reducing gradually in both Urban and Rural areas over the years through the highlighted management efforts.

Scheme	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025
NRW-Rural	52%	48%	47%	46%	44%
NRW- Urban	30%	28%	28%	27%	26%
NRW Overall	43%	40%	37%	36%	34%

NRW levels within the Urban scheme reduced significantly from year 2020/21. This was following successful rehabilitation of water supply network within Karatina town that was completed during that year at a cost of Kshs.110m under commercial financially arrangements and through support from Water Sector Trust Fund (WSTF) under World Bank's Output Based Aid(OBA) programme. Consequently, NRW levels in all DMAs within Karatina town averages 15% with high losses now only being experienced along the main water supply lines from water treatment plant at Ihwagi to Karatina town. These pipelines passes through private parcels of lands thus there are underground leakages and suspected illegal water usage. The Company submitted a proposal to Tana Water Works Development Agency(TWWDA) requesting for financial support in rehabilitating and re-routing these pipelines, which is within the agency's mandate. Once complete, we anticipate the overall losses in the Urban scheme to be below 15%.

The company is having similar approach in addressing the high NRW levels in the Rural scheme though availability of finances to undertake rehabilitation of the network is the main impediment in realizing this goal. However, rehabilitation of identified pipelines with high NRW levels is being undertaken progressively using internally generated funds and support from County Government of Nyeri. This has led to notable decline in the levels over the years as illustrated in the performance summary above.

Committee Observation

The Committee noted that the water company had Non- Revenue Water(NRW) amounting to 34.41% of total production(706,759m³) which was above the allowable loss of 25% set in guidelines issued by the Water Services Regulatory Board (WASREB).

Committee Recommendation

The Committee recommends that—

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

3. Non-Compliance with Ethnic Diversity

The statement of profit or loss and other comprehensive income and as disclosed in Note 10 to the financial statements reflect Kshs.64,009,216 in respect of staff cost. Out of a total workforce of seventy-seven (78) employees, seventy- four (74), constituting 95%, comprised of the dominant ethnic community. This is contrary to Section 7 (2) of the National Cohesion and Integration Act, 2008, which provides that no public

establishment shall have more than one third of its staff from the same ethnic community.

Management Response

The management has always applied the following procedures in filling any vacant position(s) in line with company's Human Resource Policy and Employment Act. i) Any vacant positions are advertised in national newspapers giving the details of job description and specifications in order to attract qualified candidates nationally (see annex 7) ii) An interim selection committee is appointed to undertake shortlisting of qualified candidates for each advertised vacancy as per the criteria set out in specification during advertisement. iii) Qualified candidates are then invited for interviews, awarded marks and ranked based on individual candidate's performance. iv) Candidate with the highest marks is selected for the position. With this, the company aims to gradually ensure adherence to section 7(1) and (2) of the National Cohesion and Integration Commission Act, 2008 by giving equal opportunity to all qualified Kenyans regardless of their ethnicity, religion or gender.

Committee Observation

The Committee noted that the water company lacked gender and ethnic diversity as 74 out of 78 staff employees were from the dominant community which is contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008.

Committee Recommendation

The Committee recommends that—

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

4. Non-Compliance on Staff Gender Composition

The statement of profit or loss and other comprehensive income and as disclosed in Note 10 to the financial statements reflect Kshs.64,009,216 in respect of staff cost. The company's staff fifty-eight (58) out of a total of seventy- seven (78) employees

representing 74% of the workforce were from the same gender. This is contrary to Article 27 (6) of the constitution which provides that, the State shall take legislative and other measures to implement the principle that not more than two-thirds of the members of elective or appointive bodies shall be of the same gender.

Management Response

The company has been progressively adhering to gender rule by encouraging applicants of both gender in advertisements for any vacant positions for members of staff. However, the process of filling any vacant position is usually done competitively.

Committee Observation

The Committee observed that 58 out of 78 employees were of the same gender.

Committee Recommendation

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

5. Unresolved Prior Year Matters

Review of the status during the audit revealed unresolved issues in the audit report for 2023/2024 financial year;

No.	Audit Issue	Management Response /Status
1.	In accuracies in the financial statements	The difference of Kshs. 1,784,832 between budget and actual of the operating revenue was an arithmetical error which was not noted during the preparation of the financial statements and audit exercise. The correct amount of total actual receipt was Kshs 167,147,849 as was provided in the receipts schedule and not Kshs. 168,932,681 which was erroneous.
2.	Long Outstanding Trade Receivables	Comprehensive response on the matter has been provided under responses to audit issues in 2024/2025 financial year audit
3.	High Non-Revenue Water Threshold	There has been notable progress on the matter as NRW levels reduced from 36% as reported in 2023/2024 to 34%

No.	Audit Issue	Management Response /Status
		in 2024/2025 financial year. Comprehensive response on the matter has been provided under responses to audit issues in 2024/2025 financial year audit
4.	Non Compliance with the National Cohesion and Integration Act on Ethnicity	Comprehensive response on the matter has been provided under responses to audit issues in 2024/2025 financial year audit.
5.	Non Compliance with requirements of gender balance	Comprehensive response on the matter has been provided under responses to audit issues in 2024/2025 financial year audit. In addition, at board of directors level the company is now fully compliant. Out of nine (9) board members, male and female are five(5) and four(4) respectively (see annex 8).
6.	Failure to revalue fully depreciated assets	Management identified assets within the company that needed revaluation and disposal. A report was presented to the board of directors and the board approved revaluation and disposal of obsolete assets(see annex 9). Consequently, the company engaged Government valuer through the Ministry of Transport & Infrastructure Mechanical & Transport department to undertake the exercise (see annex 10). In addition, advertisement for disposal of selected assets was placed on Nation Newspaper on 10th February 2025 (see annex 11). An adhoc committee was undertaking evaluation of bids that were received and opened on 28th February 2025. We can confirm that all the identified assets were disposed to the successful bidders(see annex 12).

Committee Observation

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

Committee Recommendation

The Committee recommends that—

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

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

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

The Governor of Nyeri County, Hon. Mutahi Kahiga appeared before the Committee on Thursday, 29th January 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Naromoru Water And Sanitation Company financial year 2024/2025. The Governor was accompanied by:

1. Ms. Margaret W Macharia - Ag. CECM Finance
2. Mr. Stephen Kioni Mwangi - Chief Officer Finance
3. Ms. Gladys Njeri Wangongo -MD NAROWASCO

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered **Unqualified opinion** on the Financial Statements of the Naromoru Water and Sanitation Company for the period under review on the following basis-

1. Ethnic Staff Diversity

The statement of profit or loss and other comprehensive income reflects staff cost amount of KShs.7,972,476 as disclosed in Note 11 to the financial statements. Review of employee records revealed that all 22 employees (100%) of the Company belong to the same ethnic community, exceeding the one-third threshold by 67%. This is contrary to the requirements of Section 7(2) of the National Cohesion and Integration Act, 2008 which states that no public establishment shall have more than one third of its staff from the same ethnic community. In the circumstances, Management was in breach of the law.

Management Response

The Company upholds transparency, fairness, and competitiveness in all its recruitment processes. Whenever a vacancy arises, the position is publicly advertised through various platforms, including the Company's official website (<https://naromoruwater.co.ke/>) and Nation Dailies. All applications received undergo a rigorous shortlisting and interview process to ensure that only qualified and competent candidates are selected.

Committee Observation

The Committee noted that the water company lacked gender and ethnic diversity as all 22 employees were from the dominant community which is contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008.

Committee Recommendation

The Committee recommends that—

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

2: Outstanding Water Services Regulatory Board (WASREB) Levies

The Statement of Financial Position reflected trade and other payables balance of KShs.4,273,147, as disclosed in Note 43 to the financial statements. Included in this amount was KShs.2,930,937 being outstanding levies due to the Water Services Regulatory Board (WASREB) that had remained unpaid for more than one year. In the circumstances, the continued delay in remitting the outstanding levies exposes the Company to regulatory penalties and possible sanctions from WASREB, which may affect the Company's operational licensing status and financial sustainability.

Management Response

Management acknowledges the outstanding WASREB levies. The delay in remittance was mainly due to cash flow constraints experienced during the year arising from low revenue collections, the company was operating on a non-cost recovery tariff that affected our revenue and also changes in economic environment. Management has an ongoing payment plan with WASREB and has prioritized settlement of regulatory levies in its cash flow planning to avoid recurrence of the same.

Committee Observation

The Committee observed that the Water Company had formulated payment plans with WASREB to settle the outstanding levies.

Committee Recommendation

The Committee recommends that the Governor ensures that the water company settle all outstanding levies. The Auditor General to keep this matter in view in the subsequent audit cycle.

3: Non-Revenue Water

In the financial year under review, the Company produced 358,460 cubic meters (m³) of water, out of which only 256,195 cubic meters (m³) was billed to customers. The balance of 102,265 cubic meters (m³), or approximately 29% of the total volume of water produced, represented unaccounted for water (UFW), which was above the allowable water loss of 25% as per the Water Services Regulatory Board guidelines.

In the circumstances, the abnormal water loss of 29% may have resulted in loss of sales estimated at KShs.7,669,875 when computed at the rate of KShs.75 per m³ being the minimum tariff for water sale as per the Water Act No.43 of 2016.

Management Response

Management acknowledges the audit finding regarding non-revenue water (NRW) levels exceeding the recommended 25% threshold in accordance with WASREB guidelines. The elevated NRW was mainly attributable to aging and dilapidated infrastructure and frequent pipe bursts, all of which contributed to increased water losses during the period under review. The Company has implemented and continues to implement a range of corrective and preventive measures aimed at reducing NRW. These mitigation measures include:

1. Appointment of a Non-Revenue Water Officer whose main mandate is to reduce the Non-Revenue Water. (SEE ANNEX 3A)
2. The management have introduced a Non-Revenue Water Unit. (SEE ANNEX 3B)
3. Rehabilitations of the lines as shown below.

S No.	Zone/ Area	Kms
1.	Intake to Treatment Works (Gravity Main Line)	2.9
2	Ngutik Gatwanyaga C	2.7
3	Township	700m

4. The company has a Non-Revenue Water Management Policy in Place which provide a structured framework for systematic identification, monitoring, and reduction of non-revenue water. (SEE ANNEX 3C)
5. Developed annual NRW Unit work plan. (SEE ANNEX 3D)
6. Digitizing the Company infrastructure by using GPS to collect data for company infrastructures and consumer connection data. (SEE ANNEX 3E)

7. Procurement of Master and zonal Meters to assist in establishing the volume supplied into a District metered area. (DMAs).
8. Conducting surprise visits to consumers' meters for KYC purpose. (know your customer) Other mitigations which have been put in place to reduce Non-Revenue Water levels are:
9. The company have Maintained 100% metering.
10. Change from using Plasticized Polyvinyl Chloride (Upvc) to High Density Polyethylene (HDPE) for main and distribution lines.
11. Speedy repair of leakages and bursts.

Committee Observation

The Committee noted that the water company had Non- Revenue Water(NRW) amounting to 29% of total production(1,471,440m³) which was above the allowable loss of 25% set in guidelines issued by the Water Services Regulatory Board (WASREB).

Committee Recommendation

The Committee recommends that—

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

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

The Governor of Nyeri County, Hon. Mutahi Kahiga appeared before the Committee on Thursday, 29th January 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Nyeri Water And Sanitation Company Limited financial year 2024/2025. The Governor was accompanied by:

- | | |
|-----------------------------|-------------------------|
| 1. Ms. Margaret W Macharia | - Ag. CECM Finance |
| 2. Mr. Stephen Kioni Mwangi | - Chief Officer Finance |
| 3. Mr. Kimani Rucuiya | - County Attorney |

REPORT ON THE FINANCIAL STATEMENTS

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

1. Long Outstanding Receivables

The financial statement reflects Kshs. 327,439,359 in respect of gross trade and other receivables balance as at 30 June, 2025 as disclosed in Note 23. However, the following anomalies were noted. In i. ii. The balance is not supported by detailed movement schedules showing opening balance, addition during the year, receipts during the year and the closing balance at the year end. The amount includes trade receivables of Kshs. 294,594,777 (including provision for doubtful receivables) out of which Kshs. 197,246,572 have been outstanding for more than 180 days as reported under the aged debtor's analysis provided for the audit. The long outstanding balance may affect the liquidity and going concern of the entity. the circumstances, the validity, accuracy, completeness and recoverability of the Kshs. 294,594,777 amount of trade receivables could not be confirmed.

Management Response

Management acknowledges the audit observation regarding the outstanding trade receivables balance, The Company initiated a Rapid Results Initiative (RRI) exercise to verify the accuracy, completeness, and recoverability of all trade receivables in the FY 2023/24, The outcome of the RRI report was presented to the Board of Directors, and the resulting recommendations were implemented in the FY 2024/25 and in the current FY 2025/26.

The report identified debts arising from dormant/terminated accounts which the County Government of Nyeri approved for debt write-off amounting to Kshs. 61,341,730. The Debt Write off is ongoing A detailed Debt RRI Report (Annex 1.1) is attached herein,

providing supporting documentation and evidence of the actions undertaken to address the accuracy, completeness, and recoverability of the receivables balance.

The Management has put in place a dedicated call centre to manage outstanding receivables, particularly small-value debts where disconnection may be costly and counterproductive. The approach emphasizes customer engagement and relationship management to achieve economically viable recovery outcomes.

To prevent further accumulation of arrears, the Company has implemented a robust ERP system with strengthened internal controls. The system prevents closure or termination of accounts with outstanding balances, restricts the opening of new accounts where existing arrears are linked to the same customer and enforces mandatory capture of key KYC (Know Your Customer) details through smart fields during customer registration, thereby enhancing traceability and follow-up.

Committee Observation

The Committee observed that the water company had trade receivables amounting to Kshs. 197,246,572 have been outstanding for more than 180 days.

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.

2. Long Outstanding Payables

The Statement of Financial Position and as disclosed Note 31 to financial statements reflect trade and other payables balance of Kshs. 228,165,602. Included in the amount is outstanding amount of Kshs. 86,492,499 that remained unsettled for over a year comprising payables of Kshs. 31,233,877 aged 1-2 years and Kshs. 55,258,622 aged over three (3) years. The accumulated debts may expose the County to unnecessary litigation. In the circumstances, the ability of the Company to settle debts is doubtful and hence the validity, accuracy and completeness of trade and other payables of Kshs. 86,492,499 could not be confirmed.

Management Response

The Company acknowledges the observation regarding the long-outstanding payables amounting to Kshs. 86,492,499 which are included in the current liabilities disclosed in Note 32. The Company is grappling with the effects of increasing costs of operation including energy, treatment chemicals, fuel etc against plateaued revenues occasioned by a non-cost recovery tariff since the tariff has remained relatively unchanged. This has caused cash flow constraints affecting the payables negatively. and The Company has been actively implementing measures to improve its financial ensure timely settlement of obligations. These measures include enhanced collection efforts, cost optimization strategies and exploring alternative financing options through resource mobilization to address the cash flow gaps.

Committee Observation

The Committee observed that the water company had trade payables amounting to Kshs. 86,492,499 that remained unsettled for over a year. Further, the Committee observed that the water company did not provide any measures it was taking to settle all the debt obligations.

Committee Recommendation

The Committee recommends that-

- i. the Governor ensures that the water company formulates a repayment plan to fully repay its outstanding debt obligation amounting to Kshs.86,492,499 Further, the Governor ensures that the water company

- submits a status update to the Senate within 60 days of the adoption of this report;
- ii. the Governor to ensures the water company makes budgetary provision to clear the outstanding payables by the end of the FY 2026/2027 and provide a status update to the Senate within 60 days of the adoption report; and
 - iii. the Governor ensures that the County Executive Committee Member in charge of water continuously monitors the financial performance of the water company in line with section 184 of the Public Finance Management Act, 2012 and report on the same to the County Executive Committee, making recommendations on how the water company can improve its performance.

Unresolved Prior Year Audit Issues

The progress on follow-up on Auditor's recommendations section of the financial statements reflects that a number of issues raised in previous year's audit report remain unresolved as at 30 June, 2025. Long outstanding payables, non-compliance with the water services regulatory Board (WASREB) regulations on personnel costs, irregular awards of contracts reserved for the disadvantaged groups In the circumstances, the audit recommendations remain unimplemented.

Management Response

- i. Long Outstanding Receivables

significant portion of the long-outstanding receivables, amounting to approximately Kshs. 73.5M is attributable to government accounts. Ksh 69,704,328.75 belong to Kiganjo National Police College and G.K. Nyeri Prisons. Recovery efforts are ongoing. Demand notices attached.

Ksh. 3,856,414 belongs to all other Government accounts awaiting Government allocations. List all other Government accounts owing as at June 2025.

- ii. Long Outstanding Payables

The amount over 3 years of Kshs 55,258,622 relates to lease fees for the period 2011 to 2015 charged by the defunct Municipal Council of Nyeri. As the company is a wholly-owned entity of the County Government of Nyeri, a formal request for the waiver of these fees has been submitted. Attached is the support communication. (Annex 2.1) The Kshs 2,000,000 that was aged between 2-3 years was in respect to system development fees that were accrued during the shift to the ERP. - This has since been paid. For the amounts between 1-2 years is currently Kshs 31,233,877, the Company has already paid

Kshs 18,600,000 equivalent to 60% through repayment plans developed which are being implemented concurrently with the current debt to settle the outstanding balances. Attached is the support ledger reflecting the payments.

iii. Non Compliance with the Water Services Regulatory Board (WASREB) Regulations on Personnel Cost

The Management recognizes the importance of adhering to regulatory guidelines and the potential impact of excess personnel costs on the Company's profitability and sustainability of services. The Company is grappling with effects of increasing costs of operation has seen a reduction in cash flows and consequently the operating and maintenance (O&M) expenditure. 1. However, the Company has taken measures such as: Enhancing revenues by reviewing and increasing our revenue streams. The Company reviewed its other income rate card to allow for new income streams and increase other income streams. (Rate Card attached Annex 5.1). The Company is currently reviewing its tariff to a cost recovery tariff with an aim to increase the revenues. 2. Implement targeted cost containment measures to ensure that personnel costs align with the WASREB guidelines. Upon retirement of staff, the Company is employing at entry grades and exploring other cost-effective contract pay. This approach will ensure that the Company will reduce the % of staff costs/operations and maintenance expenditure with at least 1% annually

Failure to comply with the National Cohesion and Integration Act

The Company has continued to offer equal opportunity to all kenyans through a competitive process of advertising for vacancies nationally as evidenced in the job vacancies adverts done on the Company's website as per link

Award of Contracts Reserved for the Disadvantaged Groups to Ineligible Suppliers Under Access to Government Procurement Opportunities (AGPO)

Management confirms that deliberate efforts were made to comply with AGPO requirements. In May 2024, the Company advertised Open Tenders, Framework Contracts, and Registration of Suppliers for the period 2024-2026, with specific reservations made for Women, Youth, PWDs, and Local Suppliers across various procurement categories. Attached is the newspaper advert. (Annex 4.1) During the bi-annual tendering process 2024-2026, the following reserved categories were non-responsive:- i. Supply and delivery of firefighting equipment (Youth) Provision for printing, publication services, graphic design and branding (PWD) iii. iv. Provision for event organization (Women) Provision of public relation services media consultancy V. and communication services (Youth) Provision for installation of car tracking devices. (Youth) vi. vii. Provision for team building facilitation. (Youth) Repair and maintenance of office furniture

Failure to Recruit and Fill Critical Positions in the Staff Establishment

The critical positions in the prior year audit were, the position of commercial manager and supply chain manager. As part of our commitment to effective human resource management, the Company has implemented a succession management strategy to groom internal talent for these roles. For Supply Chain, we promoted the officer to Supply Chain Officer I allowing the officer to sit in management meetings and prepare professional opinions. BOD approved internal recruitment of Manager Supply Chain, recruitment completed in September 2025 but non responsive internally. BOD approved recruitment externally in November 2025 which is in process. For Commercial Services- The Senior Officer Billing & Debt Collection had taken over the role in acting capacity and sits in top management meetings. He has since been appointed substantively as the Chief Manager Commercial Services.

Committee Observation

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

Committee Recommendation

The Committee recommends that—

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

REPORT ON THE LAWFULNESS AND EFFECTIVENESS IN 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 sources were not applied lawfully and in an effective way—

Basis for Conclusion

1. Failure to Comply with The Law on Award of Contracts to Disadvantaged Groups

Review of the Company's annual procurement report shows that during the year under audit, the company awarded contracts amounting to Kshs. 161,311,255 to suppliers which include contracts worth Kshs. 11,766,796.63 which were awarded to suppliers under the reserved category. This represents 13.71% which is below the recommended 30% threshold. In the circumstances, Management did not comply with the provisions of Section 53(6) and Section 157 (5) of the Public Procurement and Asset Disposal Act, 2015.

Management Response

Management confirms that deliberate efforts were made to comply with AGPO requirements. In May 2024, the Company advertised Open Tenders, Framework Contracts, and Registration of Suppliers for the period 2024-2026, with specific reservations made for Women, Youth, PWDs, and Local Suppliers across various procurement categories. Attached is the newspaper tender advert on the registration of suppliers for the financial year 2024-26 (Annex 4.1) During the bi-annual tendering process 2024-2026, the following reserved categories non-responsive as per attached minutes of evaluation (Annex 4.2). Supply and delivery of firefighting equipment (Youth) Provision for printing, publication services, graphic design and branding (PWD) Provision for event organization (Women) were Provision of public relation services media consultancy and communication services 1. ii. iii. iv. (Youth) V. vi. vii. Provision for installation of car tracking devices. (Youth) Provision for team building facilitation. (Youth) Repair and maintenance of office furniture & equipment. (PWD)

Committee Observation

The Committee observed that the company did not adhere to Section 53(6) and Section 157 (5) of the Public Procurement and Asset Disposal Act, 2015.

Committee Recommendation

The Committee recommends that the water company adheres to Section 53(6) and Section 157 (5) of the Public Procurement and Asset Disposal Act, 2015. The Auditor general to keep this matter in view in the subsequent audit cycle.

2. Staff Costs Exceeding Operation and Maintenance Costs

The Statement of profit or loss & other comprehensive income and as disclosed in Note 10 to the financial statements reflect staff costs amount of Kshs 300,535,726 representing 43% of the total expenditure of Kshs 703,012,262 which is higher than the recommended ratio of 30% for very large companies as per Water Services Regulatory

Board (WASREB) guidelines on corporate governance 2018 Sec 3.9(10). In that circumstance the Management of NYEWASCO is in breach of WASREB guidelines. Management Response: The Management recognizes the importance of adhering to regulatory guidelines and the potential impact of excess personnel costs on the Company's profitability and sustainability of services. We take this matter seriously and we are committed to implementing corrective measures to bring the personnel costs within the recommended threshold. The Company is grappling with effects of increasing costs of operation has seen a reduction in cash flows and consequently the operating and maintenance (O&M) expenditure. However, the Company has taken measures such as: ii iii. i. Enhancing revenues by reviewing and increasing our revenue streams. These revenues will be utilized on operations and maintenance expenditure thus lowering the % of staff costs/operations and maintenance expenditure. The Company also reviewed its other income rate card to allow for new income streams and increase other income streams. (Rate Card attached Annex 5.1). The Company is currently reviewing its tariff to a cost recovery tariff with an aim to increase the revenues. Implement targeted cost containment measures to ensure that personnel costs align with the WASREB guidelines of 5 staff per 1000 connections. The Company currently has 4 staff per 1000 connections. The Company in addition in November 2024 carried out a workload analysis which indicated that our staffing levels are sufficient. (Workload analysis report attached as Annex 5.2) Upon retirement of staff, the Company is employing at entry grades and exploring other cost-effective contract pay. This approach will ensure that the Company will reduce the % of staff costs/operations and maintenance expenditure with about 1% annually.

Committee Observation

The Committee observed that staff costs amounted to 43% of the total expense which was above the recommended ratio as prescribed by WASREB guidelines.

Committee Recommendation

The Committee recommends that the Governor ensures that the water company puts in place measures in place to reduce the staff costs to within the recommended ratio of 30% as prescribed by WASREB guidelines.

3. Noncompliance with The Rights and the Privileges of Persons with Disabilities

Review of payroll information revealed that out of two hundred and thirty-eight (238) member staff, only three (3) are Persons Living with Disabilities, representing just 1% of the workforce- significantly below the 5% threshold recommended by the Persons Disabilities Act, 2025 and Section N1.4 of the NYEWASCO, Human Resource Policy Procedure Manual, 2023. In the circumstances, Management was in breach of the law.

Management Response

During recruitments, applications are invited from suitably qualified candidates for the above position, Women, Youth and Persons with Disabilities and those from marginalized areas are encouraged to apply.

Committee Observation

The committee observed that only 1% of the employees are Persons Living with Disabilities.

Committee Recommendation

The Committee recommends that the Governor ensures that the management undertake measures to ensure that the water company achieves the 5% threshold recommended by the Persons Disabilities Act, 2025 and Section N1.4 of the NYEWASCO, Human Resource Policy Procedure Manual, 2023.

4. Noncompliance of the National Cohesion and Integration Act on Ethnicity

Review of personnel records revealed that the Company has two hundred and thirty-eight (238) staff members out of which two hundred and thirty-four (234) or 98% of the staff members are from the dominant ethnic community. Further, all the five (5) members of staff in top management are all from the same dominant ethnic community. In addition, the board members of the Company comprise of ten (10) members out of which nine (9) belong to the dominant ethnic community. This is contrary to section 7(2) of the National Cohesion and Integration Act, 2008. In the circumstances, Management was in breach of the law. **Management Response:**

The Company has offered equal opportunity to all Kenyans through a competitive process of advertising for vacancies nationally as evidenced in the job vacancies adverts done.

Committee Observation

The Committee observed that 98% of the staff members are from the dominant ethnic community.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures that the Board and the accounting officer make deliberate efforts to progressively comply with section 65 of the County Governments Act, 2012 which provides that at least thirty percent 30% of the vacant posts at entry level be filled by candidates who are not from the dominant ethnic community; and**

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

5. Noncompliance with the Requirements for Staff Gender Equality and Equity

Review of personnel records revealed that the Company has two hundred and thirty-eight (238) staff members out of which one hundred and eighty (180) or 75% of the staff members are male and only fifty-seven (57) members of staff are female contrary to Section N1.5 of the NYEWASCO, Human Resource Policy and Procedure Manual, 2023. In the circumstances, Management was in breach of the law.

Management Response

In the last three years, the management has demonstrated its commitment in observance of the third gender rule as follows: • FY ending June 2023: Male - 176 (77.2%); Female - 52 (22.8%) • FY ending June 2024: Male - 184 (76%); Female -38 (24%) • FY ending June 2025: Male - 180 (75%); Female - 58 (25%)

The above represents an upward increase in compliance with the provisions of the law. The Management is committed to fully comply with the provisions. This is demonstrated in the recruitments done in the financial years shown below.

Committee Observation

The Committee observed that 75% of the staff members are male and only fifty-seven (57) members of staff are female.

Committee Recommendation

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

6. Ineffective Billing for Water and Sewerage Services

6.1 Un-Metered Customers

Included in the operating revenue balance of Kshs. 685,085,316 is revenue from water services of Kshs. 514,019,304 which further include an amount Kshs. 19,304,336

realized after billing five thousand four hundred and ten (5,410) customers without meter serial numbers. The billing procedure was therefore irregular.

Management Response

The Company wishes to clarify that the billing of customers without meter serial numbers was based on valid and verifiable data. The discrepancy is due to change of tenancy. Change of Tenancy (COT) Process Under the Change of Tenancy (COT) process, once an account is terminated due to a change of tenancy, the meter previously allocated to the outgoing tenant is automatically reassigned to the incoming tenant. Consequently, within the same financial year, a single connection may appear to generate two separate billings. For the the Billing for the outgoing tenant is carried out up to the point of account closure, while billing incoming tenant commences from the date the new account is opened using allocated meter. As a result, system-generated reports for the year will reflect the outgoing account without a meter serial number, while the incoming tenant's account is reflected with a meter serial number. In line with system design, once an account is terminated, the corresponding meter number is automatically reassigned to the subsequent account created under the same connection. This ensures continuity and accuracy in billing. Attached see a sample of these accounts at the time of termination

Committee Observation

The Committee observed that the water company had five thousand four hundred and ten (5,410) customers without meter serial numbers.

Committee Recommendation

The Committee recommends that the Governor ensures that the water company undertake comprehensive measures to ensure that the water company provides meters to all customers and should submit a status report on the same within 60 days of the adoption of this report.

6.2 Unbilled Sewer Services

Included in the billings are two thousand nine hundred and forty-six (2,946) customers with water and sewer connection and with a consumption of 43,802 units of water who had been billed water service totaling to Kshs. 3,399,905 without a corresponding sewer billing resulting to an estimated revenue loss of kshs. 2,233,902 (charged at minimum Tariff rate of kshs.51 per M3 for sewer charge). The unbilled sewer services affected the Company's profitability for the year.

Management Response

Billing for sewer services commences only upon completion of a physical sewer connection. Consequently, accounts that were connected to the sewer network during

the course of the financial year began attracting sewer charges from the date of connection, not retrospectively. At the time of generating the billing reports for audit purposes, such accounts appeared as sewer-connected but did not reflect corresponding sewer charges for the full reporting period. This timing difference creates a mismatch between water consumption and sewer billing, particularly for accounts connected in the course of the year. Management notes that the unbilled sewer revenue relates to this timing difference in service connection and billing commencement.

Committee Observation

The Committee observed that the water company had customers billed without corresponding sewer billing.

Committee Recommendation

The Committee recommends that the Governor ensures that the water company undertake comprehensive measures to ensure that the water company undertakes sewer billing to all customers and should submit a status report on the same within 60 days of the adoption of this report.

6.3 Active Accounts not Billed

Included in the billing are twenty-two thousand eight hundred and ninety-nine (22,899) active customers who were not billed during the year and no explanation was given for failure to bill the customers resulting to undetermined revenue loss through non-revenue water.

Management Response

The Company has reviewed the observation regarding 22,899 bills for active customers who were reported not billed during the year, leading to revenue loss. We wish to clarify as follows

The 22,899 bills can be grouped into two categories: i. Accounts with No Consumption (19,457): These accounts had no recorded consumption during the billing periods and were billed only for standing charge/meter rent. This is consistent with tariff where standing charge/meter rent is levied regardless of consumption, since the meter remains deployed and maintained. Accounts with Actual Consumption (3,442): These accounts registered consumption, but the system reflected zero charges in the billing cycle due to corrective adjustments arising from estimates in prior billing cycles.

system Logic for Estimate Adjustment: For accounts billed on estimated consumption in previous months, when actual meter readings are eventually captured, the system automatically reconciles the estimates with the actual usage. In instances where

previous estimates were higher than actual consumption, the system corrects this by deducting the excess in the subsequent billing cycle. As a result, such accounts may show a zero bill in the month of reconciliation. This mechanism is designed to safeguard customers from being overcharged and maintain billing integrity. to Conclusion: The 22,899 bills representing a 3.01% of all billings in the year cited do not represent unbilled revenue or unaccounted non-revenue water. The absence of consumption charges in these cases do not constitute revenue loss. Rather, it reflects a correction of earlier estimates, ensuring that customers are charged accurately for actual consumption. The integrity of revenue recognition remains intact, supported by established billing policy and system controls.

Committee Observation

The Committee observed that the water company 22,899 customers were not billed.

Committee Recommendation

The Committee recommends that the Governor ensures that the water company undertake comprehensive measures to ensure that the water company bills all customers and should submit a status report on the same within 60 days of the adoption of this report.

6.4 Billed Customers Without Sewer Connections

Included in the billings are two hundred and forty (240) customers with water connection only but were charged sewer services amounting to Kshs. 199,318 during the year without any reasonable justification. No explanation was provided for billing the customers for services not rendered.

Management Response

Billing for sewer services commences only upon completion of a physical sewer connection. Consequently, accounts that were connected to the sewer network during the course of the financial year begin attracting sewer charges from the date of connection, not retrospectively. At the time of generating the billing reports for audit purposes, such accounts appeared as sewer-connected but did not reflect corresponding sewer charges for the full reporting period. This timing difference creates a mismatch between water consumption and sewer billing, particularly for accounts connected in the course of the year. Management notes that the unbilled sewer revenue relates to this timing difference in service connection and billing commencement. The Management has noted the recommendations of the auditor and we will amend the system reports to reflect the sewer service commencement date.

Committee Observation

The Committee observed that the water company billed customers sewer services who used water services only.

Committee Recommendation

The Committee recommends that the Governor ensures that the water company undertake comprehensive measures to ensure that the water company bills all customers and should submit a status report on the same within 60 days of the adoption of this report.

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

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

Staff Under Establishment

Review of personnel records revealed that the Company is operating below its optimal staffing level since it has a staff deficit of fifteen (15) employees as reflected in the establishment. In the circumstances, the effectiveness of the staff management system in place could not be confirmed.

Management Response

Management acknowledges the importance of these positions to the Company's success and operational stability. As part of our commitment to effective human resource management, the Company has implemented a succession management strategy to groom internal talent for these roles. This approach not only ensures a seamless transition into these critical positions but also supports staff retention through career development and growth opportunities for employees. 1. ii. For Supply Chain, we promoted the the officer to Supply Chain Officer I allowing officer to sit in management meetings and prepare professional opinions. For Commercial Service- The Senior Officer Billing & Debt Collection had taken over the role in acting capacity and sits in top management meetings. He has since been appointed substantively as the Chief Manager Commercial Services. The Company has taken steps to progressively address the staffing gaps while balancing cost containment, including recruitments, internal reassignments, use of interns, and deferral of other positions pending tariff review.

Committee Observation

The Committee observed that the water company had a staff deficit of fifteen (15) employees.

Committee Recommendation

The Committee recommends that the Governor ensures that the accounting officer undertakes comprehensive measures to fill the existing staff deficit and submit a status report within 60 days of the adoption of this report.

1.4. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR OTHAYA-MUKURWEINI WATER AND SANITATION COMPANY FOR THE FINANCIAL YEAR 2024/2025

The Governor of Nyeri County, Hon. Mutahi Kahiga appeared before the Committee on Thursday, 29th January 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements Othaya-Mukurweini Water And Sanitation Company financial year 2024/2025. The Governor was accompanied by:

- | | |
|-----------------------------|-------------------------|
| 1. Ms. Margaret W Macharia | - Ag. CECM Finance |
| 2. Mr. Stephen Kioni Mwangi | - Chief Officer Finance |
| 3. Mr. Kimani Rucuiya | - County Attorney |

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered **Unqualified opinion** on the Financial Statements of the Othaya-Mukurweini Water and Sanitation Company for the period under review on the following basis-

1. Long outstanding Trade and Other Receivables

The statement of financial position and as disclosed in Note 24 of the financial statements reflects gross trade receivables balance of Kshs. 263,904,082. An aging analysis reveals that Kshs. 34,532,410 and Kshs. 149,263,087 representing 13% and 56% of these debts have been outstanding for between 3-5 years and over 5 years additionally the gross trade receivable had increased to Kshs 263,904,082 from Kshs 233,869,790 over the last one year signaling difficulties in debt recoverability, although the company has made adequate provision for doubtful debts, the debts has remained in the books due to lack of approval by the county to write them off. In the circumstances, the accuracy, completeness and recoverability of trade and other receivables balance of Kshs.263,904,082 could not be confirmed.

Management Response

The management has taken the following steps to resolve the high outstanding receivables:

- i) For the old debts, communication with the County Government of Nyeri to consider undertaking the process of debt write off involving submission of list of the specific uncollectable historic debt arising from past billing and whose customers are either deceased, or untraceable has been done.
- ii) In addition, the company has engaged an independent firm to further assist in data cleanup through Customer Identification Survey to establish location of the connections and land owners and therefore support cleanup of customer database through debt write off as proposed in (i) above.

- iii) On the issue of rise in receivables, the company had been consistently lowering the receivables in the previous years except after the implementation of the new tariff around December 2024 when there was a lot of public resistance to the new tariff. There was public expectation that the Government of Kenya would lower the tariffs following the agitation, hence strategically, a significant number of consumers have not been consistently paying the bills with the expectation that tariffs will be brought down. Public Boarding Schools were affected heavily by the tariff raise. They were not able to immediately change upwards their utility budgets hence the increase in tariff meant that they were not able to clear their water bills as they used to before, this also contributed to rise in the receivables. The company has been undertaking public engagements to sensitize the public and individual institutions and this is expected to result to bill payments.
- iv) The company has engaged customers in part payment agreements to enable continued service while the customers clear the outstanding debts over time.

Committee Observation

The Committee observed that the water company had receivables that were outstanding for more than 3 years.

Committee Recommendation

The Committee recommends that—

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

130 (2) (d) of the Public Finance Management (County Governments) Regulations, 2015.

2. Un-Disclosed Property Plant and Equipment

The financial statements disclose that the Company is in possession and control of assets of undetermined values as disclosed in Note 40, developed through an African Development Bank (AFDB) Loan utilized on improvement of water production and distribution infrastructure including sewer treatment that was constructed in Othaya. The Company does not have ownership of the land and buildings since they have not been transferred to the Company by defunct Tana Water Services Board. Additionally, the loan has not yet been transferred to Company for repayment despite it enjoying economic benefits from the facility.

In the circumstances, the ownership and valuation of these asset could not be confirmed.

Management Response

The management wishes to respond as follows:

- i. The National Government through Tana Water Works Development Agency (TWWDA) developed the assets between years 2011 to 2014 with funds borrowed from the African Development Bank. At the time, the assets were not to be transferred to the Company as per the water Act of 2002.
- ii. With the enactment of the Water act 2016 in line with the Constitution of Kenya 2010 the process of asset handover was to be midwifed by the intergovernmental Technical Relations Committee.
- iii. As it stands, the company uses the assets under the ownership of the defunct Tana Water Services Board (now known as TWWDA) under the Service Provision Agreement (SPA).
- iv. The AFDB loan has not been handed over to the company although the following aspects have taken place lately:
 - a) Emerging demand for compensation by private land owners for assets constructed on their land. An example is Chinga Treatment Works compound. This may be a pointer to unresolved land compensation issues which may need to be handled well by the National Government prior to asset handover.
 - b) Official communication by both the company and the County Government of Nyeri to Tana Water Works Development Agency requesting for information on the ADfB project scope, loan details, project completion

reports and evidence of compensation for acquired land. So far, the company has not received any response from the Agency, as part of fiscal openness, the company has disclosed these assets by way of a note in its financial statement but has difficulties in quantifying the value of the said assets.

- c) The loan covered mainly first tier investments. For the company to get the full benefit of this investment, there is need for a last mile investment.

Committee Observation

The Committee observed that does not have ownership of the land and buildings since they have not been transferred to the Company by defunct Tana Water Services Board.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures that the management of the water company conducts the valuation of all assets of the water company is fast-tracked and submits the valuation report to the Auditor- General for verification during the subsequent audit cycle;
- ii. the Governor to make budgetary provisions for adjudication and valuation of assets to ensure a seamless process in the transfer of assets;
- iii. upon completion of the transfer and valuation, the Accounting Officer should prepare an updated asset register within 60 days of the adoption of this report and submit to the Auditor-General for verification;
- iv. the Governor ensures that the accounting officer prepares and submits a comprehensive annual disposal plan for all unserviceable, obsolete and surplus assets to the Auditor-General within sixty days of the adoption of this report; and
- v. the Accounting Officer ensures that the water company maintains an up-to-date asset register in accordance with section 149(2)(o) of the Public Finance Management Act Cap 412A and in the format prescribed by the Public Sector Accounting Standards Board (PSASB), failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply.

3. Long Outstanding Trading Payables

The statement of financial position and as disclosed in Note 36 to the financial statements reflects Kshs.60,211,007 in respect of trading payables. The amount includes payables amounting to Kshs. 22,938,777 which have been outstanding for more than a year.

In the circumstances, the accuracy and completeness of trading payables balance of Kshs. 60,211,007 could not be confirmed.

Management Response

The company has been grappling with non-cost recovery tariff which has hindered payment of the debts by the company on time. The company has a new tariff and efforts are underway to clear the outstanding debts.

The Company is addressing the outstanding payables progressively by making payments to the suppliers for the goods and services offered. The company progressively has paid Kshs 9,883,043 as at December 2025 and the company commits to clear the bills by the close of June 2026.

Further the company has put in place mechanisms to ensure that procurement for good and services within this financial year is matched to the revenue raised during the year to forestall unreasonable increase in payables, this is anchored in the company's Performance Contract with the County Government of Nyeri.

Committee Observation

The Committee observed that the water company had payables amounting to Kshs. 22,938,777 which have been outstanding for more than a year.

Committee Recommendation

The Committee recommends that-

- i. within sixty (60) days of the adoption of this report, the Accounting Officer engages the relevant entities to formulate a repayment plan for the payables and file a report on the same with the Auditor-General for verification. The Auditor-General to provide a status update on the matter in the subsequent audit cycle;
- ii. the Governor ensures that the management of the water company develops a repayment plan of the payables to Kshs. 22,938,777 and submit it to the Senate within 60 days of the adoption of this report;
- iii. the Governor to ensures the water company makes budgetary provision to clear the outstanding payables by the end of the FY 2026/2027 and provide a status update to the Senate within 60 days of the adoption report; and
- iv. the Governor ensures that the County Executive Committee Member in charge of water continuously monitors the financial performance of the water company in line with section 184 of the Public Finance Management Act, 2012 and report on the same to the County Executive

Committee, making recommendations on how the water company can improve its performance.

4. Other Matter: Unresolved Prior Year Matters

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

- a) Property Plant and Equipment not in Financial Statements: Available information indicates that the Company inherited non-current assets including land and buildings from the defunct Tana Water Services Board. However, the assets have not been incorporated in these financial statements.

Management Response

The company has in its possession and care two categories of assets for operation, these are:

- Assets developed using internally generated funds and direct investment from stakeholders of the company; In this case the company recognizes these assets in its books.

Assets developed by Tana Water Services Board (now known as Tana Water Works Development Agency-TWWDA) and handed to the company for use via Service Provision Agreement (SPA) as per Water Act 2002. These assets are described by way of a note in the financial statements as they are presumed to be accounted for in the books of TWWDA as its assets

The service provision agreement provides the following in regard to assets handover between the company and the TWSB.

CLAUSE 1.2(C); "The agreement provides for temporarily handover of the operations, functions and possession of the fixed assets used by the licensee or which the license upon otherwise been able to obtain the use of, to the service provided and all such assets shall be conveyed back to the licensee on the expiry of this agreement...."

CLAUSE 5.1(E) to maintain the assets in good working order and not to dispose any assets without the authorization of the Licensee...

CLAUSE 11.2; the licensee shall be responsible for rehabilitation, renewal, and extension to the facilities, the cost of which shall be for the Licensee's account.

- b) Lack of Ownership Documents: the property, plant and equipment balance includes motor vehicles/cycles valued at Kshs. 715,853. Review of the records in support of this amount revealed that the company operates three (3) motorcycles and seven (7) motor vehicles of unknown value that were not registered in its name.

Management Response

The Company operates two categories of automobiles as follows:

- Motor Bikes bought and fully owned by the company:-For these assets we disclosed to the auditors all the logbooks hence the matter is now cleared.
- The Vehicles and motorbikes that were in use by the company prior to Devolution under the water Act of 2002.

-The vehicles are part of the asset handed over via SPA and still fully owned by the National government through Tana Water Works Development Agency.

The management has availed logbooks for the assets in operations of the company but still under the ownership of the Tana Water Works Development Agency.

- c) Bill of customers with Estimates; The statement of profit or loss and other comprehensive income reflects operating revenue amount of Kshs. 177,171,816 in respect of operating revenue and as disclosed in Note 6 to the financial statements. Audit review of the customer billing records revealed a customer base of 27,389 as per the Company's water meter inventory. Out of these, 21,915 water meters were active, while the balance of 5,474 were either terminated, dormant or had been disconnected. However, an analysis report of 21,915 active customers indicated a total number of connections of 2,142, were unbilled customers.

Management Response

The circumstances under which estimate bills come about are as follows:

- Illegible meters (obstructed meters), stuck meters, abnormal consumptions, customer gate locks, and cases of fierce dogs within the customer premises. The bills for the 2,142 cumulatively out of the total bills sent in the year to customers were estimated due to the factors stated above. The estimated bills are corrected in the subsequent meter reading cycle where the actual readings once recorded adjust against the period the estimate bill was recorded and the customers get updated on the same via sms.
- In addition to help mitigate on the number of estimate bills the company is taking the following measures: Continuous engagement of the affected consumers on a case by case basis including request for meter readings images, and relocation of meters to accessible points.

- d) Movement of Conditional Liquidity Grants to Deferred Income without Approved Budget; The statement of profit or loss and other Comprehensive income as at 30 June, 2024 reports revenues of Kshs. 198,896,947. Included in the amount are conditional liquidity grants of Kshs. 248,776 which were balances from the original grants of Kshs. 9,951,039 resulting in the difference of Kshs. 9,702,263 which were moved to deferred income and were not supported by approved income and expenditure budget for each project. In addition, the management had failed to demonstrate that the deferred income recognized in the financial statements is as a result of actual revenues received being in excess of the approved income budget and work plan for each project in the year under consideration to warrant the accounting treatment recorded in the books of account.

Management Response

- The company undertook the review of the subsequent budget to accommodate conditional liquidity grant to deferred income and necessary approval made.
- e) Non-compliance with Budget Process Deadlines: The Company's budget for the financial year 2023/2024 was approved during a Board of Directors meeting held on 5 May, 2023 contrary to Regulation 30(8) of the Public Finance Management (Water Sector) Regulations of 2015. Budget estimates ought to have been submitted by 28 February 2023 to allow consolidated and final annual budgets to be submitted to the relevant authorities by 30 April 2023.

Management Response

- The company was late in budget approval in the 2023-24FY but has since reviewed the budget preparation timelines to comply with the legal provisions of PFM Act and to align with the government budget cycle in the 2024-25FY.
- f) Unbalanced Budgets: The statement of comparison of budget and actual amounts for the year ended 30 June, 2024 reflects Kshs. 198,082,149 in respect to the final revenue budget against the final expenditure budget of Kshs.233,742,180 resulting in a budget deficit of Kshs. 38,806,061. Contrary to Section 31(c) of the Public Finance Management (County Government) Regulations, 2015, which provides that budgeted revenue and expenditure appropriations shall be balanced?

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

Management Response

- The management noted the gap in the 2023-24 FY and took measures to prepare balanced budgets in subsequent 2024-25 budget cycle.

Committee Observation

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

Committee Recommendation

The Committee recommends that—

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

5. Non-Revenue Water

The financial statements reflect Kshs. 251,057,020 in respect of operating revenue as disclosed in Note 6. Included in this amount is water sales of Kshs. 230,361,267. During the financial year the Company produced 6,990,634m³ of water out of which only 2,966,813m³ was billed to customers, leaving a balance of 4,023,821m³, which represent approximately 43% of the total volume of water produced, as Non-Revenue Water (NRW). The Non- Revenue Water of 43% is over and above the allowable loss of 25% set by Water Services Regulatory Board guidelines.

In the circumstances, the high non-revenue water may have contributed negatively on the profitability of the Company, its ability to sustain the service and may lead it to rely on the County Government for grant support.

Management Response:

The company has about 1,450km of pipeline network that is old, dilapidated and that has exceeded its design life. This state of the pipeline network is the main reason for the high NRW. The most sustainable solution to curbing the NRW is by asset renewal through investments. There are two ways towards this investment:

- a) Financing through the Tariff
- b) External support from other actors/donors

The newly approved tariff accommodates investment in asset renewal over the five-year period. Additionally, we have raised our ability as a company to attract external support by making viable proposal to potential donors and received support as follows:

- a) Ongoing rehabilitation of 4km DN200 Kihome line from the treatment works to Kihome tank implemented by Tana Water Works Development Agency (TWWDA).
- b) Completed rehabilitation of 36.5Km in Karundu, Ngamwa and Mutundu pipelines of various sizes done by Tana Water Works Development Agency (TWWDA).
- c) Ongoing rehabilitation of 33km pipelines of various pipeline sizes in Othaya and Mukurwe-ini urban areas under the Conditional Liquidity Support Grant (CLSG II) financed by WSTF.
- d) Ongoing rehabilitation of 27km pipelines of various diameter in Rugi Ward, 25km in Wahari-Karaba-Mutonga areas of Gikondi ward financed by WSTF.
- e) Partnership between the company, WSTF and Gatsby Africa to carry out Commercial Viability and sustainability turn-around to enhance the company's staff capacity on NRW reduction.
- f) Completed rehabilitation of 11.78Km Chinga, 10km Gikondi and 3.6km Mukurwe-ini central water pipelines of various sizes funded by the Nyeri County Government.
- g) Allocation of staff to District Metered Areas (DMAs) for ease of NRW management
- h) Enhanced repairs of burst by adopting technologies (KOBO collect) to map the bursts and hence this will guide in identifying pipelines which needs priority attention for replacement/rehabilitation purposes.

Our area is prone to mudslides. These mudslides also contribute to pipeline bursts.

We Engaged the ministry of mining blue economy and maritime affairs to assist in landslide susceptibility mapping. This will help us to identify areas that are prone to landslides and therefore reroute our pipelines. This will help to reduce the number of burst that usually occur when a landslide happens.

Cumulatively the above interventions targets to replace 101km out of the total company network of 1450Km at a total cost of Kshs83.2Million. The last mile works described above once completed will have a significant effect on reduction in NRW in the financial year 2026-27 and mainly the physical component of NRW reduction.

For the Commercial component of NRW reduction that is caused by meter inaccuracies, stalled customer meters and illegal water connections by consumers, the company has taken the following measures to curb the losses;

- a) Use of Water Police Unit to follow up on cases of reported water theft and vandalism of the water infrastructure.
- b) Ongoing construction of 3500 cubic meter per day Water treatment facility at Kaharo in Othaya in a bid to reduce the silt in the water supplied hence eliminate meter blockage due to silt and hence enhance billing accuracy.
- c) Adoption of mobile phone based meter reading ERP to enhance accuracy of readings
- d) Procurement of 8,600 meters for replacement of aged and faulty meters financed by WSTF.
- e)

Customer Identification Survey involving mapping of consumer connections and identification of areas of potential investment.

Committee Observation

The Committee noted that the water company had Non- Revenue Water(NRW) amounting to 43% of total production(4,023,821m³) which was above the allowable loss of 25% set in guidelines issued by the Water Services Regulatory Board (WASREB).

Committee Recommendation

The Committee recommends that—

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

6. Lack of Staff Ethnic Diversity

Review of the Company's Board of Directors composition revealed that all the nine (9) Board members were from the same ethnic community. Further, review of the staff records presented for audit revealed that out of one hundred and thirty-seven (137) members of staff, 93% were from the dominant ethnic community, contrary to Section 7(2) of the National Cohesion and Integration Act, 2008, which provides that no public establishment shall have more than one third of its staff from the same ethnic community.

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

Management Response

The Company is committed to promoting diversity and inclusion in all our hiring practices. As part of the enhancement of equal opportunity for all, we advertise all job openings in newspapers with National wide coverage and the company website, (www.omwasco.go.ke), making the positions accessible to individuals from all regions of the country. In our latest advertisement, we also placed the advert on the County Government of Nyeri website. The management has been explicitly stating in the advertisements that OMWASCO PLC is an equal opportunity employer to affirm our commitment to non-discrimination.

All applicants who meet the minimum qualifications are shortlisted, and invited for interviews. The final selection is based on the candidates' performance during the interview process, ensuring transparency and fairness throughout.

Committee Observation

The Committee noted that the water company 93% of the employees were from the dominant community.

Committee Recommendation

The Committee recommends that—

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

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

7. Non-Compliance with Law on Gender Balance

Review of the Company's Board of Directors composition revealed that six out of the nine Board members or approximately 67% were male and only three members were female. Further, review of the Human Resource files maintained at the Company revealed that the staff composition comprised of 74% male and 26% female contrary to Article 27 (6) of the constitution which provides that, the State shall take legislative and other measures to implement the principle that not more than two-thirds of the members of elective or appointive bodies shall be of the same gender.

Management Response

The company is taking the following steps to close the gender gap.

- i. At the top most level of the Board of Directors, we have over the years moved towards closing the gender gap. We will strive to enhance further compliance in the next recruitment of Directors.
- ii. At the senior management level comprised of five Managers, two are female while the male are three hence the company is compliant.
- iii. At the Junior level, the Water sector generally attracted more males through the plumbing courses in the past hence we ended up with more men as plumbers. This is changing and we now have more women taking up water plumbing courses. The Management commits to deliberately make an affirmative action to recruit more ladies in future job openings to close this gap.

Committee Observation

The Committee noted that 67% of employees were male and only three members were female.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures that the Board and the accounting officer make deliberate efforts to progressively comply with section 65 of the County Governments Act, 2012 which provides that at least thirty percent 30% of the vacant posts at entry level be filled by candidates who are not from the dominant ethnic community; and
- ii. the Governor ensures that the Board and the accounting officer make deliberate efforts progressively in the endeavor to comply with Section 7 (1)

and (2) of the National Cohesion and Integrity Act, 2008, which requires that public establishments shall seek to represent the diversity of the people of Kenya in employment of staff.

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

The Governor of Nyeri County, Hon. Mutahi Kahiga appeared before the Committee on Thursday, 29th January 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Tetu Water And Sanitation Company Limited financial year 2024/2025. The Governor was accompanied by:

- | | |
|-----------------------------|-------------------------|
| 1. Ms. Margaret W Macharia | - Ag. CECM Finance |
| 2. Mr. Stephen Kioni Mwangi | - Chief Officer Finance |
| 3. Mr. Kimani Rucuiya | - County Attorney |

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered **qualified opinion** on the Financial Statements of the Tetu Water And Sanitation Company Limited for the period under review on the following basis-

1. Long Outstanding Trade Receivables

The financial statements reflect trade receivables of Kshs. 52,853,960, which includes receivables totaling Kshs. 34,846,326 that have been outstanding for a long period and appear unrecoverable.

Management Response:

The Management stated that;

The management is implementing a debt management policy.

- Efforts are underway to engage customers to embrace new tariffs.
- A debt management committee has been established to provide guidance on recovery.

Committee Observation

The Committee observed that the water company had trade receivables amounting to Kshs. 52,853,960 had been outstanding. Further, the Committee observed that no evidence had been provided to the Auditor-General to show any efforts to recover the overdue debt, which is contrary to Section 83(2)(f) of the Public Finance Management (County Governments) Regulations, 2015.

Committee Recommendation

The Committee recommends that—

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

2. Unsupported Provision for Disputed Receivables

The gross receivables balance includes Kshs. 19,853,586 deducted as a provision for disputed receivables without an approved policy to support such deductions. There were no details regarding the disputing parties or reasons why these amounts were considered disputed.

Management Response

These debts were inherited from the Ministry of Water, and the company is unable to trace the specific customers. The company proposed to write off 100% of these debts as per the debt policy.

Committee Observation:

The Committee observed that there are currently no records to show management's efforts to recover these debts before resolving to write them off.

Committee Recommendation

The Committee recommends that the Governor ensures that before any write-off is finalized, the Accounting Officer must demonstrate the measures implemented to trace debtors and enforce recovery and any irrecoverable debts must be written off only with Board approval and in strict compliance with Section 130 (2) (d) of the PFM (County Governments) Regulations, 2015.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

1. High Non-Revenue Water (NRW)

During the financial year, the company produced 177,356 cubic meters (M3) of water, but only 117,055 (M3) was billed to customers. This resulted in 34% Non-Revenue Water, which exceeds the allowable threshold set by WASREB guidelines.

Management Response

NRW is being addressed through pipeline rehabilitation, upgrading infrastructure, and the establishment of a dedicated Non-Revenue Water unit. The company is implementing a metering policy, network zoning, and data monitoring.

Committee Observation

The Committee observed that the water company had NRW of 34%.

The Committee recommends that—

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

OTHER MATTERS

Unresolved Prior Year Matters

Several issues from prior years—including long outstanding receivables, payables, high NRW, and non-compliance with the National Cohesion and Integration Act—remain unresolved.

Management Response

The recurring receivables are attributed to the introduction of new tariffs. Management continues to implement sensitization and awareness campaigns.

Committee Observation

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

Committee Recommendation

The Committee recommends that—

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

CHAPTER TWO: MUNICIPALITY

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

The Governor of Nyeri County, Hon. Mutahi Kahiga appeared before the Committee on Thursday, 29th January 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the municipality of Nyeri financial year 2024/2025. The Governor was accompanied by:

1. Ms. Margaret W Macharia - Ag. CECM Finance
2. Mr. Stephen Kioni Mwangi - Chief Officer Finance
3. Mr. Kimani Rucuiya - County Attorney

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered **Unqualified opinion** on the Financial Statements of the municipality of Nyeri for the period under review on the following basis-

Emphasis of Matter

Budgetary Control and Performance

The Statement of Comparison of Budget and Actual amounts reflects an actual revenue of Kshs 118,435,184 against an original budget of Kshs 215,315,893 resulting in an under-funding of Kshs 96,880,709 or 45% of the budget. Similarly, the statement reflects actual expenditure of Kshs 91,029,377 against an actual revenue of Kshs 118,435,184 resulting in an under-absorption of Kshs 27,405,807 or 23%.

The under-funding and under-absorption affected the planned activities and may have impacted on service delivery to the residents of the Municipality.

Management Response

The under-collection and under-utilization of the budget was primarily due to the non-disbursement of expected donor funds under the Kenya Urban Support Program (KUSP II). The Municipality had budgeted for an Urban Development Grant (UDG) amounting to Kshs 64,823,519, but these funds were not received by the close of the financial year.

Furthermore, the Municipality faced challenges in the full absorption of the Urban Institutional Grant (UIG) due to delays in the procurement processes for specialized consultancy services. The unspent funds have been carried forward to the 2025/2026 financial year through the supplementary budget to ensure all planned projects are completed.

Committee Observation

The Committee observed that there was under-funding of Kshs 96,880,709 or 45% of the budget.

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; and
- ii. the National treasury should ensure timely disbursement of funds to counties in accordance with the disbursement schedule passed by the Senate.

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 –

Lack of Operational and Financial Autonomy

Review of documents provided for audit revealed that the Municipality lacks both operational and financial autonomy in several key areas, including budget implementation, staff management, Board operations and expenses, and revenue management. Approvals and directives relating to these functions are often issued by the County Executive, thereby limiting the Municipality's ability to execute its mandate effectively and efficiently. Although an administrative framework exists to support the autonomous functioning of the Municipality, key administrative activities are yet to be formally transferred to the entity by the County Government. This is contrary to Section 21(1)(a) of the Urban Areas and Cities Act, 2011 which gives Municipality Boards executive authority as delegated by County Executives.

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

Management Response

The County Government of Nyeri acknowledges the audit observation regarding the operational and financial autonomy of the Municipality. The county remains committed to the principles of devolution and continues to implement the transfer of functions in accordance with the Urban Areas and Cities Act (UACA). Key statutory requirements

have been addressed, including the establishment of the Municipal Board, the transfer of functions such as solid waste management and routine infrastructure maintenance, and the provision of a municipal budget. In addition, the Nyeri Municipality has met the applicable minimum conditions under the Kenya Urban Support Programme during the implementation period which is noted as a key milestone in the continued strengthening of municipal governance and systems.

The Municipality operates as an agency of the County Government of Nyeri with functions being undertaken within the approved legal and institutional framework. The transfer of functions is being implemented on a phased basis to ensure alignment with public finance management requirements.

Committee Observation

The committee observed that the Municipality was financed solely through donor and County Government funding.

Committee Recommendation

The Committee recommends that-

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

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

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

1. Weaknesses in the Internal Audit Function

Review of information provided for audit revealed that Nyeri Municipality did not have any internal audit reports for the period under review. Consequently, continuous monitoring and evaluation of internal controls by the internal audit function were not undertaken during the year. In addition, the Board Committee responsible for Audit, Governance, and Risk was not furnished with any internal audit reports for consideration and oversight. In the circumstance, the existence and effectiveness of the internal controls system could not be confirmed.

Management Response

Internal audit activities for the year under review were conducted at County level, with the Municipality audited as part of the County Executive rather than as a standalone entity.

To strengthen internal controls and enhance oversight at municipal level, an Internal Auditor was deployed to the Nyeri Municipality and continues to conduct municipality specific internal audit assignments.

Committee Observation

The Committee observed that the Hospital operated without an Audit unit.

Committee Recommendation

The Committee recommends that the Governor ensures the board of management of the Hospital puts in place all internal control systems such as the Internal Audit unit as provided under section 155 (5) of the Public Finance Management Act, Cap. 412A among others to guide the internal operations of the Hospital. Further, the County Executive Committee Member (CECM) - Finance to submit evidence of the same to the Auditor General for verification.

2. Lack of Fraud Management Policy

During the year under review, Nyeri Municipality did not have a risk management policy or strategy in place to mitigate operational, legal and financial risks. Further, the Management did not have in place a disaster recovery plan. This was contrary to Regulation 158 of the Public Finance Management (County Government), Regulations 2015. In the absence of a risk management policy, the Management would face

challenges in identifying individual risks, significant areas, likelihood of occurrence of identified risks and the appropriate control measures to be implemented.

Management Response

At the time of audit, Nyeri Municipality operated under the County Government of Nyeri Risk Management Framework in its capacity as an agent of the County Government, accordance with the Urban Areas and Cities Act and county governance structures in The Municipality aligned its operations to this framework and has initiated a phased and consultative process to develop a Municipality-specific Risk Management Policy. The process is ongoing, with compliance ensured through the County framework.

Committee Observation

The Committee observed that the Hospital operated without an Audit unit.

Committee Recommendation

The Committee recommends that the Governor ensures the board of management of the Hospital puts in place all internal control systems such as the Fraud Management Policy as provided under section 155 (5) of the Public Finance Management Act, Cap. 412A among others to guide the internal operations of the Hospital. Further, the County Executive Committee Member (CECM) - Finance to submit evidence of the same to the Auditor General for verification.

3. Lack of Risk Management Policy

During the year under review, Nyeri Municipality did not have a risk management policy or strategy in place to mitigate operational, legal and financial risks. Further, the Management did not have in place a disaster recovery plan. This was contrary to Regulation 158 of the Public Finance Management (County Government), Regulations 2015.

In the absence of a risk management policy, the Management would face challenges in identifying individual risks, significant areas, likelihood of occurrence of identified risks and the appropriate control measures to be implemented.

Management Response

At the time of audit, Nyeri Municipality operated under the County Government of Nyeri Risk Management Framework in its capacity as an agent of the County Government, accordance with the Urban Areas and Cities Act and county governance structures.

Committee Recommendation

The Committee recommends that —

- i. **the Governor ensures the Board of Management ensures that the hospital puts in place all internal control systems such as a Risk Management Policy as provided under section 158 (1) of Public Finance Management (County Governments) Regulations, 2015 among others to guide the internal operations of the water company. Further, the managements to submit evidence of the same to the Auditor General for verification; and**
- ii. **the Auditor-General to verify during the subsequent audit cycle.**

4. Irregular Payment of Claims/ Payment of Travel Allowances Outside Imprest System

Review of records provided for audit revealed that the entity's management made payments to various members of staff totaling to Kshs 1,512,139 through refunds/claims made by the officers undertaking various activities outside the County headquarters. The payments were direct payments to their bank accounts without proper imprest application and approval via imprest warrants as analyzed in the sample below. This was contrary to the provisions of Regulation 91(2) and 93(4) of the Public Finance Management (County Governments) Regulations, 2015, on the management of temporary imprest. In the circumstances, the existence and effectiveness of an imprest system that enhances accountability could not be confirmed.

Management Response

Management acknowledges the audit observation regarding the use of the claims process for payment of officers. Due to delays in the processing of imprest and fund requests, payments were in certain instances effected through duly supported claims to avoid disruption of approved activities. This practice does not contravene Section 51(1)(a) and (c) of the Public Finance Management (County Governments) Regulations, 2015, as all activities are approved prior to execution. Management ensures that each activity is supported by an official authorization memo detailing the nature of the activity and the associated budgetary implications.

Committee Observation

The Committee observed that the municipality contravened of Regulation 91(2) and 93(4) of the Public Finance Management (County Governments) Regulations, 2015, on the management of temporary imprest.

Committee Recommendation

The Committee recommends that the Governor ensures that the municipality adheres to Regulation 91(2) and 93(4) of the Public Finance Management (County Governments) Regulations, 2015, on the management of temporary imprest.

CHAPTER THREE: HOSPITALS

3.1 REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR KARATINA SUB-COUNTY LEVEL 4 HOSPITAL FOR THE FINANCIAL YEAR 2024/2025

The Governor of Nyeri County, Hon. Mutahi Kahiga, appeared before the Committee on Monday, 16th February, 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Karatina Sub-County Hospital for the Financial Year 2024/2025. The following officers accompanied the Governor—

1. CECM Finance, Nyeri County
2. Chief Officer, Department of Health
3. Medical Superintendent, Karatina Sub-County Hospital

REPORT ON THE FINANCIAL STATEMENTS

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

1. Unsupported Property, Plant and Equipment

The statement of financial position and Note 17 to the financial statements reflects property, plant and equipment balance of Kshs. 10,140,236 which includes ICT equipment, plant and medical equipment that were acquired in the year under review. However, in spite of the Hospital owning various assets of undetermined value which include land and buildings, specialized and non-specialized medical equipment, furniture and fittings, motor vehicles, ICT equipment and intangible assets, the ownership documents for land and motor vehicles were not provided for audit. In the circumstances, the accuracy, completeness and ownership of the property, plant and equipment balance of Kshs. 10,140,236 could not be confirmed.

Management Response

- The Hospital owns various assets inherited from National Government and defunct Local Authority; however, the ownership has not been transferred to the Hospital. The County Government of Nyeri in collaboration with the Intergovernmental Relations Technical Committee (IGRTC) and the department of lands and physical planning have embarked on the exercise of asset verification, ownership documentation and transfer to enable the process of valuation of the said assets (land and motor vehicles). The completion of the process will aid the management to include the asset values in future financial statements.

Committee Observation

The Committee observed that-

- i. The accuracy, completeness, and ownership of the property, plant and equipment balance of Kshs. 10,140,236 could not be confirmed as ownership documents for land and motor vehicles were not provided for audit.
- ii. The absence of ownership documents for land and motor vehicles underscores a significant governance gap, particularly given that these assets were inherited from the National Government and defunct Local Authority without formal transfer to the Hospital.
- iii. The absence of progress updates on the IGRTC collaboration and the Department of Lands and Physical Planning's asset verification, documentation, and transfer process casts doubt on the efficacy of these efforts.
- iv. This issue not only impairs financial reporting integrity but also exposes public assets to risks of mismanagement, disputes, or undervaluation, potentially undermining service delivery at the Hospital.

Committee Recommendation

The Committee recommends that—

- i. **the Governor expedites the asset verification, ownership documentation, and transfer process for all Hospital assets in collaboration with IGRTC and the Department of Lands and Physical Planning, with a firm deadline of 31st December 2026, while providing quarterly progress reports to the Senate;**
- ii. **the Governor, through the CECM responsible for matters of health, engages with the Ministry of Health of the National Government and IGRTC to ensure the transfer of ownership documents of land, buildings and motor vehicles is fast-tracked and completed within sixty (60) days of the adoption of this report;**
- iii. **the Governor ensures that the management of the hospital undertakes the valuation of all assets and submits the valuation report to the Auditor-General for verification during the subsequent audit cycle;**
- iv. **upon completion of the transfer and valuation, the Accounting Officer should prepare an updated asset register and submit to the Auditor-General for verification, failure to which the provisions of Section 199 of the Public Finance Management Act, Cap. 412A on penalties for offences shall apply; and**
- v. **the Governor, through the Accounting Officer ensures that the hospital maintains an up-to-date asset register in accordance with section 149(2)(o) of the Public Finance Management Act Cap 412A and in the format prescribed by the Public Sector Accounting Standards Board (PSASB), failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply.**

2. Unsupported Depreciation and Amortization

The Statement of Financial Performance reflects Depreciation and Amortization balance of Kshs. 2,071,537 for the year ended 30th June 2025 as disclosed in Note 10 to the financial statements. However, this significant accounting charge lacks a foundational basis for its calculation, as the entity has not developed or formally adopted a documented depreciation policy. This omission means that the methods (e.g., straight-line or reducing balance), useful lives assigned to different asset classes, and residual values (if any) are not defined, approved, or disclosed. In the circumstances, the accuracy and completeness of the depreciation and amortization balance of Kshs. 2,071,537 could not be confirmed.

Management Response

In the absence of an established hospital guideline, the management relied on the public sector accounting guideline on asset and liability management in the public sector in applying depreciation. The management has embarked on developing a hospital-specific guideline as guided by the county asset and liability management policy and procedure manual.

Committee Observation

The Committee observed that-

- i. The entity has not established, formally documented, or adopted a depreciation policy, thereby undermining the reliability and verifiability of the Kshs. 2,071,537 depreciation and amortization charge reported.
- ii. This exposes the hospital to risks of material misstatement, audit qualifications, and non-compliance with Section 68 of the Public Finance Management Act, 2012 on accurate financial reporting.
- iii. Management has commenced the process of developing a hospital-specific depreciation guideline; however, no completed policy was provided to the Committee.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures that the Management prioritizes the development, approval by the Board, and adoption of a comprehensive depreciation policy aligned with the county's asset and liability management manual, IPSAS 17, and best practices for public health entities, within sixty (60) days of adoption of this report;

- ii. the Accounting Officer ensures that all future financial statements disclose the depreciation policy applied, the useful lives assigned to asset classes, and the methods used in accordance with IPSAS 17; and
- iii. the Auditor-General reviews the implemented policy in the subsequent audit cycle and reports on compliance to the Committee.

3. Long Outstanding Receivables

The statement of Financial Position reflects receivables from exchange transactions balance of Kshs. 64,586,377 as disclosed in Note 15 to the financial statements. However, the receivables debt amounting to Kshs. 25,214,422 which relates to the defunct National Health Insurance Fund (NHIF) have been outstanding for more than two years. In the circumstances, the validity, accuracy and completeness of the long outstanding receivables amount of Kshs. 25,214,422 could not be confirmed.

Management Response

In the transition from NHIF to SHA, the debt has never been settled. In consultation with the department of health, the hospital has taken measures to follow up on payment of the outstanding debts as a consolidated amount for all county hospitals through the office of the Chief Officer. The management is optimistic that the receivables will be settled as a whole for all the county hospitals.

Committee Observations

The Committee observed that-

- i. The Statement of Financial Position reported receivables from exchange transactions totalling Kshs. 64,586,377, including Kshs. 25,214,422 outstanding for over two years from the defunct National Health Insurance Fund (NHIF).
- ii. Management has not provided concrete evidence of recovery measures beyond general engagement through the Chief Officer's office, raising concerns about the recoverability of these long outstanding amounts.
- iii. The failure to recover these amounts adversely impacts the Hospital's ability to procure medicines, settle supplier dues, and maintain essential services.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures the Hospital Management fast-tracks the coordinated recovery process with the Social Health Authority (SHA) for the historical NHIF receivables and provides a definitive recovery plan with timelines to the Senate within sixty (60) days of adoption of this report;

- ii. the Accounting Officer maintains a detailed aging analysis of all receivables and submits the same to the Auditor-General within 60 days of adoption of this report for verification; and
- iii. the Governor engages the Ministry of Health at the National level on the consolidated NHIF to SHA receivables transition outstanding amount and reports progress to the Senate within sixty (60) days of adoption of this report.

4. Misclassification of Medical and Clinical Expenses

The statement of financial performance reflects Medical and Clinical costs expenses balance of Kshs. 92,054,357 as disclosed in Note 7 of the financial statement. Included in this amount is a balance of Kshs. 29,533,994 which was misclassified. Specifically, Medical Drugs-Emergency Drugs of Kshs. 14,689,097, Dressings and Other Non-Pharmaceutical items of Kshs. 10,919,704, and Laboratory Materials and Supplies of Kshs. 3,925,193 were classified under clinical costs instead of Grants and Subsidies. In the circumstances, the accuracy and completeness of the Medical drugs balance of Kshs. 92,054,357 could not be confirmed.

Management Response

In preparation of the financial statement, the management relied on the revised template by PSASB for Level 4 and 5 Hospitals that guides on classification of such Clinical Expenses and In-Kind Contributions.

Committee Observation

The Committee observed that-

- i. The Statement of Financial Performance reported medical and clinical expenses totalling Kshs. 92,054,357 which included Kshs. 29,533,994 misclassified as clinical costs rather than Grants and Subsidies.
- ii. This misclassification distorted expense reporting, impaired the accuracy and completeness of the medical expenses balance, and contravened PSASB templates for Level 4 and 5 hospitals, as well as IPSAS 1 on presentation of financial statements.
- iii. Management's response that it relied on the PSASB template does not adequately justify the misclassification, as the template clearly distinguishes between clinical costs and grants and subsidies.

Committee Recommendation

The Committee recommends that—

- i. the Governor directs the Hospital Management to always prepare financial statements strictly as guided by the Public Sector Accounting Standards Board (PSASB) template, ensuring proper classification of all expenditure lines;
- ii. the Accounting Officer corrects the misclassification through a prior year adjustment in the Financial Year 2025/2026 statements and submits the corrected statements to the Auditor-General for verification; and
- iii. the Governor ensures that finance officers responsible for financial statements preparation undergo capacity building on PSASB classification guidelines, failure to which the provisions of Section 199 of the Public Finance Management Act, Cap. 412A on penalties for offences shall apply.

5. Unsupported Rendering of Services – Medical Service Income

The statement of financial performance reflects rendering of services – medical service income balance of Kshs. 219,850,738 for the year ended 30 June 2025 as disclosed in Note 6 to the financial statements. However, the exemptions balance of Kshs. 9,340,083 was not supported by schedules.

In the circumstances, the accuracy and completeness of medical services income of Kshs. 219,850,738 could not be confirmed.

Management Response

Exemptions are provided for all children under 5 years receiving services at the facility as per the County Waiver Guidelines. The Funsoft HMIS in use at the facility provides a consolidated list of items and services exempted by the Hospital but did not provide the list of patients and individual patient service cost incurred. A total of Kshs. 9,340,083 was exempted during the period as provided. The hospital has requested the developer to work on a detailed exemption report per patient for future consideration.

Committee Observation

The Committee observed that-

- i. The financial statements report medical service income of Kshs. 219,850,738 for the year ended 30 June 2025, but the exemption balance of Kshs. 9,340,083 lacks supporting schedules, casting doubt on the accuracy and completeness of the net figure.
- ii. Management has engaged the HMIS developer to provide a detailed exemption report per patient, but no such report was available at the time of audit.
- iii. The absence of supporting schedules for exemptions contravenes IPSAS 9 on Revenue from Exchange Transactions and undermines the reliability of revenue reporting.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures the Hospital Management consistently prepares financial statements in strict compliance with the standards and guidelines issued by PSASB, supported by comprehensive and verifiable documentation for all revenue categories including exemptions;**
- ii. the Accounting Officer ensures that all exemptions are documented with patient-level schedules and submitted to the Auditor-General during audit in compliance with Section 47(1) of the Public Audit Act, Cap. 412B; and**
- iii. the Governor ensures the HMIS system is upgraded to generate detailed per-patient exemption reports within ninety (90) days of adoption of this report.**

Emphasis of Matter

6. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs. 234,430,598 and Kshs. 120,949,635 respectively, resulting in underfunding of Kshs. 113,480,963 or 48% of the budget. In the circumstances, the underfunding implies that some of the budgeted services and goods may not have been achieved.

Management Response

Management wishes to clarify that the approved budget was Kshs. 139,675,463 and the actual performance was Kshs. 123,437,448 resulting in a performance of 88%. The difference was as a result of shortfall in revenue collection.

Committee Observation

~~The Committee observed that—~~

- i. Management disputed the audit figure, asserting an approved budget of Kshs. 139,675,463 with actual performance of Kshs. 123,437,448 (88% absorption), attributing the variance to revenue collection shortfalls.**
- ii. A discrepancy exists between the audited final receipts budget and management's approved budget, highlighting potential inconsistencies in budget reporting, revisions, or comparable basis adjustments under PSASB standards.**
- iii. The underfunding of planned services and goods, whatever the actual figure, adversely impacted service delivery to the public and requires urgent resolution of the budgetary reporting discrepancy.**

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures the Accounting Officer reconciles and resolves the discrepancy between the audited budget figure and management's stated approved budget and submits a reconciliation statement to the Auditor-General within 60 days of adoption of this report;**
- ii. the Governor ensures the hospital management prepares realistic budgets and revenue projections to avert issues of revenue shortfalls that negatively impact service delivery, in compliance with Paragraph 14 of IPSAS 24; and**
- iii. the Auditor-General reviews and confirms the correct budget figures in the subsequent audit cycle and reports to the Committee on the matter.**

3.2 REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR MT KENYA SUB-COUNTY HOSPITAL FOR THE FINANCIAL YEAR 2024/25

The Governor of Nyeri County, Hon. Mutahi Kahiga, appeared before the Committee on Tuesday, 16th February, 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Mt Kenya Sub-County Hospital for the Financial Year 2024/2025. The following officers accompanied the Governor—

CECM Finance, Nyeri County

Chief Officer, Department of Health

Medical Superintendent, Mt Kenya Sub-County Hospital

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a Qualified Opinion on the financial statements of Mt Kenya Sub-County Hospital for the financial year on the following basis—

1. Undisclosed Property, Plant and Equipment

The statement of financial position and as disclosed in Note 23 to the financial statements reflects property, plant and equipment balance of Kshs. 6,165,136. However, the Hospital sits on a parcel of land whose value has not been determined and disclosed in the financial statements. In addition, the ownership documents (Land title deed) for the land were not provided for audit verification. Further, the hospital operates two motor vehicles whose values were not disclosed in the financial statements and their respective logbooks were not provided for audit review. In addition, the Hospital owns furniture, fittings and office equipment whose values have not been determined and disclosed in the financial statements. In the circumstances, the accuracy, ownership and completeness of the property, plant and equipment balance of Kshs. 6,165,136 could not be confirmed.

Management Response

The process of acquiring a Title Deed for the parcel of land the hospital operates on is in progress. There is an ongoing process of transferring the logbooks for the two motor vehicles from the County Government to be under the ownership of the hospital. The valuation for the hospital fixed assets including furniture, fittings and office equipment is in progress. Challenges experienced include delays in valuation and gazettement of immovable assets, incomplete documentation and historical records, need for reconciliation between IGRTC inventory lists and county records, and budgetary constraints.

Committee Observations

The Committee observed that-

- i. The Committee observed the Property, Plant and Equipment omissions which cast doubt on the accuracy, ownership, completeness, and fair presentation of the PPE balance of Kshs. 6,165,136.
- ii. These deficiencies potentially expose the hospital to risks of asset misappropriation, inaccurate financial reporting, and non-compliance with the Public Finance Management Act, 2012, and IPSAS 17 on Property, Plant and Equipment.

Committee Recommendations

The Committee recommends that the Governor ensures that:

- i. The County Government, in collaboration with Hospital Management completes a comprehensive physical verification, valuation, and IPSAS-compliant disclosure of all Property, Plant and Equipment within ninety (90) days of adoption of this report;
- ii. the Governor expedites the acquisition of the land title deed through the National Land Commission (NLC) and Ministry of Lands processes with quarterly progress reports submitted to the Senate;
- iii. the management finalizes the transfer of the two motor vehicles' logbooks from the County Government to the Hospital within sixty (60) days of adoption of this report, ensuring full compliance with the PFM Act, 2012 (Sections 63–65) and the Land Registration Act, 2012; and
- iv. implements a fixed asset management policy aligned with IPSAS 17, including annual tagging, insurance, and reconciliation with IGRTC and NLC records, with a dedicated budget provision in the 2026/2027 fiscal year for valuation and documentation.

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. Failure to Insure Property, Plant and Equipment

The statement of financial position and as disclosed in Note 23 to the financial statements reflects property, plant and equipment (PPE) amounting to Kshs. 6,165,136. However, it was noted that the hospital has not insured its assets against risks such as

fire, theft, or other potential losses. In the circumstances, management was in breach of the law.

Management Response

This is due to budgetary constraints; resources are not adequate to meet competing needs of the hospital. However, as the Hospital progressively improves revenue collection, a budget will be set aside within the available fiscal space to insure hospital assets.

Committee Observations

The Committee observed that-

- i. The hospital's property, plant and equipment (PPE) valued at Kshs. 6,165,136 remain uninsured against key risks including fire, theft, and other potential losses.
- ii. This constitutes a clear breach of legal requirements for asset protection and exposes the hospital's critical infrastructure to significant financial and operational vulnerabilities.
- iii. The reliance on budgetary constraints as a justification is not sufficient given that insurance is a statutory requirement and a fundamental risk management obligation.

Committee Recommendations

The Committee recommends that—

- i. the Governor directs the Hospital Management to prioritize the insurance of all PPE, allocating dedicated funds from revenue collections or seeking supplementary budgetary support in the Financial Year 2025/2026 Budget; and
- ii. the Accounting Officer submits evidence of insurance coverage to the Auditor-General within sixty (60) days of adoption of this report for verification, failure to which the provisions of Section 199 of the Public Finance Management Act, Cap. 412A on penalties for offences shall apply.

3. Non-Compliance with Kenya Quality Model for Health Policy Guidelines

Review of services offered, equipment used and number of personnel at the Hospital revealed that the Hospital did not meet the requirements of Kenya Quality Model for Health Policy Guidelines due to staff deficits of five hundred and thirty-three (533) out of the required six hundred and three (603). Thus, Universal Health Coverage at the Hospital may not be delivered as envisioned. In the circumstances, the classification of the Hospital as a Level 4 Hospital may be irregular.

Management Response

Realizing Universal Health Coverage (UHC) remains a continuous journey whose pace is dictated by the availability of funds and structural constraints such as strict public sector wage limits and the challenge of replacing staff lost to natural attrition. The Department of Health has continuously been posting more officers to the hospital. The total number of staff was 67 as of 30th June 2025, but this number had increased to 80 as of December 2025. Some of the additional staff posted includes a general surgeon, a family physician, a medical officer, an anesthetist, a sonographer, a nurse anesthetist, and a clinical pharmacist. In terms of equipment, an ultrasound machine is now available and ultrasound services are offered. The department has procured an electrolyte analyzer, theatre sets, and theatre ceiling light on behalf of the hospital, with procurement of a new anesthetic machine in the pipeline.

Committee Observations

The Committee observed that-

- i. the Committee observes that there was significant non-compliance with the Kenya Quality Model for Health (KQMH) Policy Guidelines, stemming from a staff deficit of 533 out of the required 603 personnel;
- ii. the deficit of 523 personnel remains a critical impediment to full Level 4 service delivery and Universal Health Coverage.

Committee Recommendations

The Committee recommends that—

- i. within sixty (60) days of the adoption of this report, the Governor submits to the Senate a comprehensive plan outlining the specific measures being taken to address the hospital's staffing shortages. The measures should include both short-term and long-term solutions, focusing on optimizing existing resources, improving employee welfare, and ensuring sustainable staffing levels moving forward; and
- ii. the Governor allocates supplementary funding in the 2025/2026 budget for critical equipment including the anesthetic machine and other essential items required for Level 4 service delivery;
- iii. the Governor submits a comprehensive staffing and equipment augmentation plan to the Senate within sixty (60) days of adoption of this report, with quarterly progress reports on implementation;
- iv. within ninety (90) days of the adoption of this report, the Committee recommends that the Governor ensures the hospital develops and implements a comprehensive plan, with appropriate budgetary allocations,

to acquire and operationalize the required facilities and equipment to provide all services required for a Level 4 hospital. The Auditor-General should monitor progress and keep this matter under review in the subsequent audit cycle; and

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

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

Review of revenue records revealed that the hospital collected a total of Kshs. 33,384,597 towards health facilities improvements which was transferred to the County Revenue Fund. This was contrary to Section 5(1) of the Facilities Improvement Financing Act, 2023 which requires that monies raised or received by or on behalf of Public Health Facilities be retained by the Facility and be paid into a separate facility improvement financing account. In the circumstances, management was in breach of the law.

Management Response

According to the Facilities Improvement Financing Act, 2023, Section 29 under Part IV states that 'A county government may enact legislation to give further effect to the provisions of this Act in the respective county'. It is in this context that the hospital decided to continue using the existing Nyeri County Health Services Fund Act, 2021 and its Regulations. The Nyeri County Health Services Fund Regulation, 2021 stipulates that all revenue collected from the health facilities shall be deposited in the fund account; 80% shall be sent back to the collecting facility and 20% shall be utilized at the county level targeting rural health facilities.

Committee Observations

The Committee observed that-

- i. The Committee observes that while Nyeri County's Health Services Fund Act, 2021, and Regulations permit an 80/20 split (facility/county allocation), this practice raises concerns over full compliance with the national Facilities Improvement Financing Act, 2023.
- ii. The potential dilution of facility-level improvements and the need for alignment with devolved health financing principles under the Constitution and PFM Act, 2012 remain outstanding concerns.

- iii. Nyeri County has not yet formally harmonized its Health Services Fund Act, 2021 with the national Facilities Improvement Financing Act, 2023, creating legal uncertainty.

Committee Recommendations

The Committee recommends that—

- i. the Governor ensures that the Hospital immediately ceases the transfer of FIF revenues to the County Revenue Fund Account and complies fully with section 5 of the Facility Improvement Financing Act, Cap. 277;
- ii. the Governor ensures that the standing bank order facilitating the unauthorized transfers is cancelled immediately and evidence of cancellation submitted to the Senate within 30 days of the adoption of this report;
- iii. the Governor directs the County Department of Health and County Attorney to conduct a legal harmonization review within ninety (90) days to align the Nyeri County Health Services Fund Act, 2021 with the Facilities Improvement Financing Act, 2023, ensuring at least 80% retention at the facility level for improvements;
- iv. pending harmonization, the Governor ensures that the 80% facility-level retention is fully implemented and accounted for in line with the existing Nyeri County Health Services Fund Act, 2021 Regulations, and reports to the Senate within sixty (60) days of adoption of this report;
- v. the Governor ensures that all FIF funds improperly transferred to the County Revenue Fund are returned to the Hospital's FIF operational account within 30 days of the adoption of this report; and
- vi. the Auditor-General keeps the matter in view in the subsequent audit cycle and reports on compliance with the FIF Act, 2023.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

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

5. Failure to Establish an Internal Audit Function

Review of the Hospital's structure revealed that the hospital did not have an internal audit unit in place. This is contrary to Regulation 155(2) of the Public Finance Management (County Government) Regulations, 2015. In the circumstances, the

assurance on the effectiveness of internal controls and risk management could not be confirmed.

Management Response

Management understands the importance of periodic internal audit exercises which strengthen internal controls. However, the Internal Audit function is currently centralized at the County Headquarters – County Treasury, which houses the Internal Audit Department. The facility through the Chief Officer – Department of Medical Services and Public Health will liaise with the County Department of Finance and Economic Planning to ensure that periodic audits are performed and internal audit reports are prepared and acted upon on time.

Committee Observations

The Committee observed that-

- i. The Hospital lacks a dedicated internal audit unit, in contravention of Regulation 155(2) of the Public Finance Management (County Governments) Regulations, 2015.
- ii. Reliance on a centralized county-level function undermines timely assurance on internal controls, risk management, and financial integrity at the facility level, exposing operations to potential inefficiencies and irregularities.
- iii. Management has committed to liaising with the County Department of Finance for periodic audits, but no concrete timeline or implementation plan has been provided.

Committee Recommendations

The Committee recommends that—

- i. the Governor directs the County Treasury and Department of Health to establish a dedicated internal audit function at the Hospital within six months of adoption of this report; and
- ii. the Governor allocates budgetary resources in the 2026/2027 fiscal year to sustain this unit and ensure full compliance with Regulation 155(2) of the Public Finance Management (County Governments) Regulations, 2015.

6. Lack of Critical Policy Documents

Review of internal control measures in the Hospital revealed that the following policies were not in place as at the time of audit: Approved Training Policy/Program, Approved Business Continuity Plan, Approved Finance Manual/Policy, and Approved IT Security Policy. In the circumstances, the absence of critical policy documents inhibits the optimal performance of the hospital.

Management Response

The Hospital is guided by the Public Service Commission's Guidelines for Managing Training, the Hospital's Strategic Plan 2024-2027 and the Hospital Risk Management Policy document for business continuity, the broader national and county Finance policies and legal frameworks for finance management, and the Nyeri County Communications and Information Technology (ICT) Policy 2021 for IT security.

Committee Observations

The Committee observed that-

- i. The Committee observes that the absence of hospital-specific critical policy documents — including a dedicated Training Policy, Business Continuity Plan, Finance Manual, and IT Security Policy — inhibits optimal performance and undermines internal controls.
- ii. While management relies on broader county and national frameworks, the hospital requires tailored policies that address its specific operational context, risks, and service delivery obligations.
- iii. The absence of these policies contravenes governance best practices and regulatory requirements under the Public Finance Management Act, 2012.

Committee Recommendations

The Committee recommends that—

- i. the Governor ensures that the Hospital Management develops and approves the following tailored policies within three months of adoption of this report: (a) Training Policy/Program; (b) Business Continuity Plan; (c) Finance Manual/Policy; and (d) IT Security Policy; and
- ii. the Accounting Officer submits copies of all approved policies to the Auditor-General for verification within ninety (90) days of adoption of this report.

Other Matter

7. Unresolved Prior Year Matters

The progress on follow-up on auditor's recommendations section of the financial statements reflects that the following six (6) issues raised in the previous year's audit report remain unresolved as at 30 June 2025: (i) Inaccuracies in receivables from exchange transactions; (ii) Doubtful ownership and non-valuation of property, plant and equipment; (iii) Budgetary control and performance; (iv) Inadequacies in UHC as per Kenya Quality Model for Level 4 in terms of staffing, services and equipment; (v) Failure to provide the occupational, safety and health policy for the hospital; and (vi)

Idle laundry project. No satisfactory explanation was provided for the delay in resolving the issues.

Management Response

Management acknowledges that it is challenging to fully resolve most audit issues within a single financial year due to their complex and ongoing nature. Three issues did not re-surface in the FY 2024/2025 audit (receivables inaccuracies, budget underperformance, and OSH policy). The remaining three — PPE ownership, UHC inadequacies, and full laundry operationalization — remain unresolved. The laundry equipment was supplied but the power supply was not sufficient; a transformer house has since been constructed and the only remaining work is connecting it to the LV board and the laundry unit.

Committee Observations

The Committee observed that-

- i. While management's progress table claims resolution for four prior-year audit issues, only three did not re-surface in the 2024/2025 audit with no independent evidence provided for verification.
- ii. The remaining three matters- PPE ownership, UHC inadequacies, and full laundry operationalization remain unresolved, attributed to escalations, lobbying, and infrastructure delays lacking firm timelines or measurable outcomes.
- iii. The persistent unresolved prior year matters contravene PFM Act, 2012 requirements for timely resolution of audit queries and demonstrate the management's lack of urgency in implementing corrective measures.

Committee Recommendations

The Committee recommends that—

- i. the Governor ensures the Hospital Management implements the following time-bound actions: finalize PPE ownership documents and valuations within ninety (90) days as per prior recommendations; develop a staffing and equipment augmentation plan targeting 80% KQMH compliance by June 2026; and complete the laundry project's transformer connection with full operationalization within ninety (90) days, allocating budget for residual works;
- ii. the Accounting Officer resolves any issues resulting from an audit that remain outstanding in accordance with Section 149(2)(1) of the Public Finance Management Act, failure to which the accounting officer shall be in contempt of Parliament and the Committee may recommend administrative sanctions; and

iii. the Governor ensures the Accounting Officer submits a detailed status report on the mitigation measures taken to resolve all prior year matters within sixty (60) days of adoption of this report.

3.3 REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR MUKURWEINI SUB-COUNTY LEVEL 4 HOSPITAL FOR THE FINANCIAL YEAR 2024/25

The Governor of Nyeri County, Hon. Mutahi Kahiga, appeared before the Committee on Tuesday, 16th January, 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Mukurweini Sub-County Level 4 Hospital for the Financial Year 2024/2025. The following officers accompanied the Governor—

1. CECM Finance, Nyeri County
2. Chief Officer, Department of Health
3. Medical Superintendent, Mukurweini Sub-County Level 4 Hospital

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified Opinion** on the financial statements of Mukurweini Sub-County Level 4 Hospital for the financial year on the following basis—

1. Valuation of Assets

The statement of financial position reflects property, plant and equipment (PPE) balance of Kshs. 160,281,995 as disclosed in Note 32 to the financial statements. The management did not provide a valuation report from a recognized and qualified valuer to support the stated value of the assets. In the circumstances, the accuracy and completeness of the PPE balance of Kshs. 160,281,995 could not be confirmed.

Management Response

The management in consultation with the county department of Lands, Physical Planning, Housing and Urban Development is planning to do valuation of all the hospital assets. The management acknowledges the importance of asset valuation, but due to competing demands of purchasing essential medical supplies the management was unable to engage a qualified valuer. The stated value of Kshs. 160,281,995 includes plant and medical equipment, furniture, fittings and office equipment, and ICT equipment. The management used the cost method for items of PPE acquired through exchange transactions and the deemed cost method for non-exchange items.

Committee Observations

The Committee observed that-

- i. The hospital's financial statements report PPE at a stated value of Kshs. 160,281,995 without supporting valuation reports from a recognized and qualified valuer, as required under IPSAS 17 for the revaluation model.
- ii. Management's reliance on competing demands as a reason for not engaging a qualified valuer is not acceptable given the materiality of the assets and the audit findings across multiple years.

Committee Recommendations

The Committee recommends that—

- i. the Governor ensures that management prioritizes and completes a comprehensive valuation of all hospital assets by a licensed valuer within the next quarter following adoption of this report;
- ii. the Governor develops and implements an annual asset valuation policy integrated into the hospital's asset management framework with a dedicated budget line (at least 1-2% of total assets) to balance essential procurements and prevent recurrence; and
- iii. the County Department of Health provides oversight to ensure alignment with Universal Health Coverage (UHC) asset reporting standards, with the valuation report submitted to the Auditor-General for verification in the subsequent audit cycle.

2. Failure to Tag Assets Belonging to the Hospital

Included in the PPE amount were furniture, fittings and office equipment, ICT equipment, and medical equipment worth Kshs. 3,860,745, Kshs. 2,000,757, and Kshs. 143,752,729 respectively which were not tagged. It was therefore not possible to identify whether the assets belonged to the Hospital. In the circumstances, the ownership of assets forming part of the PPE balance could not be confirmed.

Management Response

The Nyeri County Asset and Liability Management Policy and Procedure Manual that will guide county entities' asset identification and tagging is at its draft stage. All the assets in the hospital have been documented in the hospital asset register.

Committee Observations

The Committee observed that-

- i. Significant portions of the hospital's Property, Plant and Equipment including furniture, fittings and office equipment (Kshs. 3,860,745), ICT equipment (Kshs. 2,000,757), and medical equipment (Kshs. 143,752,729) remain untagged, amounting to a total of Kshs. 149,614,231.

- ii. Management's reference to a policy document still at draft stage is insufficient justification given the materiality of untagged assets and the critical importance of asset management.

Committee Recommendations

The Committee recommends that—

- i. **the Governor expedites the finalization and adoption of the Nyeri County Asset and Liability Management Policy and Procedure Manual within sixty (60) days of adoption of this report;**
- ii. **the Governor expedites the rollout of standardized tagging protocols for all untagged assets across county entities within sixty (60) days and integrates asset tagging into annual budgeting to sustain safeguards; and**
- iii. **the Accounting Officer ensures alignment with devolved health asset management under the Health Act, 2017 (No. 21 of 2017) and submits evidence of tagging completion to the Auditor-General within ninety (90) days of adoption of this report.**

3. Lack of Ownership Documents

The PPE balance includes land and buildings, and motor vehicles valued at Kshs. 915,575 and Kshs. 750,000 respectively, which were inherited from the defunct Nyeri County Council and are not in the Hospital's name. However, there was no evidence of transfer of ownership documents to the Sub-County Hospital, neither were the assets tagged. In the circumstances, the validity, accuracy, ownership and completeness of the property, plant and equipment amount of Kshs. 160,281,995 could not be confirmed.

Management Response

The County Government of Nyeri is in the process of transferring assets to its entities after handover by IGRTC and the management is still awaiting the official handover. Nyeri County received a fleet of motor vehicles and motorbikes previously owned by defunct Municipal Councils under the IGRTC-coordinated transfer framework (2023/2024 exercise). Valuation and verification of immovable assets inherited from defunct local authorities is ongoing. Upon completion of valuation and gazettelement, ownership is to be regularized and recorded in the County Fixed Asset Register.

Committee Observations

The Committee observed that-

- i. The hospital's PPE includes land and buildings (Kshs. 915,575) and motor vehicles (Kshs. 750,000) inherited from the defunct Nyeri County Council, for which no ownership documentation or asset tagging exists.

- ii. The ongoing IGRTC transfer process is acknowledged; however, no firm timelines or evidence of progress were provided to the Committee on when the formal transfer and documentation would be completed.
- iii. The absence of ownership documentation for these assets contravenes Section 47 of the Public Finance Management Act, 2012 and Regulation 136 of the Public Finance Management (County Governments) Regulations, 2015.

Committee Recommendations

The Committee recommends that—

- i. the Governor ensures that management prioritizes and completes a comprehensive valuation of all hospital assets by a licensed valuer within the next quarter following adoption of this report, with a dedicated budget line established in the 2026/2027 fiscal year;
- ii. the Governor engages the IGRTC to fast-track the transfer of land, buildings, and motor vehicles from the defunct Nyeri County Council to the Hospital with a definitive completion timeline, and submits progress reports to the Senate within sixty (60) days of adoption of this report; and
- iii. upon completion of the transfer, the Accounting Officer prepares an updated asset register and submits to the Auditor-General for verification, failure to which the provisions of Section 199 of the Public Finance Management Act, Cap. 412A on penalties for offences shall apply.

Other Matter

4. Unresolved Prior Year Audit Issues

Review of prior year audit certificate revealed that several matters were raised under financial statements, statement of lawfulness and effectiveness in use of public resources. Review of the status during audit of the Hospital in 2024/2025 revealed that the following matters remained unresolved: (i) Unsupported property, plant and equipment balance (FY 2023/2024); (ii) Unresolved prior year matters (FY 2023/2024); and (iii) Employees on long periods of casual employment (FY 2023/2024).

Management Response

Prior year matter 2 (Unresolved prior year matters) has been resolved as the hospital addressed inaccuracies in the statement of financial report (the Kshs. 321,742 variance was reconciled), and irregular waivers and exemptions were reported to the Nyeri County Assembly. Progress is being made on the other issues as available financial resources allow. Regarding employees on long periods of casual employment, engagement of casual workers on three months' contracts is due to staff shortage in

critical and technical areas. The County Public Service Board advertised for additional staff on 7th October 2025 but the board's tenure expired before completing the recruitment process. The new board vetting is scheduled.

Committee Observations

The Committee observed that-

- i. The Committee observes that the Hospital has three unresolved prior year audit matters, two of which unsupported PPE balance and employees on long periods of casual employment remain unresolved.
- ii. Deficiencies in the implementation of Universal Health Coverage requirements remain outstanding, limiting the Hospital's capacity to deliver the requisite Level 4 services.

Committee Recommendations

The Committee recommends that—

- i. **the Governor ensures that the Hospital Management implements the following time-bound actions: complete PPE documentation and valuation within ninety (90) days; expedite the recruitment of permanent staff to replace casual employees once the new CPSB is constituted; and submit quarterly progress reports on UHC compliance to the Senate;**
- ii. **the Accounting Officer resolves any issues resulting from an audit that remain outstanding in accordance with Section 149(2)(l) of the Public Finance Management Act, failure to which the accounting officer shall be in contempt of Parliament; and**
- iii. **the Governor ensures the Accounting Officer submits a detailed status report on the mitigation measures taken to resolve all prior year matters within sixty (60) days of adoption of this report.**

3.4 REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR NYERI COUNTY REFERRAL HOSPITAL FOR THE FINANCIAL YEAR 2024/25

The Governor of Nyeri County, Hon. Mutahi Kahiga, appeared before the Committee on Tuesday, 16th February, 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Nyeri County Referral Hospital for the Financial Year 2024/2025. The following officers accompanied the Governor—

1. CECM Finance, Nyeri County
2. Mr. Wicklife Kaburu Hospital Administrative Officer.
3. Medical Superintendent, Nyeri County Referral Hospital

REPORT ON THE FINANCIAL STATEMENTS

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

1. Presentation and Accuracy of the Financial Statements

Review of financial statements revealed the following anomalies: (i) The statement of comparison of budget and actual amounts reflects Kshs. 428,910,708 and Kshs. 440,336,891 as budgeted revenue and actual receipts respectively resulting in revenue over-realization of Kshs. 11,426,183. However, the Chairman's Statement and the report of Medical Superintendent indicated that the hospital generated Kshs. 345,754,685 against a budget of Kshs. 386,228,943 resulting in under-collection of Kshs. 40,474,258. The variances have not been reconciled; and (ii) The budget reconciliation reflects an actual surplus as per the statement of financial performance being reconciled with the surplus as per the statement of comparison of budget and actual amounts, whereas the PSASB template required reconciliation between the actual surplus as per the statement of comparison and the closing cash and cash equivalent. In the circumstances the financial statements may be misleading to the users.

Management Response

The total budget of Kshs. 428,910,708 includes budget carryovers from the previous year (Kshs. 34,979,723), rendering of services – medical service income (Kshs. 357,073,603), and in-kind contributions from county government (Kshs. 36,857,382). The hospital budgeted to collect Kshs. 428,910,708 but ended up collecting Kshs. 440,336,891, an over-achievement of Kshs. 11,426,183. The figure of Kshs. 386,228,943 was the revenue target given by the department of health based on previous revenue performance. The correct reconciliation as per the PSASB template has been

prepared and will be included in the Amended Financial Statement during the audit for Financial Year 2025-26.

Committee Observations

The Committee observed that-

- i. discrepancy between the revenue figures reported in the statement of comparison of budget and actual amounts (Kshs. 440,336,891) and those in the Chairman's Statement and Medical Superintendent's report (Kshs. 345,754,685) remains unreconciled, undermining the reliability and credibility of the financial statements.
- ii. the budget reconciliation does not comply with the PSASB financial reporting template requirement, and management has committed to correcting this through an Amended Financial Statement in FY 2025-26.

Committee Recommendations

The Committee recommends that-

- i. the Governor ensures that the Accounting Officer to takes appropriate administrative action on responsible officers within the Accounts and Finance department who fail to keep complete financial records in accordance with section 156(1) of the Public Finance Management Act, Cap.412A and in line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;
- ii. the Governor ensures that the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;
- iii. the National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties;
- 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 in order to reflect the true financial position of the company.

2. Unsupported Revenue

The statement of financial performance reflects Kshs. 368,499,786 in respect to revenue from rendering of services – medical service income which includes Kshs. 354,754,685 revenue collected. However, review of bank and Mpesa statements revealed that the Hospital collected a total of Kshs. 289,633,535 resulting in a variance of Kshs. 56,121,150. Although management claimed that the amount of Kshs. 56,121,150 was erroneously deposited in Mt. Kenya Sub-County Hospital, there were no documents including bank statements and receipts vouchers to support the assertion. In addition, management did not provide evidence of follow up to recover the amount from Mt. Kenya Hospital. In the circumstances, the accuracy and completeness of the revenue amount of Kshs. 56,121,150 could not be confirmed.

Management Response

The management has made concerted efforts to recover the money that was wrongly deposited in Mt Kenya Sub-County Hospital. The hospital has written letters to both Mt. Kenya Sub-County Hospital and SHA regarding this matter. The letter to Mt. Kenya Sub-County Hospital was to request the hospital to re-route the Kshs. 51,993,550 that had been captured by 17th April 2025, and later the figure had increased. Letters were written to SHA to notify the Authority of this anomaly, stop it and rectify it. The hospital together with Mt. Kenya Sub-County Hospital was invited by SHA for engagement on the matter.

Committee Observations

The Committee observed that-

- i. The variance of Kshs.56,121,150 between reported revenue and bank/Mpesa collections is a significant matter that remains unsupported by documentary evidence.

- ii. Management's assertion that the amount was erroneously deposited in Mt. Kenya Sub-County Hospital, while plausible, has not been substantiated with bank statements, receipts vouchers, or formal inter-hospital reconciliation documents.
- iii. Evidence of follow-up correspondence with Mt. Kenya Sub-County Hospital and SHA has been provided, which the Committee acknowledges; however, recovery of the amount has not yet been confirmed.

Committee Recommendations

The Committee recommends that—

- i. the Governor ensures the Hospital urgently completes the recovery of the Kshs. 56,121,150 erroneously deposited in Mt. Kenya Sub-County Hospital, with a definitive recovery plan and timeline submitted to the Senate within thirty (30) days of adoption of this report;
- ii. the Accounting Officer provides documentary evidence of the recovery including bank statements and receipts vouchers to the Auditor-General within sixty (60) days of adoption of this report for verification; and
- iii. the Governor directs SHA to immediately rectify the erroneous allocation of revenues between Nyeri County Referral Hospital and Mt. Kenya Sub-County Hospital and prevent future occurrences.

3. Unsupported Receivables from Exchange Transactions

The statement of financial position reflects Kshs. 194,053,134 as recoverable from exchange transactions. However, management did not provide detailed analysis of the outstanding recoverable from NHIF, SHA, Minet and Britam to show details including number of patients, respective number of claims that remained unpaid, and the aging analysis to show how long the claims have been outstanding. In the circumstances, the accuracy and recoverability of trade receivables balance of Kshs. 194,053,134 could not be confirmed.

Management Response

A detailed analysis of the receivables for both Minet and Britam have been availed. For SHA receivables, management is working on an analysis based on number of patients and number of claims following an engagement meeting with SHA officials. The analysis will be available during the audit for the year 2025-2026. For NHIF receivables, the hospital was unable to access the NHIF system since the system was closed when NHIF became defunct. The hospital is in liaison with SHA for this information to be availed. An aging analysis of all receivables based on the period they were incurred has been provided.

Committee Observations

The Committee observed that partial progress has been made in providing supporting documentation for Minet and Britam receivables; however, full documentation for SHA and NHIF receivables totalling a significant portion of the Kshs. 194,053,134 balance was not provided at the time of audit.

Committee Recommendations

The Committee recommends that—

- i. the Governor ensures the Accounting Officer completes the detailed analysis of all SHA and NHIF receivables within sixty (60) days of adoption of this report and submits to the Auditor-General for verification;
- ii. the Governor engages SHA at the national level to facilitate access to historical NHIF claims data for the purpose of substantiating and recovering outstanding NHIF receivables; and
- iii. the Accounting Officer undertakes a detailed analysis of long outstanding trade receivables and, with the Board's approval, writes off irrecoverable debts in line with Section 130(2)(d) of the Public Finance Management (County Governments) Regulations, 2015.

4. Failure to Value Property, Plant and Equipment

The statement of financial position reflects a balance of Kshs. 28,534,582 in respect to property, plant and equipment net book value. However, management did not provide evidence to confirm the useful lives of the assets. This is contrary to IPSAS 17 which states that revaluation of the property, plant and equipment shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from the fair value at the reporting date. In addition, management did not maintain an updated fixed asset register showing details including cost, date acquired, respective depreciation, location, condition, and serial numbers. Assets were also not tagged for ease of identification and tracking. In the circumstances, the accuracy and completeness of the PPE balance of Kshs. 28,534,582 could not be confirmed.

Management Response

The process of valuation of plant, property and equipment is in progress. After engaging the Director of Valuation in the Ministry of Lands, Housing and Urban Planning, the exercise was scheduled to commence on 9th February 2026 but was postponed to 16th February 2026. After the exercise, the management will include the assigned figures in the financial statements going forward and the hospital's asset register will be duly updated.

Committee Observations

The Committee observed that-

- i. the valuation exercise had not been completed at the time of the audit, meaning the PPE balance of Kshs. 28,534,582 remains unconfirmed.
- ii. The absence of an updated fixed asset register and asset tagging contravenes Section 149(2)(o) of the Public Finance Management Act, 2012.

Committee Recommendations

The Committee recommends that—

- i. the Governor ensures the asset valuation exercise is completed within sixty (60) days of adoption of this report and the valuation report is submitted to the Auditor-General for verification;**
- ii. upon completion of the valuation, the Accounting Officer prepares an updated fixed asset register in the format prescribed by the PSASB and submits to the Auditor-General for verification; and**
- iii. the Accounting Officer ensures that all assets are tagged within sixty (60) days of adoption of this report.**

5. Failure to Disclose Value of Land and Buildings

The statement of financial position reflects Kshs. 28,534,582 in respect to property, plant and equipment. However, this amount did not include the value for land and buildings that the Hospital occupies. Physical verification revealed that the Hospital occupies a piece of land (Aguthi/Gatitu/582, approximately 17.3 acres) and has a number of buildings whose value has not been determined. In addition, management did not provide ownership documents in respect to the land owned by the Hospital. In the circumstances, the accuracy and completeness of property, plant and equipment balance of Kshs. 28,534,582 could not be confirmed.

Management Response

The process of valuation of plant, property and equipment including land and buildings is in progress. The County Executive Committee Member – Department of Lands wrote to the Chairman of the National Land Commission requesting consent to issue the title deed for land parcel Aguthi/Gatitu/582 (17.3 acres) in favour of CECM Finance as trustee of Nyeri County Referral Hospital pursuant to the amended Land Act Section 12(16)(c). The County-National Land Commission coordinator has also written to the Chairman-NLC applying for the transfer of the land parcel to the County Government for Nyeri County Referral Hospital.

Committee Observations

The Committee noted Management steps in pursuing the land title deed, however, the land and buildings remain undisclosed in the financial statements pending completion of the valuation and title deed process.

Committee Recommendations

The Committee recommends that—

- i. the Governor ensures that Management fast-tracks the land title deed acquisition process with the National Land Commission, and provides quarterly progress reports to the Senate; and
- ii. the Auditor-General monitors the progress of the land title acquisition and asset valuation processes and reports to the Committee in the subsequent audit cycle.

Emphasis of Matter

6. Budgetary Control and Performance

The statement of comparison of budget and actual amounts for the year ended 30th June, 2025 reflects final budgeted revenue and actual amounts of Kshs. 428,910,708 and Kshs. 440,336,891 respectively, hence surpassing the budget by Kshs. 11,426,183. However, out of the actual receipts of Kshs. 440,336,891, the hospital expended Kshs. 359,782,140 leading to under-absorption of Kshs. 80,554,751 or 18% of the total receipts. In the circumstances, the under-absorption of funds affected planned activities and may have impacted negatively on service delivery to the public.

Management Response

Management did not absorb Kshs. 80,554,751 for the following reasons: (1) An amount of Kshs. 70,406,761 was captured in the books but was not spent because these were unpaid SHA claims and the financial statements are prepared on an accrual basis; (2) The difference of Kshs. 10,147,990 was a result of projects that were earmarked for 2024-2025 but were shelved, including Terrazzo walkways, renovation of ward 6, perimeter wall of the shredder house, and Outpatient staff ablution block.

Committee Observations

The Committee observed that-

- i. Despite surplus revenue, actual expenditures totaled only Kshs. 359,782,140, resulting in an under-absorption of Kshs. 80,554,751 (18% of receipts). This

- shortfall directly constrained planned activities, potentially compromising service delivery, patient care standards, and UHC implementation at the facility.
- ii. Management's explanation attributes Kshs.70,406,761 of the under-absorption to unpaid SHA claims recorded on an accrual basis but not disbursed.

Committee Recommendations

The Committee recommends that—

- i. the Governor ensures the Accounting Officer submits the outstanding SHA claims for prompt payment and engages SHA at the national level to ensure the Kshs. 70,406,761 in unpaid claims is settled within the Financial Year 2025/2026;
- ii. the Governor ensures the shelved capital projects are re-budgeted and implemented in the Financial Year 2025/2026, with appropriate budget allocations and progress reports submitted to the Senate; and
- iii. the Accounting Officer prepares quarterly budget performance reports and submits to the County Treasury in accordance with Section 166 of the Public Finance Management Act, Cap. 412A, to ensure transparent accountability.

Other Matter

7. Unresolved Prior Year 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. Review of the status during the audit of the Hospital in Financial Year 2024/2025 revealed that the following matters remained unresolved: (i) Non-valuation of Property, Plant and Equipment (FY 2023/2024); and (ii) Land without Title Deeds (FY 2023/2024).

Management Response

The process of valuation of plant, property and equipment is in progress. The exercise was postponed from 9th February 2026 to 16th February 2026. Formal letters have been written to the National Land Commission for the title deed for land parcel Aguthi/Gatitu/582. These efforts are documented and evidence has been provided.

Committee Observations

The Committee observed that the prior year matters of non-valuation of PPE and land without title deeds remain unresolved but that management has demonstrated steps in progressing both issues.

Committee Recommendations

The Committee recommends that—

- i. the Governor ensures that the Hospital Management fully resolves the outstanding prior year matters PPE valuation and land title deed within the timelines specified in the recommendations above;**
- ii. the Accounting Officer submits a comprehensive status report on the resolution of all prior year audit matters within sixty (60) days of adoption of this report; and**
- iii. the Auditor-General confirms the resolution of prior year matters in the subsequent audit cycle and reports to the Committee.**

3.5 REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR OTHAYA SUB-COUNTY HOSPITAL FOR THE FINANCIAL YEAR 2024/25

The Governor of Nyeri County, Hon. Mutahi Kahiga, appeared before the Committee on Monday, 16th February, 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Othaya Sub-County Hospital for the Financial Year 2024/2025. The following officers accompanied the Governor—

1. CECM Finance, Nyeri County
2. Cecilia Gichuhi -Health Administrative Officer
3. Dr. W. Gachohi - Med Sup.
4. Dancan Hasida - Med Sup.

REPORT ON THE FINANCIAL STATEMENTS

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

1. Errors and Inaccuracies in the Annual Reports and Financial Statements

The annual report and financial statements prepared and presented for audit had the following anomalies: (i) The report of the Medical Superintendent indicated that in FY 2023/2024 the Hospital collected Kshs. 48,744,705 while in 2024/2025 total revenue collected was 42,815,205, leading to a revenue shortfall of Kshs. 5.9 million; (ii) The statement of changes in net assets reflects a capital fund balance of Kshs. 173,915, however the amount excludes Kshs. 698,462 actual capital expenditure as reported in the statement of comparison of budget and actual amounts; and (iii) Revenue for the financial year 2024/2025 was approved at Kshs. 40,531,867 by the hospital board but this differs from the revenue amount disclosed in the statement of comparison of budget and actual amounts of Kshs. 41,340,875 resulting in an unexplained variance of Kshs. 809,008. In the circumstances, the accuracy, completeness, and validity of the respective reports and financial statements could not be confirmed.

Management Response

Management clarifies that: (i) the total revenue collected in 2024/2025 stood at Kshs. 41,340,875, not Kshs. 42,815,205, and the correct variance is Kshs. 7,503,830, not Kshs. 5.9 million, due to reduced SHA reimbursements and lower Mpesa collections as patients migrated to social health insurance; (ii) the capital expenditure error has been corrected and the amended statement in changes in net assets now includes the Kshs. 698,462 capital expenditure; and (iii) the figure of Kshs. 40,531,867 was captured in the previous statement but the error has been amended as the hospital board approved a budget of Kshs. 41,340,875 as shown in the amended financial statement.

Committee Observations

The Committee observed that Management has provided amended financial statements and explanations that address the three anomalies identified, however, these anomalies indicate inadequate quality control processes before submission of financial statements for audit, which must be strengthened to prevent recurrence.

Committee Recommendations

The Committee recommends that—

- i. the Governor ensures the Accounting Officer implements robust quality control reviews on all financial statements and annual reports before submission for audit, to prevent recurrence of errors and inaccuracies;
- ii. the Governor ensures that all corrections and prior year adjustments identified in the amended financial statements are formally incorporated in the Financial Year 2025/2026 statements in compliance with IAS 8:42; and
- iii. the Auditor-General verifies the amendments in the subsequent audit cycle and reports to the Committee on the accuracy of the corrected figures.

2. Undisclosed Employee Costs

The statement of financial performance reflects employee costs amounting to Kshs. 3,560,244 for casual and contractual staff, as disclosed in Note 10 to the financial statements. The audit noted that the Hospital received services from medical personnel employed and remunerated by the County Executive. However, the related expenditure was not disclosed in the financial statements, and the payroll records for both the Hospital and County-paid staff were not availed for audit verification. In the circumstances, the accuracy and completeness of the reported employee costs of Kshs. 3,560,244 could not be confirmed.

Management Response

The amount of Kshs. 3,560,244 only includes the cost of the casual and contractual staff whose payroll records are maintained at the facility. These records were presented for audit verification. The medical personnel who work at Othaya Sub-County Hospital are employed by the County Government of Nyeri, paid by the county executive, and reported in the County Executive books. A list of the hospital county-paid staff has been attached.

Committee Observations

The Committee observed that-

- i. Management has clarified that the Kshs. 3,560,244 covers only casual and contractual staff paid directly by the hospital, with county-employed medical staff costs reported separately in county executive books, however, the failure to disclose county-paid staff costs in the financial statements undermines the completeness of reported employee costs and does not present a full picture of the hospital's cost of human resources.
- ii. The non-disclosure of in-kind contributions from the county executive in the form of staff salaries contravenes IPSAS requirements for comprehensive disclosure of all resources used in operations.

Committee Recommendations

The Committee recommends that—

- i. the Governor ensures the Hospital Management discloses, as in-kind contributions, the value of services provided by county-employed medical personnel in the financial statements, in compliance with IPSAS 23 on Revenue from Non-Exchange Transactions;
- ii. the Accounting Officer maintains a complete payroll record for all staff both facility-paid and county-paid and makes these available to the Auditor-General during audit in compliance with Section 47(1) of the Public Audit Act, Cap. 412B;

3. Inaccuracies in Non-Current Assets

The statement of financial position and Notes 19 and 20 to the financial statements reflects non-current assets valued at Kshs. 2,963,169 as at 30 June, 2025. However, the Hospital maintained an incomplete asset register which could not be reconciled to the amounts reported in the financial statements. The register lacked key information including asset description, unique identification number, location, acquisition date, cost, condition, custodian, and current status. The register did not provide a breakdown of assets by department. In addition, ownership documentation for the listed assets was not available. In the circumstances, the validity, accuracy, completeness, ownership, and valuation of the Kshs. 2,963,169 of non-current assets could not be confirmed.

Management Response

The documents required to complete the asset register require valuation which the hospital has taken initiative to engage professional valuers. Once the process is complete the hospital management will update the asset register. The Hospital owns various assets inherited from National Government and defunct Local Authority and

therefore ownership has not been transferred. The County Government of Nyeri is in collaboration with the IGRTC and the department of land on the exercise of asset verification, ownership documentation, and transfer to enable process of valuation.

Committee Observations

The Committee observed that-

- i. The Hospital maintains an incomplete asset register that cannot be reconciled to the financial statements, lacks critical fields including unique identification numbers, location, condition, custodian, and status, and does not break down assets by department.
- ii. Ownership documentation for the listed assets was not available, indicating a significant gap in asset governance that exposes assets to risk of loss, theft, or misappropriation.
- iii. Management has initiated engagement with professional valuers; however, no evidence of contract engagement or completion timeline was provided to the Committee.

Committee Recommendations

The Committee recommends that—

- i. the Governor ensures the Accounting Officer engages professional valuers and completes the asset valuation exercise within sixty (60) days of adoption of this report, updating the asset register with all required fields;
- ii. the Governor engages the IGRTC to fast-track the transfer of ownership of assets inherited from the National Government and defunct Local Authority, with progress reports submitted to the Senate within sixty (60) days of adoption of this report; and
- iii. the Accounting Officer ensures that the asset register is maintained in the format prescribed by the National Treasury and PSASB, and submitted to the Auditor-General for verification in the subsequent audit cycle, failure to which the provisions of Section 199 of the Public Finance Management Act, Cap. 412A on penalties for offences shall apply.

4. Unsupported Rendering of Services – Medical Services Income

The statement of financial performance reflects Kshs. 41,340,875 in respect of rendering of services – medical services income as disclosed in Note 8. The following observations were made: (i) The amount was collected using the Hospital's revenue system whose account number, cash books, bank/Mpesa statements, bank reconciliation statements, and certificates of confirmation of balances were not availed for audit; and

(ii) The Medical Superintendent and the Hospital Administrator were not the mandatory signatories of the revenue bank account contrary to Section 20(3) of the Facilities Improvement Financing Act, 2023. In the circumstances, the accuracy, validity and completeness of the Kshs. 41,340,875 amount of rendering of services – medical services income could not be confirmed.

Management Response

The Nyeri County Health Services Fund Act Section 13b and its regulations stipulate that all monies received at the hospital are to be paid into the bank account operated by the fund board whose signatories are the fund administrator and three other board members. All monies collected by the hospital are channelled to the health collection account and thereafter transferred to the hospital operations account where the Medical Superintendent, the Hospital Administrator, and Accountant are signatories, as per the regulations.

Committee Observations

The Committee observed that-

- i. Management has provided an explanation of the fund flow mechanism under the Nyeri County Health Services Fund Act, 2021, which differs from the requirement under Section 20(3) of the national Facilities Improvement Financing Act, 2023.
- ii. The failure to avail the revenue bank account statements, cash books, and bank reconciliation statements for audit impairs the verification of revenue completeness.
- iii. The discrepancy between county legislation and national legislation on bank signatories creates a legal compliance gap that requires urgent resolution.

Committee Recommendations

The Committee recommends that—

- i. the Governor ensures the Accounting Officer provides all revenue bank account statements, cash books, Mpesa statements, and bank reconciliation statements to the Auditor-General within thirty (30) days of adoption of this report;
- ii. the Governor ensures that the County Department of Health and County Attorney to harmonize the Nyeri County Health Services Fund Act, 2021 with Section 20(3) of the Facilities Improvement Financing Act, 2023 on mandatory bank signatories within ninety (90) days; and
- iii. the Auditor-General verifies the revenue collection records in the subsequent audit cycle and reports to the Committee on the accuracy and completeness of revenue reported.

Other Matter

5. Unresolved Prior Year Audit Issues

Review of prior year audit certificate revealed that the following matters remained unresolved as at 30 June 2025: (i) Unsupported property, plant and equipment balance; (ii) Unresolved prior year matters; (iii) Employees on long periods of casual employment; and (iv) Deficiencies in implementation of Universal Health Coverage.

Management Response

Management has made progress in resolving prior year audit matters: (1) PPE request for valuation of assets done to the Ministry of Lands, Housing and Urban Planning; (2) Unresolved prior year matters the hospital automated the pharmacy, prepared quarterly reports and submitted them, and budget underperformance did not appear in this financial year; (3) Employees on long periods of casual employment progress is being made; and (4) UHC deficiencies progress is being made.

Committee Observations

The Committee observed that-

- i. The Committee observed that some progress has been made on prior year matters, including automation of the pharmacy, preparation of quarterly reports, and initiation of the PPE valuation process, however, the core matters of unsupported PPE, casual employment, and UHC deficiencies remain unresolved across consecutive financial years.
- ii. The persistent non-resolution of prior year audit matters demonstrates a systemic weakness in implementing audit recommendations and contravenes Section 31(1)(a) of the Public Audit Act, 2015.

Committee Recommendations

The Committee recommends that—

- i. the Governor ensures that the Hospital Management fully implements time-bound corrective actions for all outstanding prior year matters, with a comprehensive status report submitted to the Senate within sixty (60) days of adoption of this report;
- ii. the Accounting Officer resolves any issues resulting from an audit that remain outstanding in accordance with Section 149(2)(l) of the Public Finance Management Act, failure to which the accounting officer shall be in contempt of Parliament.

CHAPTER FOUR: FUNDS

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

In accordance with Article 229(4) of the Constitution as read together with section 7(1) of the Public Audit Act, Cap. 412B, during the period under review, the Auditor-General audited the financial statements of various funds in Nyeri 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. Nyeri County Climate Change Fund
2. Nyeri County Elimu Fund
3. Nyeri County Enterprise Fund
4. Nyeri County Health Services Fund.

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 Nyeri funds for the Financial Year 2024/2025 and submit a report to the Senate within 30 days of the adoption of this report and a copy to the Auditor-General; and**
- ii. **the Auditor-General to keep the matter in view in the subsequent audit cycle.**

ANNEXTURES

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



13TH PARLIAMENT 5TH SESSION

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

PRESENT

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

ABSENT WITH APOLOGY

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

SECRETARIAT

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

A. OFFICE OF THE AUDITOR GENERAL

Mr. Mark Gachanja Liasion

B. ETHICS AND ANTI CORRUPTION COMMISION

Mr. Patrick Kinoti -Liaison Officer

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

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

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

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

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

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

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

1. **Report of the Select Committee on County Public Investments and Special Funds on the consideration of the Audit Reports of the following entities in Kisumu County for the Financial Year 2024/2025 (1st July, 2024 to 30th June, 2025)-**
 - a. Kisumu Water and Sanitation Company (KIWASCO)
 - b. City Of Kisumu
 - c. Ahero County Hospital
 - d. Chulaimbo County Hospital
 - e. Kisumu County Hospital
 - f. Kombewa County Referral Hospital
 - g. Lumumba Sub County Hospital
 - h. Migosi Sub County Hospital
 - i. Muhoroni County Hospital
 - j. Nyakach County Hospital
 - k. Kisumu County Mortgage & Car Loan (Executive) Fund
 - l. Kisumu County Mortgage & Car Loan Assembly Fund
 - m. Kisumu Lakefront Development Corporation
 - n. Kisumu County Emergency Fund
 - o. Kisumu County Bursary Fund
 - p. Kisumu County Climate Change Fund
 - q. Kisumu County Covid-19 Emergency Response Fund Account
 - r. Kisumu County Education Fund
 - s. Kisumu County Women, Youth and People with Disabilities Fund

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

There was no any other business.

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

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



SIGNED: DATE: 24/3/2026

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