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Rt. Hon. Speaker  
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J. M. Nyegenye, C.B.S.,  
Clerk of the senate/secretary, PSC  
Date: 31/03/2026

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 BUNGOMA COUNTY WATER COMPANY, MUNICIPALITIES AND HOSPITALS FOR THE FINANCIAL YEAR 2024/2025 (1<sup>st</sup> JULY, 2024 TO 30<sup>th</sup> JUNE, 2025):

SECTOR	NO.	ENTITY
WATER COMPANY	1	BUNGOMA WATER AND SEWERAGE COMPANY LIMITED.
MUNICIPALITIES	2	BUNGOMA MUNICIPALITY
		KIMILILI MUNICIPALITY
HOSPITALS	4	BUNGOMA COUNTY REFERRAL HOSPITAL
		BUMULA SUB-COUNTY HOSPITAL
		KIMILILI SUB-COUNTY HOSPITAL
		MT. ELGON SUB-COUNTY HOSPITAL
FUNDS	6	BURSARY FUND
		CLIMATE CHANGE FUND
		DISASTER AND EMERGENCY MANAGEMENT FUND
		PERSONS WITH DISABILITIES EMPOWERMENT FUND
		TRADE DEVELOPMENT LOAN FUND
		YOUTH AND WOMEN EMPOWERMENT FUND

PAPERS LAID	
DATE	31/03/2026
TABLED BY	SEN. OBOJI
COMMITTEE	
WORK AT THE TABLE	WIKILIAN

MARCH, 2026

DC-EG  
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31/03/2026



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## ACRONYMS\ABBREVIATIONS

<b>LVNWWDA</b>	Lake Victoria North Water Works Development
<b>IPSAB</b>	International Public Sector Accounting Standards Board
<b>NHIF</b>	National Health Insurance Fund
<b>OSH</b>	Occupational Safety and Health
<b>ICT</b>	Information and Communication Technology
<b>ISSAI</b>	International Standards of Supreme Audit Institutions
<b>CECM</b>	County Executive Committee Member
<b>CEO</b>	Chief Executive Officer
<b>EACC</b>	Ethics and Anti-Corruption Commission
<b>EGH</b>	Elder of the Golden
<b>NWASCO</b>	Nzoia Water Services Company
<b>FY</b>	Financial Year
<b>BWASCO</b>	Bungoma water and sewerage company.
<b>IGTRC</b>	Intergovernmental Relations Technical Committee
<b>CBS</b>	Chief of the Order of the Burning Spear
<b>NRW</b>	Non-Revenue Water
<b>PFM Act</b>	Public Finance Management Act
<b>PSASB</b>	Public Sector Accounting Standards Board
<b>WASREB</b>	Water Services Regulatory Board
<b>EBS</b>	Elder of the Order of the Burning Spear
<b>NESP</b>	National Equipment Service Programme
<b>SHA</b>	Social Health Authority

## 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 management of the organization 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 leakages, bursts, and overflows through the existing old and dilapidated water supply network, and commercial losses due to metering anomalies and illegal connections.
7. **Going Concern:** This is an accounting principle used for a company that is financially stable enough to meet its obligations and continue its business for the foreseeable future.

## **PREFACE**

Parliamentary Committees are a creation of the Constitution through Article 124(1) of the Constitution, which empowers each House of Parliament to establish Committees and make Standing Orders (SO) for the orderly conduct of its proceedings, including the proceedings of its committees. 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) 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.

The Select Committee on County Public Investments and Special Funds (CPISFC) of the Senate is mandated under Standing Order No. 232 to consider reports of the Auditor-General relating to county governments, county public investments and special funds.

This report covers the consideration by the Committee of the Auditor-General's reports on the financial statements of Bungoma County water company, Municipalities and Hospitals for the Financial Year 2024/2025. The entities covered are: one (1) water company – Bungoma Water and Sewerage Company Limited (BWASCO), Two (2) municipalities – Bungoma Municipality and Kimilili Municipality and Four (4) Hospitals- Bungoma level 5 Hospital, Bumula level 4 Hospital, Kimilili Sub-County Hospital and Mt. Elgon Sub-County Hospital

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

## COMMITTEE MEMBERSHIP

The membership of the Committee comprises the following Senators-

- |   |                    |
|---|--------------------|
| 1. Sen. Godfrey Atieno Osotsi, CBS, MP.   | - Chairperson      |
| 2. Sen. Eddy Gicheru Oketch, MP.          | - Vice-Chairperson |
| 3. Sen. William Kipkemoi Kisang, CBS, MP. | - Member           |
| 4. Sen. Agnes Kavindu Muthama, 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        | - Sarjeant-at-arms        |

## **ESTABLISHMENT OF THE COMMITTEE**

The Committee was first constituted on 19<sup>th</sup> October, 2022 pursuant to Standing Order No. 194 of the Senate Standing Orders. The County Public Investments and Special Funds Committee (CPISFC) was split from the broad County Public Accounts and Investments Committee (CPAIC) in the 12<sup>th</sup> Parliament for the purpose of clearing audit backlog and to consider many audits 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 Auditor-General's reports on the audited Accounts of Bungoma Water Company and the Municipalities and Hospitals for the Financial Year 2024/2025 (1<sup>st</sup> July 2024 to 30<sup>th</sup> June 2025) as the primary documents for the interrogations. The Committee invited the Governor of Bungoma as the Chief Executive Officer pursuant to Article 179(4) as a witness to respond to the audit queries raised in the reports under consideration.

The Committee received both written and oral evidence from the Governor, accompanied by relevant county officials, in response to the various audit queries raised by the Auditor-General in the reports under consideration on various dates.

This report presents the findings and recommendations of the Select Committee on County Public Investments and Special Funds following its consideration of the Auditor-General's reports on Seven (7) entities in Bungoma County for the Financial Year 2024/2025. The entities covered are: one (1) water company – Bungoma Water and Sewerage Company Limited (BWASCO), Two (2) Municipalities- Bungoma and Kimilili Municipality and Four (4) Hospitals- (Bungoma level 5 Hospital, Bumula level 4 Hospital, Kimilili Sub-County Hospital and Mt. Elgon Sub-County Hospital)

The key issues identified across the entities include: high Non-Revenue Water levels far above the WASREB benchmark, massive unsupported receivables and payables balances, lack of operational autonomy in municipalities, and overall weaknesses in governance and internal controls affecting service delivery to the public. Further undisclosed rental income, inaccurate property, plant and equipment balances, unsupported trade payables, unconfirmed inventories Balances and FIF issues.

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

## **REPORT STRUCTURE**

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

**CHAPTER ONE** is a record of the audit queries raised in the report of the Auditor-General for Bungoma Water and Sewerage Company Limited for the Financial Year 2024/2025 and observations and recommendations of the Committee on each audit query.

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

**CHAPTER THREE** is a record of the audit queries raised in the report of the Auditor-General for Bungoma level 5 Hospital, Bumula level 4 Hospital, Kimilili Sub-County Hospital and Mt. Elgon Sub-County Hospital for the Financial Year 2024/2025 and observations and recommendations of the Committee on each audit query.

## GENERAL OBSERVATIONS FOR WATER COMPANY

1. **High Non-Revenue Water** — The Committee observed that the Company recorded Non-Revenue Water at 52%, significantly above the 25% benchmark prescribed by WASREB. This was mostly attributed to physical losses from dilapidated infrastructure, commercial losses from inaccurate meter reading and billing, and illegal connections.
2. **Transition and Inherited Data Gaps** — The Committee observed that the company's recent incorporation and transition from the defunct Nzoia Water Services Company left significant gaps in financial records, unallocated assets and liabilities between Trans Nzoia and Bungoma Counties, and nine bank accounts still registered under the defunct company, undermining the accuracy and completeness of the financial statements.
3. **Unsupported Payables and Related Party Balances** — The Committee observed that the Company carried unsupported trade payables of Kshs. 129,959,352 and related party balances of Kshs. 109,302,534 without detailed general ledgers, individual transactions, dates and amounts, raising serious concerns on the accuracy and completeness of the financial statements and the company's financial sustainability.

## GENERAL RECOMMENDATIONS FOR WATER AND COMPANY

1. **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.
2. **Transition and Asset Sharing** — The Governor ensures the Accounting Officer expedites the implementation of the de-clustering report and intercounty agreement to formally share and allocate assets between Trans Nzoia and Bungoma Counties and closes all remaining bank accounts of the defunct Nzoia Water Services Company within 90 days of adoption of this report.

3. **Settlement of Outstanding Payables and Related Party Balances** — The Governor ensures the Accounting Officer provides detailed general ledgers with individual transactions, dates and amounts for all payables and related party balances, engages all creditors to agree on structured repayment plans, and submits evidence to the Senate and Auditor-General within sixty (60) days of adoption of this report, failure to which the provisions of section 199 of the Public Finance Management Act, Cap. 412A on penalties for offences shall apply.

## GENERAL OBSERVATIONS FOR THE MUNICIPALITIES

1. **Lack of Operational Autonomy** – The Committee observed that both municipalities lacked operational independence with all functions carried out by the County Executive, and operated without substantive Municipal Managers, contrary to Sections 12, 20, 45 and 46 of the Urban Areas and Cities Act, Cap. 275, limiting their ability to make timely operational and financial decisions.
2. **Inaccurate Financial Statements** — The Committee observed recurring errors and unreconciled variances in the financial statements of both municipalities including unsupported opening balances, unreconciled net assets, unsupported PPE balances and unexplained cash flow variances, pointing to weak bookkeeping and limited capacity of finance officers in applying IPSAS standards.
3. **Pending Bills**— The Committee observed that both municipalities carried long outstanding trade payables without clear repayment plans, contrary to Regulation 41(2) of the Public Finance Management (County Governments) Regulations, 2015, exposing them to litigation, penalties and poor service delivery.

## GENERAL RECOMMENDATIONS FOR THE MUNICIPALITIES

1. **Operationalization of Municipal Autonomy** - The Governor ensure that the operationalization of Municipality is undertaken according to the functions delegated as gazzetted by the county government and the Municipality is adequately funded in accordance with section 172 of the PFM Act, Cap. 412A, to enhance the operational independence and enable effective service delivery. The Governor should further ensure that all the Municipali in the county are operationalized to undertake their delegated functions in line with the law by the commencement of the financial year 2026/2027.
2. **Financial Reporting Compliance** - The Governor should ensure that the accounting Officer ensures that all financial statements are accurate, complete, and fully compliant with International Public Sector Accounting Standards (IPSAS). All finance staff shall receive comprehensive capacity-building to strengthen the quality of financial reporting, and all supporting documents must be submitted to the Auditor-General within the timelines stipulated in sections 47 and 62 of the Public Audit Act, Cap. 412B.
3. **Settlement of Pending Bills** — The Governor ensures the Accounting Officers of both municipalities put in place structured repayment plans with clear timelines for full settlement of all outstanding payables treating debt service payments as a first charge on revenue in compliance with Regulation 41(2) of the Public Finance Management (County Governments) Regulations, 2015.

## GENERAL OBSERVATIONS FOR HOSPITALS

- 1. Inaccuracy and Incompleteness of Financial Statements** — The Committee observed that all hospitals prepared materially inaccurate financial statements with unexplained variances, incorrect opening balances, mismatched comparative figures, and omitted revenue streams. Bungoma County Referral Hospital understated employee costs by approximately Kshs. 585,819,000, omitting six months of contractual payroll and the entire annual salaries of 413 permanent staff. Kimilili Hospital recorded unreconciled variances of Kshs. 10,293,243 in net assets, Kshs. 41,020,924 in cashflow from operations, and Kshs. 27,072,051 in the budget comparison statement. Bumula Hospital had unexplained variances across three expenditure lines totalling over Kshs. 2,431,000 contrary to Section 149(2)(b) of the Public Finance Management Act, Cap. 412A.
- 2. Failure to Meet Minimum Hospital Level Standards for Universal Health Coverage** — The Committee observed that all hospitals failed to meet the minimum staffing and equipment requirements prescribed by the Kenya Quality Model for Health Policy Guidelines and the Health Act, 2017. Staff deficits ranged from 35% at Kimilili to 73% at Bumula Hospital. Across all facilities, critical cadres including anesthesiologists, general surgeons, gynecologists, pediatricians, and radiologists were either completely absent or grossly understaffed. All hospitals lacked functional ICU beds, HDU units, renal dialysis machines, and adequate newborn unit equipment. These deficiencies contravene the First Schedule of the Health Act, 2017 and directly compromise the constitutional right to health under Article 43(1) of the Constitution of Kenya, 2010.
- 3. Non-Compliance with the Facilities Improvement Financing Act, 2023** — The Committee observed that all hospitals failed to comply with Section 5(2) of the Facilities Improvement Financing Act, 2023. Mt. Elgon and Kimilili hospitals had not opened dedicated Facility Improvement Financing bank accounts. Bungoma County Referral Hospital and Bumula Hospital opened FIF accounts but did not channel any facility revenues through them, routing funds instead through County Revenue Fund arrangements. Management uniformly cited compliance with the County's own Health Improvement Fund framework.
- 4. Weak Internal Controls, Governance, and Risk Management** — The Committee observed that all hospitals lacked operational internal audit units, with facilities uniformly relying on the County Treasury audit function without evidence of audit reports specific to individual hospital operations, contrary to Section 155 of the Public Finance Management Act, Cap. 412A. No hospital had a facility-specific Risk Management Policy and risk register. Board governance was weak across all facilities,

with hospitals lacking Board Annual Work Plans, performance evaluation frameworks, and in some cases, members with the requisite financial expertise. Mt. Elgon and Bungoma Referral Hospital Boards further failed to maintain personal files for Board members and did not conduct annual Board performance evaluations as required by Part 1.11 of the Mwongozo Code of Governance.

## **GENERAL RECOMMENDATION FOR THE HOSPITALS**

- 1. Accuracy and Completeness of Financial Statements** — The Governor ensures all Accounting Officers effect prior year adjustments to correct all material misstatements and restate all incorrect opening balances in the FY 2025/2026 financial statements, and submits the restated statements to the Senate and Auditor-General for verification. The Governor further ensures all finance officers responsible for preparing financial statements receive continuous training on IPSAS compliance and applicable Public Sector Accounting Standards, in accordance with Section 149(2)(b) of the Public Finance Management Act, Cap. 412A, failure to which the provisions of Section 199 on penalties shall apply.
- 2. Health Infrastructure and Staffing Plan** — Within ninety (90) days of adoption of this report, the Governor submits to the Senate a comprehensive multi-year Health Infrastructure and Staffing Plan with clear milestones, timelines, and budgetary allocations to bring all hospitals into full compliance with the Kenya Quality Model for Health Policy Guidelines. The plan should address both short-term measures including locum engagements and reverse referral arrangements, and long-term recruitment and equipment acquisition strategies. The Auditor-General monitors progress and keeps all matters under review in the subsequent audit cycle.
- 3. Compliance with the Facilities Improvement Financing Act** — The Governor issues an immediate directive to all hospital Accounting Officers to open dedicated Facility Improvement Financing accounts and deposit all facility revenues directly into these accounts in strict compliance with Section 5(2) of the Facilities Improvement Financing Act, 2023. The Governor ensures all FIF funds improperly channelled through the County Revenue Fund are returned to the respective hospital FIF. The CECM for Finance establishes a monitoring mechanism to ensure ongoing compliance, and Accounting Officers who continue to contravene the Act should face administrative action under Section 199 of the Public Finance Management Act, Cap. 412A.
- 4. Internal Audit, Risk Management, and Governance Frameworks** — The Governor ensures each hospital establishes a functional internal audit unit with regular audit reports submitted to the Board and Audit Committee, or formalizes a documented service level agreement with the County Treasury internal audit function with clear scope, frequency, and reporting lines, in compliance with Section 155 of the Public

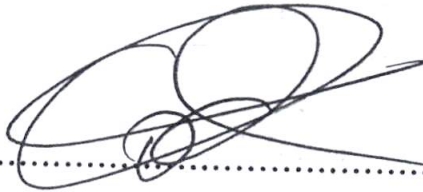
Finance Management Act, Cap. 412A. Each hospital develops and implements a facility-specific Risk Management Policy and risk register, and all Boards are equipped with formal charters, annual work plans, and performance evaluation mechanisms in accordance with the Mwongozo Code of Governance, failure to which the provisions of Section 199 on penalties shall apply.

**ACKNOWLEDGEMENTS**

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

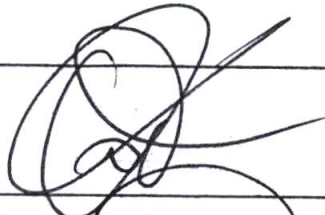
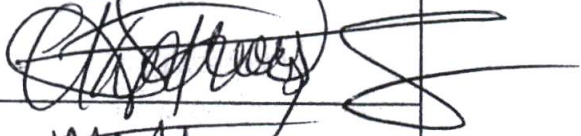

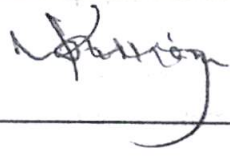

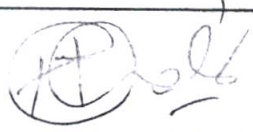
30/03/2026

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

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

<b>SECTOR</b>	<b>NO.</b>	<b>ENTITY</b>
<b>WATER COMPANY</b>	<b>1</b>	<b>BUNGOMA WATER AND SEWERAGE COMPANY LIMITED.</b>
<b>MUNICIPALITIES</b>	<b>2</b>	<b>BUNGOMA MUNICIPALITY</b>
		<b>KIMILILI MUNICIPALITY</b>
<b>HOSPITALS</b>	<b>4</b>	<b>BUNGOMA COUNTY REFERRAL HOSPITAL</b>
		<b>BUMULA SUB-COUNTY HOSPITAL</b>
		<b>KIMILILI SUB-COUNTY HOSPITAL</b>
		<b>MT. ELGON SUB-COUNTY HOSPITAL</b>
<b>FUNDS</b>	<b>6</b>	<b>BURSARY FUND</b>
		<b>CLIMATE CHANGE FUND</b>
		<b>DISASTER AND EMERGENCY MANAGEMENT FUND</b>
		<b>PERSONS WITH DISABILITIES EMPOWERMENT FUND</b>
		<b>TRADE DEVELOPMENT LOAN FUND</b>
		<b>YOUTH AND WOMEN EMPOWERMENT FUND</b>

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

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

## CHAPTER ONE: WATER COMPANY

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

The Governor of Bungoma County, Rt. Hon. Kenneth Lusaka, EBS, CBS, EGH appeared before the Committee on Wednesday 28<sup>th</sup> January, 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Bungoma Water and Sewerage Company Limited for the Financial Year 2024/2025.

The Governor was accompanied by the following officers—

- |                        |                |
|------------------------|----------------|
| 1. Carolyn Makali      | CECM Finance.  |
| 2. Andrew Wamalwa      | - CECM Water   |
| 3. Mr. David Kibiti    | -Bwacso Chair  |
| 4. Mr. Stephen Makhanu | - Board Member |

### REPORT ON THE FINANCIAL STATEMENTS

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

#### 1. Unconfirmed Revenue from other Incomes

The statement of profit or loss and other comprehensive income reflects other income amount of Kshs.15,399,301. However, the supporting ledgers include revenue transactions earned in months of July to October,2024 amounting to Kshs.392,650, before the company came into existence on 22 October,2024. The revenue earned before inception comprises illegal consumption of Kshs.240,000, disconnection/reconnection fees of Kshs.90,000 and other charges of Kshs.62,650.

Further, the supporting ledger for revenue from other charges amounting to Kshs.1,722,398 does not indicate the description and source of revenue.

In the circumstances, the accuracy and completeness of revenue from other income amount of kshs. 15,399301 could not be confirmed.

#### Management Response

##### i. Pre-incorporation revenue Kshs. 392,650

A journal voucher has been prepared and authorized by the Accounting Officer for posting. The Financial Statements prepared at the end of 30<sup>th</sup> June, 2026 will include a prior year

adjustment in the statement of changes in equity in compliance with IPSAS 3 on Accounting Policies, Changes in Accounting Estimates and Errors. The approved journal voucher was provided for committee verification.

ii. **Supporting ledger for revenue from other charges**

Management has provided the information indicating description and revenue source in the supporting ledger for audit review. evidence of the revised ledger provided for scrutiny.

**Committee Observation**

The committee observed that-

- i. The financial statements include revenue of Kshs.392,650 earned prior to the company's incorporation on 22 October 2024.
- ii. Other income totaling Kshs.1,722,398 lacks adequate description and source in the supporting ledger, limiting the ability to verify its accuracy and completeness.

**Committee Recommendation**

The Committee recommends that —

- i. **The Governor ensures the Accounting Officer effects the prior year adjustment for revenue of Kshs. 392,650 earned before incorporation in the FY 2025/2026 financial statements in compliance with IPSAS 3, and the Auditor-General keeps this matter in view in the subsequent audit cycle.**
- ii. **The Governor ensures the Accounting Officer ensures access and timely submission of supporting documents with adequate descriptions and revenue sources during the audit process in line with sections 9(1)(e) and 47 of the Public Audit Act, Cap. 412B, failure to which the Committee shall recommend investigation and prosecution in accordance with section 62 of the Public Audit Act in the subsequent audit cycle.**

**2. Unconfirmed opening balances for property, plant and equipment**

The statement of financial position reflects property, plant and equipment balance of Kshs.9,161,172. The balance included an opening balance of Kshs.128,658,604 as at 01 July,2024. However, the company was registered on 22 October, 2024 resulting in unexplained and unsupported opening balances which were held three months before the Company's existence. Further the intercounty agreement between Trans Nzoia and

Bungoma Counties indicating the sharing of assets and liabilities for the defunct Nzoia Water Service Company was not provided for audit

### **Management Responses**

#### **i. Opening asset balances**

Management inherited assets from defunct Nzoia Water and Services Company Limited. This followed the task force recommendation and de-clustering report dated 15 September 2023. Recommended that assets are allocated to the two separating Counties based on location. Based on this report, the assets from the defunct company will be entered into the new company asset register. Copy of the de-clustering report was given for scrutiny.

#### **ii. Intercounty agreement**

Additionally, management has provided the intercounty agreement between Trans Nzoia and Bungoma Counties indicating the sharing of assets and liabilities for the defunct Nzoia for audit review.

### **Committee Observation**

The Committee observed that although management provided the de-clustering report and intercounty agreement between Trans Nzoia and Bungoma Counties, the actual sharing of assets from the defunct Nzoia Water Services Company has not been implemented, leaving the opening balance of Kshs. 128,658,604 unexplained and unsupported.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures the Accounting Officer implements the de-clustering report and intercounty agreement to formally share and allocate assets between Trans Nzoia and Bungoma Counties, and submits evidence of completion to the Senate and Auditor-General within 90 days of adoption of this report, failure to which the provisions of section 199 of the Public Finance Management Act, Cap. 412A on penalties for offences shall apply.**

#### **3. Unconfirmed Trade and other receivables balance**

The statement of financial position reflects trade and other receivables balance of Kshs.240,687,349. However, the supporting general ledgers indicating the dates, invoice number and amount due were not provided for audit review, and in its place, an ageing analysis for trade receivables was used to support the balance.

In the circumstances, the accuracy and completeness of trade and other receivables balance of kshs. 240,687,349 could not be confirmed.

### **Management Response**

The Management agrees with the audit finding. The company inherited data that had gaps including general ledgers for receivables. Management has appointed a committee on Assets and Liability Management to reconcile data relating to receivables and payables as per the attached letter of appointment. This exercise is expected to be complete by 31 st March, 2026.

### **Committee Observation**

The Committee observed that trade and other receivables of Kshs. 240,687,349 could not be confirmed as management did not provide properly detailed and analyzed schedules for receivables, and that although a committee on Assets and Liability Management was appointed to reconcile the inherited data gaps by 31st March 2026.

### **Committee Recommendation**

**The Committee recommends that —**

- i. The Governor ensures the Accounting Officer submits properly detailed and analyzed schedules for receivables of Kshs. 240,687,349 to the Auditor-General for verification within sixty (60) days of adoption of this report.**
- ii. The Governor ensures the Accounting Officer completes the Assets and Liability Management reconciliation exercise and submits the findings to the Senate and Auditor-General within sixty (60) days of adoption of this report, failure to which the provisions of section 199 of the Public Finance Management Act, Cap. 412A on penalties for offences shall apply.**

### **4. Unconfirmed Cash and Bank Balance**

The statement of financial position and Note 16 to the financial statements indicates cash and bank balance of Kshs.5,405,657. However, out of a total of fourteen (14) bank accounts, nine (9) belonged to the defunct Nzoia Water Services Company Limited and not BWASCO Water and Sewerage PLC. Further, the intercounty agreement between Trans Nzoia and Bungoma Counties indicating the sharing of assets and liabilities for the defunct water company was not provided for audit review.

In the circumstances, the accuracy and completeness of the cash and bank balance of Kshs. 5,405,657 could not be confirmed.

## **Management Response**

### **i. Pre-incorporation assets**

The inherited accounts were maintained temporarily pending formal transfer and closure approvals due to limitations arising from the absence of a fully constituted Board at the time. However, Management has initiated closure of these accounts. Copy of the board minutes and letter requesting bank account was provided for verification

### **ii. Intercounty agreement**

Additionally, management has provided the intercounty agreement between Trans Nzoia and Bungoma Counties indicating the sharing of assets and liabilities for the defunct Nzoia Water Services Company for audit review. Evidence of the transition report was provided for verification.

## **Committee Observation**

The Committee observed that out of nine bank accounts belonging to the defunct Nzoia Water Services Company, closure has only been initiated for three accounts leaving six accounts unaccounted for, and the matter remains partially addressed contrary to Regulation 22(1)(c) of the Public Finance Management (County Governments) Regulations, 2015.

## **Committee Recommendation**

**The Committee recommends that the Governor ensures the Accounting Officer initiates closure or formal transfer of all remaining six bank accounts belonging to the defunct Nzoia Water Services Company and submits evidence of closure or transfer to the Senate and Auditor-General within ninety (90) days of adoption of this report, failure to which the provisions of section 199 of the Public Finance Management Act, Cap. 412A on penalties for offences shall apply.**

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

The statement of financial position reflects trade and other payables balance of Kshs.129,959,352. However, the disclosure Note 19 to the financial statements discloses payables balance of Kshs.130,860,662, resulting in an unreconciled variance of Kshs.901,310. The payables comprise of consolidated balances for trade payables of Kshs.107,873,564, water deposit NWCPC of Kshs.1,045,560, payroll liabilities for

June,2025 salaries of Kshs.12,726,108, other trade liabilities of Kshs.3,026,876, and water deposits of Kshs.6,332,804.

Further, the general ledgers, invoices, fees demand notices, payrolls to support the payables were not provided for audit verification.

In the circumstances, the accuracy and completeness of trade and other payables balance of Kshs.129,959,352 could not be confirmed.

### **Management Response**

Management acknowledges the variance noted between the statement of financial position and the disclosure note 19. This relates to under-casted deposit. This will be corrected in the Financial Statements under prior year adjustment as at 30<sup>th</sup> June, 2025

The County Government has provided a grant of Ksh. 30 Million to the company in the current Financial Year. This will ease the company cash flows and ensure un-interrupted water distribution to all connected households

### **Committee Observation**

The Committee observed that-

- i. there was an unreconciled variance of Kshs. 901,310 between the statement of financial position and Note 19, which management attributed to an under-casted deposit and committed to correcting through prior year adjustment in FY 2025/2026.
- ii. supporting documents including general ledgers, invoices, fees demand notices and payrolls to support the payables balance were not provided at the time of audit.

### **Committee Recommendation**

The Committee recommends that —

- i. The Governor ensures the Accounting Officer undertakes prior year adjustments to reconcile the variance of Kshs. 901,310 in the subsequent audit cycle FY 2025/2026 in accordance with IPSAS 3. The Auditor-General to keep this in view in the subsequent audit cycle.
- ii. The Governor ensures the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap. 412A and section 47

of the Public Audit Act, Cap. 412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap. 412B and section 199 of the Public Finance Management Act, Cap. 412A on penalties for offences shall apply.

- iii. The Governor ensures the Accounting Officer strengthens internal audit controls and ensures proper record keeping in line with section 155 of the Public Finance Management Act, Cap. 412A and submits a quarterly report to the 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.
- iv. The Governor ensures the Accounting Officer makes timely submission of supporting documents during the audit process in line with section 47 of the Public Audit Act, Cap. 412B, failure to which the Committee shall recommend investigation and prosecution in accordance with section 62 of the Public Audit Act in the subsequent audit cycle.

#### **6. Unsupported Balances Due to Related Parties**

The statement of financial position reflects balances due to related parties of Kshs.109,302,534 which comprises of consolidated balances due to County Government of Kshs.47,152,530, Lake Victoria North Water Works Development

Agency of Kshs.51,368,017 and to Water Services Regulatory Board of Kshs.10,781,987 as disclosed in Note 21 to the financial statements, However, the general ledgers indicating the individual transactions, dates and amounts for the liabilities, and supporting demand notices from the named creditors were not provided for audit review.

In the circumstances, the accuracy and completeness of the balances due to related parties of Kshs. 109,161,172 could not be confirmed

#### **Management Response**

The general ledgers indicating the individual transactions, dates and amounts for the liabilities, and supporting demand notices from the named creditors have been provided for audit review. The Governor provided a general ledgers and other supporting Documents for verification.

#### **Committee Observation**

The Committee observed that –

- i. although management provided general ledgers for balances due to related parties of Kshs. 109,302,534, the ledgers only showed total amounts without individual transactions, dates and amounts, and
- ii. the circularization letters from WASREB and Lake Victoria North Water Works Agency did not indicate the amounts owed contrary to Section 9(1)(e) of the Public Audit Act, 2015.

### **Committee Recommendation**

**The Committee recommends that —**

- i. The Governor ensures the Accounting Officer provides detailed general ledgers showing individual transactions, dates and amounts for each related party balance of Kshs. 109,302,534 and submits the same to the Auditor-General for verification within sixty (60) days of adoption of this report.**
- ii. The Governor ensures the Accounting Officer obtains circularization letters from WASREB and Lake Victoria North Water Works Agency confirming the exact amounts owed and submits copies to the Senate and Auditor-General within sixty (60) days of adoption of this report.**
- iii. The Governor ensures the Accounting Officer complies with Section 9(1)(e) of the Public Audit Act, Cap.412B by ensuring unrestricted access to all books, records and documents during the audit process, failure to which the Committee shall recommend investigation and prosecution in accordance with section 62 of the Public Audit Act in the subsequent audit cycle.**

### **7. Unsupported Share Capital and Reserves**

The statement of financial position reflects ordinary share capital balance of Kshs.100,000, and general reserves balance of Kshs.40,000,000. However, the shares certificate, articles of association, and supporting documents for the general reserve balance were not provided for audit review.

In the circumstances, the accuracy and completeness of ordinary share capital and general reserves balances of Kshs.100,000 and kshs. 40,100,00 respectively could not be confirmed.

### **Management Response**

Management has provided the articles of association and CR12 indicating the shareholding position of the company. The general reserve of Ksh 40,000,000 relates to lease fee owed to county government of Bungoma which had been converted into share capital earlier and

the shareholding as per financial year 2016/2017. The Committee was served with Articles of Association

### **Committee Observation**

The Committee observed that-

- i. the share certificate was not provided at the time of audit but management tabled the articles of association and CR12 indicating the shareholding position and verified by the auditor.
- ii. that the general reserve of Kshs. 40,000,000 relates to lease fees owed to the County Government of Bungoma converted into share capital in FY 2016/2017, however no supporting documents were provided to confirm this conversion.

### **Committee Recommendation**

The Committee recommends that —

- i. The Governor ensures the Accounting Officer provides supporting documents confirming the conversion of lease fees of Kshs. 40,000,000 into share capital and submits the same to the Senate and Auditor-General for verification within sixty (60) days of adoption of this report.
- ii. The Governor ensures the Accounting Officer ensures access and timely submission of supporting documents during the audit process in line with section 9(1)(e) and 47 of the Public Audit Act, Cap. 412B, failure to which the Committee shall recommend investigation and prosecution in accordance with section 62 of the Public Audit Act in the subsequent audit cycle.

## **8. Budgetary Control and Performance and paragraph**

The statement of comparison of budget and actual amount reflects final receipts budget and actual on a comparable basis of and respectively, resulting in an under-funding of Kshs. 82,712,874 or 22% of the approved budget. Similarly, the Company spent against actual receipts of Kshs. 281,182,310 resulting in an under-utilization of Kshs. 65,172,224 or 20% of the budget.

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

### **Management Response**

Management clarifies that the variances were largely attributable to delayed exchequer releases from County Government of Kshs.36million and WSTF donor funding of Kshs 20 million and cautious expenditure controls exercised during the Company transition period. Priority was given to sustaining essential services while avoiding accumulation of unapproved liabilities.

Management through the county government has allocated a grant of Ksh.30M for financial year 2025/2026 to assist in settling the huge amounts of payable. The first tranche has been disbursed which was used to settle the huge power bills.

### **Committee Observation**

The Committee observed that-

- i. the Company experienced under-funding of Kshs. 82,712,874 or 22% of the approved budget due to delayed exchequer releases from the County Government of Kshs. 36 million and WSTF donor funding of Kshs. 20 million, and
- ii. under-utilization of Kshs. 65,172,224 or 20% of actual receipts due to cautious expenditure controls during the company transition period, negatively affecting implementation of planned activities and service delivery.

### **Committee Recommendation**

The Committee recommends that —

- i. **The Governor ensures the Accounting Officer bases budget projections on realistic and confirmed funding sources and engages with the County Government and WSTF to fast-track release of outstanding funds to enable implementation of planned activities.**
- ii. **The Governor ensures the Accounting Officer complies with Regulation 42(b) of the Public Finance Management (County Government) Regulations, 2015 on budgetary control measures, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply.**
- iii. **The Auditor-General monitors implementation and keeps this matter under review in the subsequent audit cycle.**

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

### **9. Non-Allowable Non-Revenue Water (NRW)**

The Management discussion and analysis statement indicate that NRW stood at an average of 52%. This was contrary to the requirements of Table 3.1 of the Water Services Regulatory Board (WASREB) Impact Performance Report No.14/2022 for the 2020/2021 financial year, the acceptable sector benchmark for Non-Revenue Water (NRW) is between 20% and 25%.

Further, it was observed that the company's water meters lacked special seals, which were essential for ensuring the integrity of utility measurements. The company did not provide a clear strategy or plan to address or mitigate the high level of water loss.

In the circumstances, internal controls over the Non-Revenue Water were weak and may lead to loss of water sales revenue either due to fraud, error or poor controls

#### **The Management Responses**

The management agrees with the audit findings and would wish to comment as follows including the action taken, however, the significant losses were created as a result of;

- i. The company using PVC pipes However, the pipes are prone to leakages and bursts and deliberate destructions by independent water vendors.
- ii. Old dilapidated pipe infrastructure which results to frequent leaks and bursts.
- iii. Illegal water connections that are registered in every zone.
- iv. Some of the rural community water schemes handed over to the company are a high contributor to non-Revenue water because of rural schemes are sparse and the response to leaks and burst is challenging.

Water theft is also a cause of concern This is done by meter tampering, where customers using private plumbers interfere with the meters.

The construction of most of the line was done by entities other than the company and the quality of the works done need replacement with proper quality materials.

Some of the water connections in these water schemes like Cheskaki treatments were metered but meters removed by the community. Currently they are disconnected because of non- payment. Efforts to address the issues are currently ongoing.

#### **Action Plan**

- i. From the year 2024, the company has been replacing the old PVC pipes with modern HDPE and PPR pipes which are of high quality in order to reduce regular leakages and bursts along the supply lines.
- ii. Crack down on illegal connections. The crackdown was complemented by a meter audit exercise sanctioned by the board. The report helped to identify 34 illegal connections. The company has also engaged security organs in curbing illegal connections especially in Chesikaki and Terem water schemes where many consumers had initially connected to the Company's main water supply illegally. Illegal connections have been attracting penalties as shown in the billing statement.
- iii. Progressive installation of water meters to non-metered consumers that are handed over by the rural water schemes to the company iv. The company is actively engaging and sensitizing the rural communities in the intake areas which records high NRW.
- iv. Due to financial constraints, the company was not able to procure meters as per the procurement plan; the management is therefore doing proposals to development partners to source for funds towards investment in smart meters for abstraction and production.
- v. With the creation of water police unit, the company will engage the unit for arrest and prosecution of illegal connection culprits. This will assist the company to reduce the Non-revenue levels.

#### **10. Non-compliance with employment act on deductions from employees**

Review of payroll records revealed that during the year under review, the Company made salary deductions exceeding two-thirds of basic pay for five (5) employees. This was contrary to Section 19(3) of the Employment Act, 2007.

#### **Management Response**

Management agrees with the audit finding. Five officers earn less than one third of their basis salary arising from introduction of Housing Levy, Social Health Authority (SHA) and increased NSSF deductions.

Management has, however, regularized the officer's deductions by suspending non-statutory deductions. The Management produced copies of paayslip.

#### **Committee observations**

The Committee observed that the water company had an NRW of 52% which is above the recommended sector benchmark of 25% as prescribed by the Water Services Regulatory Board (WASREB).

## **Committee Recommendation**

The Committee recommends that—

- i. the Governor ensures the Accounting Officer responsible for the water company puts in place comprehensive measures to mitigate the Non-Revenue Water. These measures include the installation of smart meters to ensure accurate billing, the replacement of the old water supply network as well as the introduction of a Geographic Information System (GIS) which will help the company receive real-time data on leaks in pipes and monitor maintenance;
- ii. the Governor should engage the Ethics and Anti-Corruption Commission (EACC) to facilitate the development of a comprehensive institutional corruption prevention policy for the company;
- iii. given the impact of Non-Revenue Water on the water company's cashflows, the Accounting Officer should ensure that a provision for Non-Revenue Water is included in the financial statements. Further, explanatory notes should be provided to detail the contributions of both commercial and physical loss factors to the overall Non-Revenue Water;
- iv. the Auditor-General to monitor implementation and effectiveness of the measures put in place to mitigate on the Non-Revenue Water and report in the subsequent audit cycle; AND
- v. The EACC investigates the high Non-Revenue Water level to determine whether it was a result of systematic commercial theft, illegal connections, collusion between staff and untheorized water users or any other administrative lapses, and to provide status update on the matter to the Senate within 90 days of the adoption of this report.

### **11. Staff in acting capacity for more than six months**

Review of personnel records revealed that five (5) staff had served in acting capacity for periods exceeding six months.

This was contrary to Section B.19 of the Key issue

### **Management Response**

Management acknowledges the audit observation regarding the breach of the Public Service Commission (PSC) Human Resource Manual provisions relating to staff serving in acting capacity beyond the Management Response.

prescribed period. The non-compliance arose due to the absence of a duly constituted Board, which limited management's ability to regularize the acting appointments within the required timelines.

However, this was mitigated by the County Government of Bungoma seconding some staff to BWASCO.

### **Action Plan**

Management further commits to implementing the following measures:

- a) Expedite recruitment processes for all vacant substantive positions within the shortest time possible.
- b) Establish and implement succession planning and talent management frameworks to ensure continuity and strengthen organizational capacity.

### **Committee Observation**

The Committee observed that five staff served in acting capacity for more than six months without substantive appointment, contrary to Section B.19 of the Public Service Commission Human Resource Manual.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures the Accounting Officer for the water company expedites the recruitment and substantive appointment of all officers currently serving in acting capacity in compliance with Section B.19 of the Public Service Commission Human Resource Manual, and submits evidence of appointments to the Senate and Auditor-General within sixty (60) days of adoption of this report.**

## CHAPTER TWO: MUNICIPALITIES

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

The Governor of Kenneth Lusaka, EGH, appeared before the Committee Wednesday 21st January, 2025 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Bungoma Municipality for the Financial Year 2024/2025. The Governor was accompanied by the following officers—

1. Ms. Carolyne Makali -CECM Finance
2. Mr. Vincent Ngeywo - Municipal Manager
3. Mr. Ham Wesonga - Chairman Municipality

#### REPORT ON THE FINANCIAL STATEMENTS

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

##### 1. Unconfirmed Nets Assets Balance

The statement of changes in net assets reflects net assets balance of kshs. 259,228,877 in respect to accumulated surplus. The balance includes additions for prior year assets of Kshs.2,329,000 and a reduction by accumulated depreciation for prior year of kshs. 1,373,198.

However, these adjustments had not been explained and supported by any documentation. Further, the net assets opening balance of Kshs. 94,210,569 differs with the previous year audited financial statements for the year ended 30 June, 2024 balance of Kshs. 97,632,672 by an unexplained variance of Kshs. 3,422,103.

In the circumstances the accuracy and completeness of net assets balance of Kshs. 259,228,877.

##### Management Response.

Management responds as follows:

- i. Prior year assets of kshs.2,329,000 and depreciation adjustment of Kshs. 1,373,198.

This adjustment relates to assets procured under Kenya Urban Support Programme which were erroneously omitted in the Financial Statements of the previous year 2023/2024. Management will seek guidance of auditor general on correction of this prior period error as provided under IPSAS 3 - Accounting Policies, Changes in Accounting Estimates and Errors.

**i. Unexplained variance of kshs. 3,422,103.**

This variance relates to unreported personnel emoluments liability for May and June 2024. This liability was not declared in the previous Financial Year. As explained above, management will correct this error as provided under IPSAS 3.

The additions for prior year assets of Kshs.2,329,000 and a reduction by accumulated depreciation for prior year of Kshs. 1,373,198. This was for undeclared prior year assets for furniture and fittings of kshs. 1,146,000 and Computers and accessories for kshs.1,183,000.

### **Committee Observation**

The Committee observed that-

- i. the opening net assets balance differed from the previous year's audited closing balance by Kshs. 3,422,103 representing unreported personnel emoluments liability for May and June 2024.
- ii. prior year adjustments of Kshs. 2,329,000 for KUSP assets and Kshs. 1,373,198 for depreciation were not supported by documents at the time of audit, with corrections yet to be affected in the financial statements contrary to IPSAS 3.

### **Committee Recommendation**

**The Committee recommends that —**

- i. **the Governor ensures the Accounting Officer undertakes prior year adjustments to reconcile the variance of Kshs. 3,422,103 and corrects the KUSP asset additions of Kshs. 2,329,000 and depreciation of Kshs. 1,373,198 in the subsequent audit cycle FY 2025/2026 in accordance with IPSAS 3, and the Auditor-General to keep this in view in the subsequent audit cycle.**
- ii. **the Governor ensures the Accounting Officer ensures access and timely submission of supporting documents during the audit process in line with sections 9(1)(e) and 47 of the Public Audit Act, Cap. 412B, failure to which the Committee shall recommend investigation and prosecution in accordance with section 62 of the Public Audit Act in the subsequent audit cycle.**

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

## **2 Unconfirmed Amount of Net Cash Flows from Operating Activities**

The statement of cash flows reflects use of goods and services payments amount into Kshs.6,136,912, which differs with statement of financial performance amount of kshs. 999,239 by an unexplained variance of Kshs.1,772,327. Further, the statement of cash flows amount of Kshs.6,136,912 was not supported by a transactional ledger.

Further, Note14 to the financial statements in respect to cash generated from operations indicates net cash flows from operating activities amounting to Kshs.168,488,999, which includes increase in payables of Kshs.2,203,582. However, the statement of financial position indicates a decrease in payables of kshs.3,049,991 resulting to an unexplained variance of kshs.5,253,573.

In the circumstances, the accuracy and completeness of net cash flows from operating activities amounting to Kshs. 168,488,999 could not be confirmed.

### **Management Response.**

The cashflow statement was prepared on cash basis as opposed to the statement of Financial Performance, which was prepared on accrual basis. This ordinarily created variances in the cash flow statement. Management has provided a separate disclosure as observed by audit. Additionally, management has provided disclosures detailing the transactions included cash flow figures. Evidence of transactional ledger for unexplained

variance of Kshs.1,772,327 and evidence of transactional ledger for cash flows amount of Kshs. 6,136,912 was provided for committee verification.

### **Committee Observations**

The Committee observed that the variance of Kshs. 5,253,573 between the increase in payables in Note 14 and the decrease in payables in the statement of financial position remains unreconciled, and that transactional ledgers were not provided at the time of audit but only tabled during committee proceedings contrary to Section 9(1)(e) of the Public Audit Act, Cap. 412B.

### **Committee Recommendation**

**The Committee recommends that —**

- i. the Governor ensures the Accounting Officer undertakes prior year adjustments to reconcile the outstanding variance of Kshs. 5,253,573 in the subsequent audit cycle FY 2025/2026 and the Auditor-General to keep this in view in the subsequent audit cycle;**
- ii. the Governor ensures the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap. 412A and section 47 of the Public Audit Act, Cap. 412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap. 412B and section 199 of the Public Finance Management Act, Cap. 412A on penalties for offences shall apply;**
- iii. the National Treasury enhances awareness and training on changes made to 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 submits a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap. 412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap. 412A on penalties for offences shall apply; and**
- v. the Governor ensures the Accounting Officer ensures access and timely submission of supporting documents during the audit process in line with section 9(1)(e) and 47 of the Public Audit Act, Cap. 412B, failure to which the Committee shall recommend investigation and prosecution in**

accordance with section 62 of the Public Audit Act, Cap. 412B in the subsequent audit cycle.

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

The statement of financial position and Note 12 to the financial statements reflect property, plant and equipment balance of Kshs.348,886,623 which includes additions to work in progress amounting to Kshs.160,788,128. However, the supporting general ledgers indicating invoice number, date, contractor, amount and other supporting documents including measurement certificates were not provided for audit review.

Further, transfers and adjustments amounting to Kshs.2,329,000 which comprises furniture and fittings of Kshs.1,146,000 and computers of Kshs.1,183,000, were not explained supported.

In the circumstances, the accuracy and completeness of property, plant and equipment balance of Kshs.348,886,623 could not be confirmed.

### **Management Response.**

Management responds as follows:

#### **i. Supporting general ledgers**

Management has provided supporting general ledgers indicating invoice number, date, contractor, amount and other supporting documents including measurement certificates for audit review

#### **ii. Prior year assets of Kshs. 2,329,000 and depreciation adjustment of kshs. 1,373,198.**

This adjustment relates to assets procured under Kenya Urban Support Programme which were erroneously omitted in the Financial Statements of the previous year 2023/2024. Management will seek guidance of auditor general on correction of this prior period error as provided under IPSAS 3 - Accounting Policies, Changes in Accounting Estimates and Errors.

### **Committee Observation**

The Committee observed that –

- i. management provided supporting general ledgers, measurement certificates and contractor details for work in progress of Kshs. 160,788,128 during committee proceedings and the matter is satisfactorily addressed.

- ii. that transfers and adjustments of Kshs. 2,329,000 comprising KUSP assets were erroneously omitted from the previous year's financial statements and corrections under IPSAS 3 are yet to be effected.

### **Committee Recommendation**

The Committee recommends that —

- i. the Governor ensures the Accounting Officer corrects the erroneously omitted KUSP assets of Kshs. 2,329,000 in the subsequent audit cycle FY 2025/2026 in accordance with IPSAS 3, and the Auditor-General to keep this in view in the subsequent audit cycle; and
- ii. the Governor ensures that the Accounting Officer ensures timely submission of supporting documents during the audit process in line with sections 9(1)(e) and 47 of the Public Audit Act, Cap. 412B, failure to which the Committee shall recommend investigation and prosecution in accordance with section 62 of the Public Audit Act in the subsequent audit cycle.

### **3. Inaccuracy of Trade and Other Payables Balance**

The statement of financial position reflects trade and other payables balance of Kshs.89,818,280 and as disclosed in Note 13 to the financial statements. However, supporting ledger indicates a balance of Kshs.89,767,053 resulting to unexplained variance of Kshs.51,227.

In addition, the ageing analysis revealed that debts amounting to Kshs 83,010,115 to had been outstanding for a period of more than twelve (12) months and no reason was provided for failure to pay debts when due. This was contrary to Regulation 150(1) of the Public Procurement and Assets Disposal Regulations, 2020 which states that subject to availability of funds and certification of goods, works or services payments are made within 60 days from date of receipt of invoice.

In the circumstances, the accuracy and completeness of trade and other payables balance of Kshs.89,818,280 could not be confirmed.

### **Management Response**

Management responds as follows:

The variance of Kshs.51,227 relates to unpaid retention held at special purpose account as evidenced by the bank statement and bank reconciliation statement provided to the committee for scrutiny.

Management takes note of the long outstanding payables. In the 1<sup>st</sup> supplementary budget of the current Financial Year, an allocation of Ksh.7,265,730 has been made to partially

clear the pending bill. The minimal allocation is due to budget constraints. More budgetary allocation will be made in the Financial Year 2026/2027.

### **Committee Observations**

The Committee observed that –

- i. the variance of Kshs. 51,227 relates to unpaid retention held in a special purpose account.
- ii. trade payables of Kshs. 83,010,115 have been outstanding for more than 12 months with only Kshs. 7,265,730 partially allocated in the current year supplementary budget, leaving a balance of Kshs. 75,744,385 outstanding contrary to Regulation 150(1) of the Public Procurement and Assets Disposal Regulations, 2020.

### **Committee Recommendation**

The Committee recommends that —

- i. the Governor ensures budget provision is made to clear the outstanding payables of Kshs. 75,744,385 before the end of Financial Year 2026/2027, treating debt service payments as a first charge on revenue in compliance with Regulation 41(2) of the Public Finance Management (County Governments) Regulations, 2015, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply;
- ii. the Governor ensures the Accounting Officer, within sixty (60) days of the adoption of this report, engages all relevant creditors to agree on a structured repayment plan with clear timelines for the full settlement of the outstanding payables and submits evidence of the agreed plan to the Senate and copies the Auditor-General for verification; and
- iii. the Auditor-General monitors the implementation of the repayment plan and provides a status update in the subsequent audit cycle.

### **Emphasis of Matter**

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

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis amounts of kshs.272,488,241 and Kshs. 202,259,955 respectively, resulting to under-funding of Kshs.70,228,286 or 26% of the budget. Similarly, the Municipality expended Kshs.168,488,999 against approved budget of kshs. 224,865,924 resulting to under-expenditure of kshs. 56,376,925 or 25% of the budget.

The under-funding and under-expenditure affected the implementation of planned activities and impacted negatively on the operations of the Municipality.

### **Management Response**

The underfunding was caused by unremitted grants from donor funds in the year under review.

### **Committee Observation**

The Committee observed that the Municipality experienced under-funding of Kshs. 70,228,286 or 26% of the budget due to unremitted donor grants, and under-expenditure of Kshs. 56,376,925 or 25% of the approved budget, negatively affecting implementation of planned activities and service delivery.

### **Committee Recommendation**

The Committee recommends that —

- i. the Governor ensures the Accounting Officer bases budget projections on realistic and confirmed funding sources to avoid under-funding and engages with relevant donor agencies and state departments to fast-track the release of outstanding grants; and
- ii. the Governor ensures the Accounting Officer complies with Regulation 42(b) of the Public Finance Management (County Government) Regulations, 2015 on budgetary control measures, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply.

### **Other Matter**

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

In the previous year audit, issues were raised under Report on the Financial Statements, Report on Lawfulness and Effectiveness in the Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. The Management has indicated under the progress on follow up of Auditor's recommendations section of the financial statements that five issues were resolved, one partially resolved, five issues not resolved, and two issued were omitted in the disclosure. However, no supporting documents were provided for audit review to show how the issues were resolved, and no reasons were given for not resolving the outstanding issues.

#### **Management Response**

Management has conducted self-assessment on status of the prior year audit matters. Further, management is waiting for recommendations from oversight bodies so that a conclusion is reached on these matters. Copy of the assessment was provided for scrutiny.

#### **Committee Observation**

The Committee observed that the query remains unresolved, as numerous issues highlighted in the progress report are yet to be addressed.

#### **Committee Recommendation**

- i. the Governor ensure that the Accounting Officer resolves any issues resulting from an audit that remains outstanding as required by section 149(2)(l) of the Public Finance Management Act, Cap. 412A, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences may apply; and
- ii. the Governor should ensure that Accounting Officer submits the status report on the mitigation measures taken to resolve prior year matters in line with section 149 (2) (l).

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

#### **Basis for Conclusion**

##### **1. Failure to Appoint a Substantive Municipality Manager**

During the year under review, the Municipality was headed by acting managers who were deployed from the county executive of Bungoma. The acting manager at the time of audit in September, 2025 was deployed on January, 2025 and later removed from office before the audit exercise was concluded. No explanation was provided on failure to appoint a substantive manager as required by Section 29 of the Urban Areas and Cities Act, 2011 and Paragraph 1.1.66 of the Bungoma County Municipality charter which states that the Municipality manager shall be competitively recruited and appointed by the County Public Service Board.

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

#### **Management Response**

Management agrees with the audit finding. When the vacancy arose for the position of the Municipality Manager, the tenure of most of the members of the County Public Service Board had ended. The board had no quorum. Management has constituted the Public Service Board and a budgetary allocation for this position has been provided for recruitment. Copy of the gazettelement was provided for scrutiny.

#### **Committee Observation**

The Municipality operated throughout the year under acting managers, including an acting manager deployed in January 2025 and removed before audit completion in September 2025, contrary to Section 29 of the Urban Areas and Cities Act, 2011.

#### **Committee recommendation**

**The Committee recommends that the Governor ensures that a substantive Municipal Manager is competitively recruited and appointed by the County Public Service Board in compliance with section 29 of the Urban Areas and Cities Act, Cap. 275 and Paragraph 1.1.66 of the Bungoma County Municipality Charter, and submits proof of appointment to the Senate and Auditor-General within sixty (60) days of adoption of this report.**

#### **1. Lack of Operational Autonomy of the Municipality**

During the year under review, it was observed that all the functions of the Municipality were carried out by the County Executive of Bungoma through Departments of Lands, Housing, Urban Areas Development and Physical Planning, and Road and Public Works. This was contrary to Section 21(1) (a) of the Urban Areas and Cities Act, 2011 which gives Municipalities executive authority as delegated by county executive.

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

#### **Management Response**

The management has taken steps towards achieving municipality autonomy by operationalizing a recurrent Special purpose Bank Account with Central Bank of Kenya. A request to open a development account for the Municipality has been approved. Management further reiterates that the Municipality Board is fully constituted in compliance with Urban Areas and Cities Act, 2011. Evidence of municipality bank statement and special purpose account was provided for scrutiny.

#### **Committee Observation**

The Committee observed that all functions of the Municipality were carried out by the County Executive through various departments, depriving the Municipality of executive authority contrary to section 21(1)(a) of the Urban Areas and Cities Act, Cap. 275, and that although management has operationalized a special purpose bank account and constituted the Municipality Board, full operational autonomy has not yet been achieved.

#### **Committee Recommendation**

**The Committee recommends that the Governor ensures the Municipality is fully operationalized and resourced adequately so that it undertakes its delegated functions as gazette by the county government in accordance with the Urban Areas and Cities Act and section 172 of the Public Finance Management Act, Cap.412A.**

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

### **Basis for Conclusion**

#### **Lack of Board Charter and Board Work Plan**

Review of the Board operations during the year under review revealed lack of Board charter and annual work plan. This was contrary to Governance parameter No.1.9 of Mwongozo Code of Governance, 2015 which directs the Board to have in place an annual work plan which should at a minimum focus on review of management implementation of strategies, polices and plans and budgeting and financial management, and Governance parameter No.1.11 which directs the Board to have in place a Board Charter defining the roles and responsibilities of the Board members.

In the circumstances, the effectiveness of the Municipality's governance could not be confirmed.

### **Management Response**

At the time of audit, the board's charter and work plan were not in place. However, the board has fast tracked the documents and currently there is a board workplan for current financial year. Further, the board charter development process is ongoing. Evidence of charter and plan was provided for scrutiny.

### **Committee Observation**

The Committee observed that the Board lacked an approved Board Charter and a signed annual work plan for the year under review.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures the Board finalizes and adopts a Board Charter and a signed annual Board Work Plan in compliance with Governance Parameters 1.9 and 1.11 of the Mwongozo Code of Governance, 2015 and submits copies to the Senate and Auditor-General within sixty (60) days of adoption of this report, failure to which the provisions of section 199 of the Public Finance Management Act, Cap. 412A on penalties for offences shall apply.**

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

The Governor of Kenneth Lusaka, EGH, appeared before the Committee on Wednesday 28th January, 2025 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Kimilili Municipality for the Financial Year 2024/2025. The Governor was accompanied by the following officers—

1. Ms. Carolyne Makali - CECM Finance.
2. Mr. Martin Mabangi - Municipal Manager
3. CPA Ambrose Makokha -Director Accounts

### REPORT ON THE FINANCIAL STATEMENTS

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

#### i. Accuracy of Opening and Comparative Balances in the Financial Statements

The financial statements for Kimilili Municipality reflect comparative amounts and opening balances which differ in comparison with those stated in audited financial statements of previous financial year 2023/2024 as shown below;

- i. Staff costs amount of Kshs.14,723,362 differ with Kshs.12,085,604, resulting to an unexplained variance of Kshs. 2,637,758.

#### Management Responses.

The staff costs for May and June, amounting to Kshs. 2,637,758 had not been captured in financial statements for FY-2023/24 thus under reporting of staff costs as Kshs. 12,085,604. This was corrected in FY 2024/25 to Kshs. 14,723,362 as per accrual reporting requirement.

Staff costs reported in FY 2023/24 financial statements	12,085,604
Adjusted for:	
2 months' salary not paid at the end of the FY 2023/24	2,637,758
Adjusted staff costs FY 2023/24	14,723,362

Evidence of the above was provided for scrutiny.

- ii. Depreciation and amortization expenses amount of Kshs. 1,989,172 differ with Kshs. 1,866,301, resulting to an unexplained variance of Kshs. 122,871.

**Management Response.**

In FY 2023/24, the depreciation method used was reducing balance. Thus, the management guided by the Asset and Liability Management in the Public Sector Guidelines - 2020 adopted the straight-line depreciation policy. IPSAS 3 recommends on adjustment in case of change in use of policy (for consistency), thus the variance of Kshs. 122,871 is attributed to the difference in the depreciation method as below:

	Capital, work & civil works	Computers
	Ksh	Ksh
Total Cost of asset as at 30th June 2024	65,746,000	1,151,741
Method of Depreciation & Rate	2.50%	30%
Prior: Reducing Balance	1,624,435.19	241,866.00
Current: Straight-line Base Recalculation	1,643,650.01	345,522.42
Net Adjusted Depreciation.	19,215	103,656
	19,215+103,656 = 122,871	

- iii. Property, plant and equipment balance of Kshs. 111,915,541 differ with Kshs. 111,830,713 resulting to an unexplained variance of Kshs. 84,828.

**Management Response.**

The trade payable in FY 2023/24 Financial statements was under casted by Kshs. 207,700. This error was occasioned by wrong posting of transactions for 2 companies (Blue magma Limited and Wekesa Communications Limited). Blue Magma Limited was captured as Kshs. 3,091,120 (contract sum) instead of Kshs. 3,027,380. Thus, over casted by Kshs. 63,740. Wekesa Communications Limited was captured as Kshs. 2,669,740 instead of

Kshs. 2,941,180. Thus, under casted by Kshs. 271,440. Thus, a net under cast of Kshs. 207,700. Copy of the payment voucher for blue magma and wekesa, approved journal for adjustment, PPE ledgers and revised financial statement were provided for scrutiny.

	Kshs.
Initial Property, plant and equipment	111,830,713
Add Under casted WIP	207,700
Less Net Adjusted Depreciation.	(122,871)
Restated Property, plant and equipment	111,915,541

- iv. Trade and other payables balance of Kshs. 45,284,657 differ with Kshs. 42,439,200, resulting to an unexplained variance of Kshs. 2,845,457.

#### Management Response.

The variance of Kshs. 2,845,457 was occasioned by 2 months' salary not captured at the end of the FY 2023/24 of Kshs. 2,637,758 and Under casted trade payables of Kshs. 207,700 as computed below. Copy of the payable ledger and payment vouchers were provided.

	Kshs.
2 months' salary not captured at the end of the FY 2023/24	2,637,758
Add Under casted WIP	207,700
Unexplained variance	2,845,457

- v. Accumulated surplus balance of Kshs. 67,916,314 differ with Kshs. 70,676,943, resulting to an unexplained variance of Kshs. 2,760,629.

#### Management Response.

The under casted 2 months' salary of Kshs. 2,637,758 and under casted depreciation of Kshs. 122,871 occasioned the changes in accumulated surplus by Kshs. 2,760,629. Copy of the approved journal and the salary vouchers were provided for scrutiny.

	Kshs.
2 months' salary not captured at the end of the FY 2023/24	2,637,758
Under casted depreciation	122,871

Unexplained variance	2,760,629
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**Committee observation.**

The Committee observed that management provided supporting documents to support the variances and provided restated financial statements to confirm the adjustments made in the prior year balances, which were verified by the Auditor-General.

**Committee Recommendation**

**Noting the mitigation undertaken by the Governor, the Committee recommends that the matter be marked as resolved.**

**i. Unconfirmed Transfers from the County Government**

The statement of financial performance reflects transfers from the County Government amounting to Kshs. 32,704,128 and as disclosed in Note 6 to the financial statements. However, the supporting direct expenditure vouchers incurred by the County Executive of Bungoma on behalf on the Municipality amount to Kshs. 32,495,928, resulting to an unexplained variance of Kshs. 208,200. Further, the financial statements of the County Executive revealed a corresponding transfer to Kimilili Municipality of Kshs. 32,919,402, resulting in an unexplained variance of Kshs. 215,274.

In the circumstances, the accuracy and completeness of transfers from the County Government amounting to Kshs. 32,704,128 could not be confirmed.

**Management Response.**

The actual amount transferred by the County Executive is Kshs. 32,704,128. The discrepancy of Kshs. 208,200 between Note 6 of the financial statement and supporting vouchers was due to under casting of Blue Magma Limited and Wekesa Communications Limited of Kshs. 207,700. This error was occasioned by wrong posting of transactions for 2 companies (Blue magma Limited and Wekesa Communications Limited). Blue Magma Limited was captured as Kshs. 2,669,740 instead of Kshs. 3,027,380. Thus under casted by Kshs. 357,640. Wekesa Communications Limited was captured as Kshs. 3,091,120 instead of 2,941,180. Thus, over casted by Kshs. 149,940. Thus, a net under cast of Kshs. 207,700; and Kshs. 500 as error of commission, being payment to KPLC (captured as Kshs. 30,350 instead of Kshs. 30,850). Copy of KPLC voucher, payment voucher for communications limited were provided.

Under casted expenditures	207,700
Add error of commission	500

Unexplained variance	208,200
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### **Committee Observation**

The Committee observed that-

- i. The management provided supporting documents to explain the variance of Kshs. 208,200 arising from wrong posting of transactions and an error of commission,
- ii. the variance of Kshs. 215,274 between the County Executive's recorded transfer of Kshs. 32,919,402 and the Municipality's recorded receipt of Kshs. 32,704,128 remains unexplained.

### **Committee Recommendation**

The Committee recommends that —

- i. the Governor ensures the Accounting Officer undertakes prior year adjustments to reconcile the variance of Kshs. 215,274 between the County Executive's transfer records and the Municipality's financial statements in the subsequent audit cycle FY 2025/2026, and the Auditor-General keeps this matter in view;
- ii. the Governor ensures the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap. 412A and section 47 of the Public Audit Act, Cap. 412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap. 412B and section 199 of the Public Finance Management Act, Cap. 412A on penalties for offences shall apply; and
- iii. the Governor ensures the Accounting Officer strengthens internal audit controls and ensures proper record keeping in line with section 155 of the Public Finance Management Act, Cap. 412A and submits a quarterly report to the CECM Finance and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap. 412A.

### **Emphasis of Matter**

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

The statement of comparison of budget and actual amounts reflects revenue final budget and actual on comparable basis amounts of Kshs. 95,337,575 and Kshs. 32,704,128 respectively, resulting to an under-funding of Kshs. 62,633,447 or 66% of the budget.

Similarly, the Municipality expended an amount of Kshs. 35,132,123 against an expenditure budget of Kshs. 42,698,217 resulting to an under-expenditure of Kshs. 7,566,094 or 18% of actual revenue. The Management did not prepare budget notes to explain material under and over expenditure.

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

#### **Management Response.**

The underfunding is majorly attributable to non-realization of KUSP grant of Kshs. 45,368,215. The grant is expected to be realized in FY 2025/26.

#### **Committee Observation**

The Committee observed that the Municipality experienced underfunding of Kshs. 62,633,447 or 66% of the budget primarily due to non-realization of KUSP grant of Kshs. 45,368,215, and under-expenditure of Kshs. 7,566,094 or 18% of actual revenue, negatively affecting implementation of planned activities and service delivery.

#### **Committee Recommendations**

**The Committee recommends that —**

- i. the Governor ensures the Accounting Officer bases budget projections on realistic and confirmed funding sources and prepares budget notes to explain all material variances in compliance with IPSAS 24 on presentation of budget information in financial statements;**
- ii. the Governor engages with relevant donor agencies to fast-track the release of the outstanding KUSP grant of Kshs. 45,368,215 to enable implementation of planned activities; and**
- iii. the Governor ensures the Accounting Officer complies with Regulation 42(b) of the Public Finance Management (County Government) Regulations, 2015 on budgetary control measures, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply.**

**Other Matter**

**Unresolved Prior Year Matters**

In the previous year’s audit, several issues were raised under Report of the Financial Statements, Report on Lawfulness, Effectiveness in the Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance as stated. However, Annex 1 to the financial statements in respect to progress on follow-up of Auditor’s recommendations indicates that the issues were either resolved, partially resolved, or not resolved. Further, explanations were not provided for failure to implement the recommendations.

**Unresolved Prior Year Matters**

Reference No. of the Auditor-General’s Report	Observation
	Report on the Financial Statements
1	Unsupported Trade and Other Payables
2	Unconfirmed Property, Plant and Equipment Balance
	Report on Lawfulness and Effectiveness in the Use of Public Resources
1	Lack of Operational Autonomy of Kimilili Municipality
2	Failure to Prepare and Submit Previous Years Financial Statements
	Report on Effectiveness of Internal Controls, Risk Management and Governance
1	Information Communication Technology (ICT) Internal Control Weaknesses
2	Failure to Establish Audit Committee

**Management Response**

The progress of the status of the prior year matters 2023-2024 is available for audit review. Appendix 7-Progress of the prior year Audit Issues 2023-2024.

**Committee Observation**

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

**Committee Recommendations**

**The Committee recommends that—**

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

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

### **Basis for Conclusion**

#### **1. Failure to Appoint a Substantive Municipality Manager**

During year under review, two acting managers were deployed at different periods in the Municipality by County Executive of Bungoma. However, the reasons for failure to competitively appoint a municipal manager in compliance with the law was not provided for audit review. This was contrary to Section 29 of the Urban Areas and Cities Act, 2011 which states that a city or Municipal Manager shall be competitively recruited and appointed by an institution responsible for recruiting public servants in the county, and Paragraph 1.1.66 of the Kimilili Municipality charter which states that the Municipality manager shall be competitively recruited and appointed by the County Public Service Board.

#### **Management Responses.**

The process of competitively recruiting a substantive Municipality Manager is currently underway through the County Public Service Board. The acting appointments were made to ensure continuity of service pending the completion of the recruitment process. The Board is committed to ensuring full compliance with the Urban Areas and Cities Act, 2011, and the Municipality Charter. Copy of the letter was provided for committee verification.

In the circumstances, Management was in breach of law.

#### **Committee Observation**

The Committee observed that the Municipality operated under two acting managers without a substantive Municipal Manager being competitively recruited and appointed

contrary to Section 29 of the Urban Areas and Cities Act, 2011, and that although the recruitment process is underway, no evidence of completion was provided.

### **Committee Recommendation**

The Committee recommends that the Governor ensures that a substantive Municipal Manager is competitively recruited and appointed by the County Public Service Board in compliance with Section 29 of the Urban Areas and Cities Act, Cap. 275 and Paragraph 1.1.66 of the Kimilili Municipality Charter, and submits proof of appointment to the Senate and Auditor-General within 60 days of adoption of this report.

### **2. Lack of Operational Autonomy of the Municipality**

During the year under review, it was observed that all the functions of the Municipality were carried out by the County Executive of Bungoma through departments of lands, housing, urban areas development and physical planning, and department of road and public works. This was contrary to Section 21(1)(a) of the Urban Areas and Cities

Act, 2011 which gives Municipalities executive authority as delegated by County Executive, and Section 12 (2) of the Urban Areas and Cities Act, 2011 which states that the Board of an area granted the status of a City or Municipality under this Act, shall be a body corporate with perpetual succession and a common seal and shall, in its corporate name, be capable of; - a) Suing and being sued; b) Taking, purchasing or otherwise acquiring, holding, charging or disposing of movable and immovable property; c) Borrowing money or making investments; d) Entering into contracts; and e) Doing or performing all other acts or things for the proper performance of its functions in accordance with this Act or any other written law which may lawfully be done or performed by a body corporate.

In the circumstances, Management was in breach of law.

### **Management Response.**

The Municipality has initiated measures to operationalize its executive functions in accordance with the provisions of the Urban Areas and Cities Act, 2011. The process of delegating specific executive authority from the County Executive to the Municipality Board is underway to ensure full compliance with the law and to enhance the autonomy and effectiveness of municipal operations. Copy of the account provided for scrutiny.

Operational account has been opened for the Municipality.

### **Committee Observation**

The Committee observed that all functions of the Municipality were carried out by the County Executive through various departments, depriving the Municipality of operational autonomy contrary to Section 21(1)(a) of the Urban Areas and Cities Act, 2011.

### **Committee Recommendation**

**The committee recommends that the Governor ensure that the operation of Municipality is undertaken according to the functions delegated as gazzetted by the county government and is adequately funded in accordance with section 172 of the PFM Act 2012, to enhance the operational independence and enable effective service delivery. The Governor should further ensure that the Municipalities in the county are operationalized to undertake their delegated functions in line with the law by the commencement of the financial year 2026/2027.**

### **3. Failure to Settle Outstanding Trade and Other Payables**

Note 13 to the financial statements reflects trade and other payables balance of Kshs. 51,837,565. However, the Management had not established a payment plan and budget to ensure prompt settlement of the debts as they fall due. This was contrary to Regulation 41(2) of the Public Finance Management (County Governments) Regulations, 2015 which provides that debt service payments shall be a first charge on the County Revenue Fund and the Accounting Officer shall ensure this is done to the extent possible that the county government does not default on debt obligations.

In the circumstances, failure to settle bills as and when they fall due results in unlawful retention of suppliers' payments, and may lead to non-delivery of goods and services to the Municipality.

### **Management Responses.**

The Management has established a payment plan and await the second supplementary approval to incorporate all pending amounts into the budget to ensure prompt settlement of the debts as the fall. Copy of the minute and payment plan was provided for scrutiny.

### **Committee Observation**

The Committee observed that trade and other payables of Kshs. 51,837,565 remained unsettled and although management tabled a payment plan, the second supplementary budget approval to incorporate the pending amounts is yet to be obtained, contrary to Regulation 41(2) of the Public Finance Management (County Governments) Regulations, 2015.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures the Accounting Officer fast-tracks the second supplementary budget approval to incorporate and settle all outstanding payables of Kshs. 51,837,565 with clear timelines, treating debt service payments as a first charge on revenue in compliance with Regulation 41(2) of the Public Finance Management (County Governments) Regulations, 2015, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply.**

## CHAPTER THREE: HOSPITALS

### 3.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS OF BUNGOMA COUNTY REFERRAL LEVEL 5 HOSPITAL FOR THE FINANCIAL YEAR 2024/2025.

The Committee received written management responses to the following queries raised in the report of the Auditor-General on financial statements of Bungoma County Referral Level 5 Hospital for the Financial Year 2024/2025.

#### REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **qualified opinion** on the financial statements of Bungoma County Referral Level 5 Hospital for the period under review on the following basis –

##### 1. Incomplete Disclosure of In-Kind Contributions from the County Government.

The statement of financial performance and Note 6 to the financial statements reflect in-kind contributions from the County Government revenue amounting to Kshs.22,280,840 in respect to salary payments to hospital staff for the months of July, 2024 to December, 2024. However, the hospital did not recognize in the financial statements the staff salaries for the remaining six (6) months of the financial year from January, 2025 to June, 2025 as in-kind contributions from the County Government.

In the circumstances, the accuracy and completeness of in-kind contributions from the County Government amount of Kshs.22,280,840 could not be confirmed.

#### Management Response

The management acknowledges the audit observations made during the audit period under review. The table below shows the total contractual employee cost of 47,727,956 for the period from July 2024 to June 2025 as in-kind contribution;

SN	PERIOD	CATEGORY OF STAFF	AMOUNT Kshs
1.	July-Dec 2024	Contractual	22,280,840
2.	Jan-June- 2025	Contractual	25,447,116
	<b>Total in kind contribution</b>		<b>47,727,956</b>

### **Committee Observation**

The Committee observed that the hospital disclosed in-kind contributions of only Kshs. 22,280,840 covering the period July–December 2024, omitting the remaining six months of January–June 2025 valued at Kshs. 25,447,116. The full-year figure should have been Kshs. 47,727,956.

### **Committee Recommendation**

The Committee recommends that—

- i. the Governor ensures that the Accounting Officer restates and resubmits the financial statements to fully recognize and disclose the complete in-kind contributions from the County Government amounting to Kshs. 47,727,956, within ninety (90) days of adoption of this report, in accordance with Section 164(1)(c) of the Public Finance Management Act Cap 412A and applicable Public Sector Accounting Standards Board (PSASB) reporting standards;
- ii. the Governor ensures that the Accounting Officer establishes a formal review and reconciliation framework for in-kind contributions, including validation of payroll support from the County Government before preparation of financial statements, to prevent partial or incomplete disclosures; and failure to fully recognize and disclose in-kind contributions in financial statements shall attract sanctions in accordance with Section 199 of the Public Finance.

### **2. Incomplete Disclosure of Employee Costs**

The statement of financial performance and Note 11 to the financial statements reflect employee costs amounting to Kshs.22,280,840 in respect to wages to contractual and casual employees for the period of July, 2024 to December, 2024. However, the employee costs for the remaining six (6) months period of January, 2025 to June, 2025 were not disclosed in the financial statements.

Further, the salary for four hundred and thirteen (413) permanent staff who are deployed in the hospital was not determined and not included in the financial statements.

In the circumstances, the accuracy and completeness of employee costs amounting to Kshs.22,280,840 could not be confirmed.

### **Management Response**

The management acknowledges the audit observations made during the audit period under review and the analysis for the total employee costs is as follows.

SN	PERIOD	CATEGORY OF STAFF	AMOUNT Kshs	Reference
1.	July-Dec 2024	Contractual	22,280,840	Appendix 1a;
2.	Jan-June- 2025	Contractual	25,447,116	Appendix 1b;
3	July 2024-June-2025	413 Permanent Staffs	560,369,843	Appendix 2;
	<b>Total in kind contribution</b>		<b>608,099,799</b>	

### **Committee Observation**

The Committee observed that employee costs at Kshs. 22,280,840 covering only July–December 2024. Two significant omissions were identified: the January–June 2025 contractual payroll of Kshs. 25,447,116, and the entire annual salaries of 413 permanent staff amounting to Kshs. 560,369,843. The true employee cost for the year amounts to Kshs. 608,099,799, which is approximately 27 times what was disclosed in the financial statements.

### **Committee Recommendation**

The Committee recommends that—

- i. the Governor ensures that the Accounting Officer incorporates the employee cost schedules provided (including appendices on contractual and permanent staff payroll) into the financial statements through a formal restatement and resubmission to the Senate and copy to the Auditor-General within sixty (60) days of adoption of this report, in accordance with Section 164(1)(c) of the Public Finance Management Act Cap 412A;
- ii. the Governor ensures that the CECM for Finance establishes a payroll reconciliation mechanism linking hospital payroll records, including those provided in appendices, with the County Government payroll system, with mandatory periodic reconciliations prior to financial reporting, in line with Section 68(2)(k) of the Public Finance Management Act Cap 412A; and
- iii. The Governor ensures that the Accounting Officer ensures that all supporting payroll documentation, including master rolls, appendices, and payment schedules, are fully integrated into the accounting records and financial statements disclosures in compliance with Public Sector Accounting Standards Board (PSASB) requirements.

### 3. Inaccuracy of Property, Plant and Equipment Balance

The statement of financial position and Note 20 to the financial statements reflects property, plant and equipment balance of Kshs.129,157,098. Review of hospital records and physical inspection revealed that the hospital had several assets including land, buildings and medical equipment which had not been valued for inclusion in the financial statements. Further, Appendix II of the financial statements in respect to projects implemented by the hospital shows an ongoing construction of a 300-bed mother and baby hospital amounting to Kshs.280,447,357 which is approximately 97% complete, and whose value was not included in the work in progress balance.

In the circumstances, the accuracy and completeness of property, plant and equipment balance of Kshs.129,157,098 could not be confirmed.

#### Management Response

The management acknowledges the audit observations made during the audit period under review and the status is as shown below.

SN	SUBJECT	Status	VALUE KSHS	ACTION
1.	Land	1.Title deed processing in progress 2.Land valuation of 14 acres in progress	No value	1.Letter requesting for title deed processing. App;3a 2.Letter requesting for valuation. App;3b
*2.	Buildings	1.List of buildings 2.Purpose/functionality of the building 3. valuation of the building	No value	1.Letter requesting for valuation of fixed assets. App;3b
3.	Medical equipment	1. List of medical equipment 2. Valuation of the medical equipment	No value	1.Letter requesting for valuation of medical equipments. App;3b
4.	mother and Child hospital	300 bed Capacity in use	280,447,357	To include in the financial statement for FY 2025/2026

SN	ITEM	Description	Current status	Time frame
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1.	Land and buildings	1. Title deed processing in progress	1. Letter requesting for title deed processing.	Letter done
		2. Land valuation of 14 acres in progress	2. Letter requesting for valuation.	Follow up for valuation by end of June 2026
2.	Buildings	1. List of buildings	Buildings listed	
		2. Purpose/functionality of the building	Purpose documented	
		3. valuation of the building	Letter requesting for valuation of fixed assets.	Follow up for valuation by end of June 2026
3.	Medical equipment	1. List of medical equipment	Medical equipment identified and listed	Done
		2. Valuation of the medical equipment	Letter requesting for valuation of medical equipment	Follow up for valuation by end of June 2026
4.	Mother and Child hospital	300 bed Capacity in use	Work in progress	To be included in FS 25/2026 in June

### Committee Observation

The Committee observed that the hospital's land (14 acres), buildings, and medical equipment have not been formally valued for inclusion in the financial statements. More critically, a 300-bed Mother and Child Hospital valued at Kshs. 280,447,357, which is 97% complete and already in use, was entirely excluded from the work-in-progress balance and although valuation requests have been initiated the hospital did not provide a budget or a firm timeline for the exercise.

### Committee Recommendation

The Committee recommends that—

- i. the Governor ensures the Accounting Officer provides a budgeted and time-bound asset valuation plan and submits to the Senate and to the Auditor-

General within sixty (60) days of adoption of this report failure to which the provisions of Section 199 of the Public Finance Management Act on penalties for offences may apply.

- ii. the Governor ensures the 300-bed Mother and Child Hospital valued at Kshs. 280,447,357 is included in the FY 2025/2026 financial statements without exception, given that the facility is already operational;
- iii. the Governor fast-tracks the title deed process for the hospital's land and submits a status report to the Senate within sixty (60) days of adoption of this report;
- iv. the Governor ensures the Accounting Officer maintains a comprehensive and verified fixed assets register ready for the next audit cycle; and Auditor General to provide status in the subsequent audit cycle.

**Emphasis of Matter**

**Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects revenue final budget and actual on comparable basis amounts of Kshs.227,604,883 and Kshs.382,003,945 respectively, resulting to an excess-funding of Kshs.154,399,062 or 68% of the budget. This was attributed to over collection of revenue during the financial year and inclusion of opening balance of Kshs.56,967,918 which was not included in the budget for expenditure during the year.

In addition, the hospital expended Kshs.309,284,938 against the budget of Kshs.203,304,883 resulting to over-expenditure of Kshs.105,980,055 or 48% of the budget.

The excess-funding indicate lack of proper budgeting process while the over-expenditure indicates lack of proper budgetary controls.

**Management Response**

The management acknowledges the audit observations made during the audit period under review. The management states as follows; proper budgeting was done hence no over expenditure; the management factored all the budget changes in the 2<sup>nd</sup> supplementary.

Revenue report for FY 2024/2025

SN	Budgeted Revenue(target)	Actual Revenue	Variance
1.	227,604,883	382,003,945	154,399,062

Expenditure report for FY 2024/2025

SN	Budgeted Expenditure (Estimates)	Actual Expenditure	Variance
1.	203,304,883	309,284,938	105,980,055

Budget appropriation summary for FY 2024/2025

Approved budget estimates FY 2024/2025 (Kshs)	1 <sup>st</sup> supplementary budget estimates FY 2024/2025 (Kshs)	2 <sup>nd</sup> supplementary budget estimates FY 2024/2025 (Kshs)
375,328,308	227,604,883	397,348,420

During the financial year 2024/2025 we acknowledge;

1. The hospital had a carry forward of Kshs. 56,967,918 which was not included in the 1<sup>st</sup> supplementary estimates.
2. The hospital had an approved annual estimate of Kshs 227,604,883 in the 1<sup>st</sup> supplementary budget estimates.
3. During the preparation of the 2<sup>nd</sup> supplementary budget estimates, the hospital anticipated to surpass the target of kshs 227,604,883 given that it had a carry over.
4. The proposed revenue targets for the 2<sup>nd</sup> supplementary was Kshs 397,342,420
5. During the year the hospital total revenue was Kshs. 382,003,945
6. The county assembly did not approve the 2<sup>nd</sup> supplementary estimates but returned thus affecting the hospital projections.

**ADMNISTRATIVE ACTIONS**

- All submissions (financial statements, expenditure reports, budget proposals, audit responses) to county treasury should be through the office of the chief Officer.
- All submissions should be registered in the office of the Chief officer

**Committee Observation**

The Committee observed that revenue exceeded the approved budget by Kshs. 154,399,062 (68%), while expenditure exceeded the approved budget by Kshs. 105,980,055 (48%). The variances were attributed to the rejection of the 2<sup>nd</sup> Supplementary Budget by the County Assembly and a carry-forward of Kshs. 56,967,918 that was not factored into the approved budget estimates.

**Committee Recommendation**

the Committee recommends that—

- i. the Governor ensures that the Accounting Officer strictly adheres to the approved budget and refrains from incurring expenditure without lawful appropriation, in accordance with Section 196(1) of the Public Finance Management Act Cap 412A;
- ii. the Governor ensures that any anticipated changes in revenue or expenditure are regularized through approved supplementary budgets by the County Assembly prior to implementation, in line with Section 135 of the Public Finance Management Act Cap 412A;
- iii. the Accounting Officer ensures that all carry-forward balances are properly disclosed and incorporated into the budget estimates before the start of the financial year to enhance budget credibility and planning;
- iv. the Governor ensures that the Accounting Officer strengthens budgetary control mechanisms, including periodic budget monitoring and variance analysis, and submits quarterly budget implementation reports in accordance with Section 166 of the Public Finance Management Act Cap 412A.

**Other Matter**

**1. Unresolved Prior Year Matters**

In the previous year’s audit report, issues were raised under Report on the Financial Statements, and Report on Lawfulness and Effectiveness in the Use of Public Resources. The Management had indicated under the progress on follow up of Auditor’s recommendations section of the financial statements that three issues were resolved, two partially resolved and one not resolved. However, no supporting documents were provided for audit review to show how the resolved issues were resolved and no reasons were given for not resolving the other issues as detailed in the table below: -

Reference No. of the Auditor-General’s Report	Title of Audit Issue
	Report on the Financial Statements
1	Unsupported Grants from Donors and Development Partners
2	Unsupported Inventory Adjustment

	Report on Lawfulness and Effectiveness in the Use of Public Resources
1	Non-Compliance with Kenya Quality Model for Health Policy Guidelines on Staffing of Health Workers
2	Failure to Transfer Revenue to the County Revenue Fund
3	Failure to Maintain a Fixed Assets Register

Prior years matters	Reference No. of the Auditor-General's Report	Title of Audit Issue	Action plan	Action
		Report on the Financial Statements		
	1	Unsupported Grants from Donors and Development Partners	<i>Support schedules and documentary evidence have been provided. Appendix; 5.1 Listing of the donor grants.</i>	<i>Resolved</i>
	2	Unsupported Inventory Adjustment	<i>(Support schedules and documentary evidence have been provided. Appendix; 5.2</i>	<i>Resolved</i>
		Report on Lawfulness		

	ss and Effective ness in the Use of Public Resource s																																															
1	Non-Compliance with Kenya Quality Model for Health Policy Guidelines on Staffing of Health Workers	<p><i>Management Response</i>  <i>The Management is working progressively with the County executive to ensure that the hospital is sufficiently staffed.</i></p> <table border="1"> <thead> <tr> <th>Personnel</th> <th>Level 5 Standard</th> <th>Actual Numbers</th> <th>Current status</th> <th>Deficit</th> </tr> </thead> <tbody> <tr> <td>Medical Officers</td> <td>50</td> <td>23</td> <td>24</td> <td>26</td> </tr> <tr> <td>Anesthesiologists</td> <td>7</td> <td>1</td> <td>1</td> <td>6</td> </tr> <tr> <td>General Surgeons</td> <td>4</td> <td>2</td> <td>4</td> <td>0</td> </tr> <tr> <td>Gynecologists</td> <td>4</td> <td>2</td> <td>2</td> <td>2</td> </tr> <tr> <td>Pediatrics</td> <td>4</td> <td>3</td> <td>4</td> <td>0</td> </tr> <tr> <td>Radiologists</td> <td>4</td> <td>2</td> <td>1</td> <td>3</td> </tr> <tr> <td>Kenya Registered Community Health Nurses</td> <td>250</td> <td>176</td> <td>183</td> <td>67</td> </tr> <tr> <td>TOTAL</td> <td>323</td> <td>209</td> <td>218</td> <td>104</td> </tr> </tbody> </table> <p>Appendix;5.3 Posting letter for medical staff FY 23-24</p>	Personnel	Level 5 Standard	Actual Numbers	Current status	Deficit	Medical Officers	50	23	24	26	Anesthesiologists	7	1	1	6	General Surgeons	4	2	4	0	Gynecologists	4	2	2	2	Pediatrics	4	3	4	0	Radiologists	4	2	1	3	Kenya Registered Community Health Nurses	250	176	183	67	TOTAL	323	209	218	104	Partially resolved
Personnel	Level 5 Standard	Actual Numbers	Current status	Deficit																																												
Medical Officers	50	23	24	26																																												
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Kenya Registered Community Health Nurses	250	176	183	67																																												
TOTAL	323	209	218	104																																												
2	Failure to Transfer Revenue	The health facilities are in compliance with section (5)2 of the FIF Act 2023 where all facilities have bank accounts where SHA	Resolved																																													

		to the County Revenue Fund	<p>remittances are received and expended at facility level. (facilities with bank accounts)</p> <p>Secondly, the accounts referred to are Special Purpose Accounts opened in Central bank and its main purpose was to enable facilities transact in IFMIs and also migrate to e-procurement.</p> <p>Therefore, the first phase was to open the SHA accounts to receive all the revenues and these accounts shall be sweeping account to the special purpose account.</p> <p>The phase two was to ensure that all the audited entities have special purpose account where the chief officer has requested opening of special purpose account.</p> <p>Appendix;5.4 FIF operational manual</p>	
3		Failure to Maintain a Fixed Assets Register	<p><i>Support schedules and documentary evidence have been provided. Appendix 5.5; Listing /schedules of Bungoma County referral Hospital fixed asset</i></p> <p>Action</p> <p>Communication to all facilities to provide the <i>fixed asset register</i></p>	<i>Partially resolved</i>

## Management Response

### ACTION PLAN

Personnel	Level 5 Standard	Actual Numbers	Current status (post audit)	Lo cum	Reverse referral	Deficit
Medical Officers	50	23	24	20	6	0
Anesthesiologists	7	1	1	5	1	0
General Surgeons	4	2	4	0	0	0
Gynecologists	4	2	2	0	2	0

Pediatrics	4	3	4	0	0	0
Radiologists	4	2	1	0	3	0
Kenya Registered Community Health Nurses	250	176	183	57	10	0
<b>TOTAL</b>	<b>323</b>	<b>209</b>	<b>218</b>	<b>82</b>	<b>22</b>	<b>0</b>

## ACTION PLAN

SN	ITEM	Description	Current status	Time frame
1.	Locum policy	To facilitate staff outside the staff establishment to support service delivery	1.Policy in draft form 2.Health strategy paper approved by cabinet to support operations	two months (end of April 2026) to finalize the locum policy
2.	Referral policy	To facilitate staff within the staff establishment to support service delivery	1.Policy in draft form 2.Health strategy paper approved by cabinet to support operations 3. giving priority to sponsorship for specialized courses 4. enhancing telemedicine services	two months (end of April 2026) to finalize the Referral policy
3.	Recruitment and replacement	During planning, resources are provided	1.Recruitment proposal	1.Provision of the

		and staff retire, transfer service and effect of natural attrition	provided in the fiscal paper FY 2026/2027 2. replacement of staff on retire, transfer service and effect of natural attrition	requested lists immediately 2. Recruitment in the Financial Year 2026/2027 3. Replacement of staff time frame – 4 months in the FY 2025/2026

**Committee Observation**

The Committee observed that number of queries were still outstanding in the hospital.

**Committee Recommendation**

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

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

**1. Doubtful Recoverability of Defunct National Health Insurance Fund and Long Outstanding Social Health Authority Claims**

The statement of financial position and Note 18 to the financial statements reflect receivables from exchange transactions balance of Kshs.115,738,454. The balance

includes defunct National Health insurance Fund (NHIF) claims of Kshs.33,197,315, and Social Health Authority (SHA) claims of Kshs.82,541,139 which had been outstanding for more than the recommended ninety (90) days. This was contrary to the contract entered with Social Health Authority for the provision of healthcare which states that clean claims shall be paid within ninety days.

In the circumstances, the recoverability of receivables from exchange transactions balance of Kshs.115,738,454 could not be confirmed.

**Management Response**

The management acknowledges the audit observations made during the audit period under review. The management states as follows; the data substantiating the claims is available

S N	CATE GORY	CARRY FOWARD	TOTAL CLAIMS	TOTAL CLAIMS PAID	OUTSTAN DING CLAIMS	ACTION PLAN
	NHIF	33,197,315	33,197,315	0	33,197,315	1 current status(schedules and communications) 2.Reminder to SHA
	SHA	82,541,139	231,697,495	126,497,972	105,199,523	1 current status (schedules and communications) 2.Monthly reports on paid and outstanding

**Committee Observation**

The Committee observed that the hospital has outstanding defunct NHIF claims of Kshs. 33,197,315 with zero recovery, and SHA claims of Kshs. 82,541,139 outstanding beyond the contractual 90-day payment window, bringing the total at-risk receivables to Kshs. 115,738,454.

**Committee Recommendation**

**The Committee recommends that-**

- i. **The Governor ensures the Accounting Officer ensures timely submission of complete and accurate documents during audit processes, including evidence of resubmission and follow-up of rejected or partially approved SHA claims, in compliance with section 9(1)(e) of the Public Audit Act, Cap. 412B, failure to which the provisions of section 62(2) of the Public Audit Act, Cap. 412B shall apply;**
  - ii. **the Governor ensures the Accounting Officer 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**
  - iii. **the Governor ensures the Accounting Officer to undertake a detailed analysis of its long outstanding trade receivables and with the Board's approval, write off the irrecoverable debts in line with the Section 130 (2) (d) of the Public Finance Management (County Governments) Regulations, 2015 and the Auditor-General to provide a status update on the same during the subsequent audit cycle.**
- 2. Non-Compliance with Kenya Quality Model for Health Policy Guidelines on Staffing of Health Workers**

Review of records provided for audit revealed inadequate staffing of health workers at Bungoma County Referral Hospital. Therefore, the hospital did not meet the requirements of Kenya Quality Model for Health Policy Guidelines due to staff deficits as analyzed in the table below: -

Personnel	Level 5 Standard	Actual Numbers	Deficit
Medical Officers	50	23	27
Anesthesiologists	7	1	6
General Surgeons	4	2	2
Gynecologists	4	2	2
Pediatrics	4	3	1
Radiologists	4	2	2

Kenya Registered Community Health Nurses	250	176	74
TOTAL	323	209	114

In the circumstances, the understaffing may hinder hospital's ability to deliver medical services adequately.

### Management Response

The Management is working progressively with the County executive to ensure that the hospital is sufficiently staffed.

Personnel	Level 5 Standard	Actual Numbers	Current status	Deficit
Medical Officers	50	23	24	26
Anesthesiologists	7	1	1	6
General Surgeons	4	2	4	0
Gynecologists	4	2	2	2
Pediatrics	4	3	4	0
Radiologists	4	2	1	3
Kenya Registered Community Health Nurses	250	176	183	67
TOTAL	323	209	218	104

Personnel	Level 5 Standard	Actual Numbers	Current status	Lo cum	Reverse referral	Deficit
Medical Officers	50	23	24	19	5	0
Anesthesiologists	7	1	1	0	6	6
General Surgeons	4	2	4	0	0	0
Gynecologists	4	2	2	0	2	0
Pediatrics	4	3	4	0	0	0
Radiologists	4	2	1	0	3	0
Kenya Registered Community Health Nurses	250	176	183	47	20	0
TOTAL	323	209	218	66	44	0

## ACTION PLAN

SN	ITEM	Description	Current status	Time frame
1.	Locum policy	To facilitate staff outside the staff establishment to support service delivery	1.Policy in draft form 2.Health strategy paper approved by cabinet to support operations	two months (end of April 2026) to finalize the locum policy
2.	Referral policy	To facilitate staff within the staff establishment to support service delivery	1.Policy in draft form 2.Health strategy paper approved by cabinet to support operations 3. giving priority to sponsorship for specialized courses 4. enhancing telemedicine services	two months (end of April 2026) to finalize the Referral policy
3.	Recruitment and replacement	During planning, resources are provided and staff retire, transfer service and effect of natural attrition	1.Recruitment proposal provided in the fiscal paper FY 2026/2027 2. replacement of staff on retire, transfer	1.Provision of the requested lists immediately 2. Recruitment in the

			service and effect of natural attrition	Financial Year 2026/2027 3. Replacement of staff time frame – 4 months in the FY 2025/2026
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**Committee observation**

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

**Committee Recommendation**

The Committee recommends that—

- i. within sixty (60) days of adoption of this report, the Governor submits to the Senate a comprehensive human resource plan aligned to the Kenya Quality Model for Health Level 5 standards, detailing both short-term measures such as locum and reverse referral arrangements and long-term recruitment plan
- iii. the Governor ensures recruitment of critical health workers, particularly Anesthesiologists, Medical Officers and Community Health Nurses, is prioritized in the FY 2026/2027 budget estimates; and
- iv. the Auditor-General keeps this matter under review in the subsequent audit cycle given its direct impact on the constitutional right to healthcare under Article 43(1) of the Constitution of Kenya, 2010

**2. Bungoma Referral Hospital Automated Health Management Information System**

The county executive of Bungoma acquired the Bungoma Referral Hospital Automated Health Management Information System at a cost of Kshs.32,900,000 in the previous financial year 2023-2024, for the operations and maintenance of the automated health management system.

Audit inspection was done on 1 October, 2025 and the following anomalies were noted: -

- i. The system takes too long to start.
- ii. Partial data was captured which does not contain full details in required reports.
- iii. The system does not update on real time basis resulting in incomplete and inaccurate reports, and financial reports could not be generated.
- iv. Laboratory request for revisiting patients was not captured causing the patient to start from registration and repay for services.
- v. Lack of interface among hospital's departments causing the service delivery and communication to be made verbally to a large extent.
- vi. Lack of functionality to manage walk in patients in critical service areas.
- vii. Slow response on the part of the vendor and/or no physical presence in real time to address ground issues causing uncertainty.

In the circumstances, value for money may not have been achieved in respect of the expenditure incurred in procurement of the system.

#### **Management Responses.**

The department of health has 191 facilities across the county with different operating health management systems. In view of this, the county treasury procured a HMIS

The department of health has 191 facilities across the county with different operating health management systems. In view of this, the county treasury procured a HMIS targeting 12 facilities, during the audit, the system was still under implementation.

While implementing the system, DHA rolled out a nationwide system (Taifa-care-Tiberbu) where our facilities were issued with tablets and majority of them are now using the system. The HMIS faced a challenge when the vendor issued a notice of which rendered the system non-operational thus forcing the department to fully implement Taifa care system awaiting integration with the HMIS.

The benefit of Taifa care system, it will cover all the 191 facilities thus the most preferred system.

#### **Committee Observation**

The Committee observed that the hospital's Automated Health Management Information System, exhibited functional and operational deficiencies during the audit and the Management did not provide evidence that the system is functional.

## **Committee Recommendation**

**The Committee recommends that-**

- i. the Governor ensures the Accounting Officer implements corrective measures to fully operationalize the HMIS, addressing all functional and integration gaps, including real-time updates, laboratory tracking, departmental interfaces, and walk-in patient management, in line with Section 149(2) of the Public Finance Management Act, 2012,**
- ii. The Governor ensures the Accounting Officer ensures the vendor provides adequate on-site support and response mechanisms to resolve operational issues promptly, with initial corrective actions completed within 90 days of the adoption of this report.**

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

Review of the bank accounts documents revealed that although the hospital had opened a facility improvement bank account on 7 June, 2023, monies in respect to the facility improvement fund were not paid into this account. Further, the bank account was not disclosed in the financial statements. This was contrary to Section 5(2) of the Facilities Improvement Financing Act, 2023 which provides that there shall be opened a facility improvement financing account for each public health facility into which shall be paid all monies received by or on behalf of the respective public health facility.

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

#### **Management Response**

The health facilities are in compliance with section (5)2 of the FIF Act 2023 where all facilities have bank accounts where SHA remittances are received and expended at facility level. (facilities with bank accounts)

Secondly, the accounts referred to are Special Purpose Accounts opened in Central bank and its main purpose was to enable facilities transact in IFMIs and also migrate to e-procurement.

Therefore, the first phase was to open the SHA accounts to receive all the revenues and these accounts shall be sweeping account to the special purpose account.

The phase two was to ensure that all the audited entities have special purpose account where the chief officer has requested opening of special purpose account.

### **Committee Observation**

The Committee observed that although the hospital opened a Facility Improvement Financing bank account on 7 June 2023, no facility improvement funds were channeled through this account as required by Section 5(2) of the Facilities Improvement Financing Act, 2023.

### **Committee Recommendation**

**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 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**
- iv. 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**

### **Lack of a Strategic Plan and Health Plan**

During the year under review, the hospital did not have a strategic plan in place. The health facility had no approved plan and guidelines on how to make investment in physical infrastructure in the county health unit, human resource strategy and development, strategies for controlling key risk factors including tobacco use and alcohol abuse, specific and targeted strategies for controlling and mitigating the impact of communicable and non-communicable diseases and conditions as well as injuries prevention. Further, the hospital had not put in place strategies for community engagement and action as prescribed by the Bungoma County Health Services Act, 2019.

In the circumstances, the Hospital may not achieve its long-term objectives.

## Management Response

The hospital launched its strategic plan for 2025- 2030 that encompasses guidelines on hospital investments, Human resource development and strategies for community engagement.

### *Highlights from strategic plan*

human resource strategy and development, strategies for controlling key risk factors including tobacco use and alcohol abuse, specific and targeted strategies for controlling and mitigating the impact of communicable and non-communicable diseases and conditions as well as injuries prevention.

### *highlights*

strategies for community engagement and action as prescribed by the Bungoma County Health Services Act, 2019.

## ACTION PLAN

SN	facilities	fixed asset registers	Risk register	ICT policy	Internal Audit Function	Tariffs	Strategic plan
1.	Bungoma County Referral hospital	1.Provide asset register 2.time frame	1.Provide risk register 2.time frame	customize	To link with county treasury to conduct audit	Provide tariff schedule	1.Provide strategic plan 2.time frame
2.	Webuye County Hospital	1.Provide asset register 2.time frame	1.Provide risk register 2.time frame	customize	To link with county treasury to conduct audit	Provide tariff schedule	1.Provide strategic plan 2.time frame
3.	Kimilili Sub County Hospital	1.Provide asset register 2.time frame	1.Provide risk register 2.time frame	customize	To link with county treasury to	Provide tariff schedule	1.Provide strategic plan 2.time frame

					conduct audit		
4	Bokoli Sub County Hospital	1. Provide asset register 2. time frame	1. Provide risk register 2. time frame	customize	To link with county treasury to conduct audit	Provide tariff schedule	1. Provide strategic plan 2. time frame
5.		1. Provide asset register 2. time frame	1. Provide risk register 2. time frame	customize	To link with county treasury to conduct audit	Provide tariff schedule	1. Provide strategic plan 2. time frame

#### **Committee Observation**

The Committee observed that the hospital management launched the 2025–2030 Strategic Plan and approved by the Board.

#### **Committee Recommendation**

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

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

The Committee received written management responses to the following queries raised in the report of the Auditor-General on financial statements of Bumula Sub-County Hospital for the Financial Year 2024/2025.

#### REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **qualified opinion** on the financial statements of Bumula Sub-County Hospital for the period under review on the following basis –

##### 1. Accuracy of the Statement of Financial Performance

The statement of financial performance indicates medical/clinical costs of Kshs.6,048,000, general expenses of Kshs.6,249,105, and repairs and maintenance of Kshs.3,292,074. However, the supporting ledgers indicates amounts of Kshs.7,302,106, Kshs.7,232,510, and Kshs.3,098,124, resulting in unexplained and unreconciled variances of Kshs.1,254,106, Kshs.983,405 and Kshs.193,950 respectively.

In the circumstances, the accuracy and completeness of the respective amounts reflected in the statement of financial performance could be confirmed.

##### Management Response.

The management acknowledges the audit observation made during the year under review and the variances are reconciled as below.

SN	ITEM	Financial performance amount(Kshs)	Ledgers amount (Kshs)	Variance (Kshs)	remarks
1.	Medical/clinical costs	6,048,009	7,302,106	1,254,106	Appendix 1(a)
2.	General expenses	6,249,105	7,232,510	983,405	Appendix 1(b)
3.	Repairs and maintenance	3,292,074	3,098,124	193,950	The supporting schedules totalled to Kshs 3,292,074

##### Committee Observation

The Committee observed unexplained variances between the statement of financial performance and supporting ledgers in three-line items: medical/clinical costs (variance of

Kshs. 1,254,106), general expenses (variance of Kshs. 983,405), and repairs and maintenance (variance of Kshs. 193,950).

### **Committee Recommendation**

The Committee recommends that—

- i. the Governor ensures the Accounting Officer undertakes prior year adjustments to reconcile the variance of Kshs. 1,254,106 in medical/clinical costs, Kshs. 983,405 in general expenses, and Kshs. 193,950 in repairs and maintenance in the subsequent audit cycle FY 2025/2026. The Auditor-General to keep this in view in the subsequent audit cycle
- ii. The Governor ensures that the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;
- iii. the National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties;
- 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

### **2. Non-Disclosure of Property, Plant and Equipment**

The statement of financial position reflects a Nil balance for property, plant and equipment. However, review of hospital records and physical inspection revealed that the hospital is located on a parcel of land with buildings, and equipped with assorted furniture and fittings, and various specialized medical equipment. However, these assets were not valued and not

included in the financial statements. Further, the land did not have a title-deed and the hospital did not maintain a fixed assets register.

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

### Management Response

The management acknowledges the audit observations made during the audit period under review and the status is as shown below.

SN	SUBJECT	Status	VALUE KSHS	ACTION
	Land	1.Title deed processing in progress 2.Land valuation for 3.2 acres		Valuation in progress
	Buildings	1.List of buildings 2.Purpose/functionality of the building 3. valuation of the building		Awaiting valuation
	Medical equipment	1. List of medical equipment 2. Valuation of the medical equipment		Awaiting valuation
	Furniture	1.List of furniture 2.Valuation of furniture		Awaiting valuation

### Committee Observation

The Committee observed that the statement of financial position reflects a Nil balance for property, plant and equipment despite the hospital sitting on land, with buildings, furniture, fittings and specialized medical equipment, no title deed exists for the land, and no fixed assets register is maintained but Valuation requests have been initiated.

### Committee Recommendation

The Committee recommends that-

- i. within sixty (60) days of the adoption of this report, the Governor, through the CECM responsible for matters health, engages with the Ministry of Health of

- the National Government to ensure the transfer of ownership documents of land and buildings is fast tracked;
- ii. the Governor ensures that the management of the hospital fast track the valuation of all assets of the hospital and submits the valuation report to the Auditor- General for verification during the subsequent audit cycle;
  - iii. upon completion of the transfer and valuation, the Accounting Officer should prepare an updated asset register within 60 days of the adoption of this report and submit to the Auditor-General for verification; and
  - iv. the Governor, through the Accounting Officer ensures that the hospital maintains an up-to-date asset register in accordance with section 149(2)(o) of the Public Finance Management Act Cap 412A and in the format prescribed by the Public Sector Accounting Standards Board (PSASB), failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply.

### 3. Misstatement of Opening Balances

Review of the comparative amounts in the financial statements as compared to the audited financial statements for the previous financial year 2023/2024 revealed that repairs and maintenance amount of Kshs.932,430 differs with Kshs.821,590 reflected in previous year audited financial statements, resulting to an unexplained variance of Kshs.110,840. Further, the total expenses of Kshs.23,273,057 differs with audited amount of Kshs.23,162,217 resulting to an unexplained variance of Kshs.110,840.

Similarly, the statement of financial position and Note 27 to the financial statements indicate a cash and cash equivalents comparative balance of Kshs.703,075 in respect to a different bank account and not as stated in the audited financial statements. Further, the removal of the former bank account from the financial statements and hospital's books was not explained.

In the circumstances, the accuracy and completeness of the respective opening balances could not be confirmed.

### Management Response

Management takes note of the variance in FY 2023/2024 however the correct amount was ksh.932430 as per schedules attached.

The bank account number was changed due to system upgrade of the bank

SN	ITEM	2024/2025	2023/2024	Variance	remarks
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		(Kshs)	(Kshs)	(Kshs)	
	repairs and maintenance	932,430	821,590	110,840	Appendix 3
	Total expenses	23,273,057	23,162,217	110,840	Appendix 3
	cash and cash equivalents	703,075	-		Appendix 3

### **Committee Observation**

The Committee observed unexplained variances in comparative opening balances between the current and prior year audited financial statements, including repairs and maintenance. Additionally, the cash and cash equivalents comparative balance of Kshs. 703,075 relates to a different bank account, with no explanation provided for the removal of the former account from the hospital's books.

### **Committee Recommendation**

The Committee recommends that—

- i. the Governor ensures the Accounting Officer undertakes prior year adjustments to reconcile the variances in the subsequent audit cycle FY 2025/2026. The Auditor-General to keep this in view in the subsequent audit cycle
- ii. The Governor ensures that the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;
- iii. the National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties;
- 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

### **Emphasis of Matter**

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

Review of the statement of comparison of budget and actual amounts revealed that the final revenue budget and actual revenue amounted to Kshs.21,225,957 and Kshs.19,153,719 respectively, resulting in an under-funding of Kshs.2,072,238 or 10% of the budget. Similarly, recurrent expenditure totaled Kshs.18,447,740 against a budget of Kshs.21,225,958, resulting to an under-utilization of Kshs.2,778,218 or 13% of the budget. However, no explanations for these variances were disclosed in the financial statements. Further, an approved budget and minutes approving the budget were not provided for audit review.

The under-funding and under-absorption of the approved budget is an indication that some activities and projects in the annual plan were not implemented, which may have affected service delivery.

#### **Management Response**

	Budgeted Revenue(target)	Actual Revenue	Variance
	21,225,957	19,153,719	2,072,238

	Budgeted Expenditure (Estimates)	Actual Expenditure	Variance
	21,225,957	18,447,740	2,778,218

During the financial year 2024/2025 the management that the facility did not meet the targets because of;

- a) Industrial strike of healthcare workers
- b) Late reimbursement from SHA

#### **Committee Observation**

The Committee observed that revenue fell short of budget by Kshs. 2,072,238 (10%) and expenditure was under-utilized by Kshs. 2,778,218 (13%). Further, no approved budget or minutes approving the budget were provided for audit review, Management attributed the shortfall to a healthcare workers' strike and late SHA reimbursements.

#### **Committee Recommendation**

**The Committee recommends that-**

- i. **The Governor ensures the Accounting Officer implements effective budgetary control measures to minimize variances between approved budgets and actual revenue/expenditure, in line with Regulation 42 of the Public Finance Management (County Governments) Regulations, failure to which the provisions of Section 199 of the Public Finance Management Act on penalties for offenses shall apply;**
- ii. **the Committee recommends that the governor should ensure that the Accounting Officer ensure timely submission of documents during the audit process in line with section 47(1) of the Public Audit Act, Cap.412B as read together with section 149(2)(k) failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act in the subsequent audit cycle**

**Other Matter**

**Unresolved Prior Year Matters**

In the previous year's audit, several issues were raised under Report on the Financial Statements, Report on Lawfulness, and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance as stated in However, Annex 1 to the financial statements in respect of progress on follow-up of Auditor's recommendations does not contain all issues raised by the Auditor-General in the previous year's audit. Further, the Management did not explain the reasons for failing to implement auditor's recommendations and to include all the issues raised by the Auditor-General.

**Management Response**

Reference No. of the Auditor-General's Report	Title of Audit Issue	Management Comments	Remarks/Action
	<b>Report on the Financial Statements</b>		
1	Misstatements in the financial statements	The management acknowledges the findings, the misstatement has been rectified.	See attached appendix 5.1

2	Unsupported medical/clinical costs	The schedules are available;	See attached appendix 5.2
3	Unsupported employee costs	The management states as follows ; adjustments in the employee costs	See appendix: 5.3 support schedules
4	Unsupported cash and cash equivalents	Supported cash and cash equivalent certificate of bank balance as at 30th June 2024	see appendix 5.4: Bank certificate
5	Unsupported receivables from exchange transactions balance	Aggregated receivable figure is available. The major challenge on provision of support schedules is that the NHIF system is inaccessible due to on boarding on the SHA platform.	
6	Unconfirmed inventory balance	Subsequent financial year inventory records are available	See appendix 5.5
	<b>Report on Lawfulness, Effectiveness In Use of Public Resources</b>		
1	Late submission of financial statements	The management took note of the anomaly and subsequently the financial statements have been submitted on time	See the appendix 5.6 :Copy of FS submitted
2	Non-Compliance with Kenya quality model for health policy guidelines	The entity has made a request to National equipment Service Programme (NESP) and effective reverse referral in place	Not resolved
3	Failure to maintain a fixed assets register	The management maintains an updated asset register awaiting valuation.	Appendix5.7: Copy of asset register

			Partially resolved
	<b>Report of Effectiveness of Internal Controls, Risk Management and Governance</b>		
1	Failure to establish an audit committee and operational internal audit unit	The entity leverages on the county Treasury audit function that offers the support service	Partially resolved awaiting internal audit report to be done for Fy 2024/2025 Appendix 5.8
2	Information and communication technology internal control weaknesses	Ict policy in draft form	Not resolved

**Committee Observation**

The Committee observed that the management of the hospital did not resolve all the issue raised in the report of the Auditor-General for the financial year 2023/2024.

**Committee Recommendations**

The Committee recommends that-

- i. the Governor should ensure that the Accounting Officer resolves any issues resulting from an audit that remains outstanding as required by section 149(2)(l) of the Public Finance Management Act, Cap. 412A, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences may apply; and
- ii. the Governor should ensure that the accounting officer submits the status report on the mitigation measures taken to resolve prior year matters.

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

**Conclusion**

**Basis for Conclusion**

- 1. **Non-Compliance with International Public Sector Accounting Standards Board Financial Reporting Template**

Review of the annual report and financial statements for the hospital for year ended 30 June, 2025 revealed anomalies as detailed below:

- i. Report of the Board of Management does not indicate the principal activity of the hospital, and contain incorrect pages numbers for the results of the hospital and Board of Management profile.
- ii. Note 4b to the financial statements in respect to budget information does not state the date of approval of original budget, name of the hospital and the financial year.
- iii. The reference note numbers in the financial statements had been mismatched to the actual Notes to the financial statements.

**Management Response**

The management acknowledges the audit observations made during the audit period under review. The management states as follows;

	ISSUE	ACTION
1.	Report of the Board of Management does not indicate the principal activity of the hospital, and contain incorrect pages numbers for the results of the hospital and Board of Management profile.	The principal activity, correct activity , correct page numbers
2.	Note 4b to the financial statements in respect to budget information does not state the date of approval of original budget, name of the hospital and the financial year.	Date of approval of the original budget, and the name of the hospital has been indicated
3.	The reference note numbers in the financial statements had been mismatched to the actual Notes to the financial statements.	Reference note numbers to the note has been matched

This was contrary to Section 194(d) of the Public Finance Management Act, 2012 which gives the Public Sector Accounting Standards Board mandate to prescribe formats for financial statements and reporting by all state organs and public entities.

In the circumstances, Management was in breach of law.

### **Committee Observation**

The Committee observed multiple formatting anomalies in the financial statements including like the Board of Management report omitting the hospital's principal activity contrary to Section 194(d) of the PFM Act, 2012.

### **Committee Recommendation**

The Committee recommends that –

- i. the Governor ensures the Accounting Officer strictly adheres to the IPSASB financial reporting template prescribed by the Public Sector Accounting Standards Board in all future financial statements, and that restated statements are submitted to the Senate and Auditor-General for confirmation within 90 days of the adoption of this report; and
- ii. The Governor ensures that the Accounting Officer enhances the technical capacity of officers responsible for the preparation of financial statements to ensure full compliance with applicable accounting standards (IPSAS), in accordance with Section 149(2)(b) of the Public Finance Management Act, 2012, which requires Accounting Officers to maintain proper financial and accounting records.

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

The statement of financial position and Note 30 to the financial statements reflects trade and other payables balance of Kshs.6,357,845. However, the payables had remained unsettled for more than a year, and the Management did not provide justification for the delay in settlement of these liabilities. This was contrary to Section 45(3)(a) of the Public Procurement and Asset Disposal Act, 2015 which stipulates that all procurement processes shall be within the approved budget of the procuring entity and shall be planned through an annual procurement plan.

In the circumstances, Management was in breach of law.

### **Management Response**

The management acknowledges the audit observations made during the audit period under review and commits to settle them once the receivable reimbursement has been made.

<b>Total trade and other payables</b>	<b>6,357,845</b>	
<b>Ageing analysis:</b>	<b>2024/2025</b>	<b>% of the Total</b>
Under one year	2,749,330	43%
1-2 years	1,333,845	21%

2-3 years	2,274,670	36%
Over 3 years		0%
<b>Total</b>	<b>6,357,845</b>	<b>100%</b>

### **Committee Observation**

The Committee observed that-

- i. trade and other payables of Kshs. 6,357,845 have remained unsettled for over a year, with 57% outstanding for more than one year.
- ii. Management attributed the delay to pending SHA reimbursements but provided no settlement timeline contrary to Section 45(3)(a) of the Public Procurement and Asset Disposal Act,

The Committee recommends that-

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

### **3. Outstanding Receivables from Social Health Authority (SHA)**

The statement of financial position reflects receivables from exchange transactions amounting to Kshs.7,903,462 relating to debts owed to the hospital by Social Health Authority (SHA) for the year under review, and as disclosed in Note 28 to the financial statements. Delay in recovery of receivables was contrary to Regulation 63(1) of Public Finance Management (County Governments) Regulations, 2015 which states that an accounting officer and a receiver of revenue are personally, responsible for ensuring that, adequate safeguards exist and are applied for the prompt collection and proper accounting

for, all county government revenue and other public moneys relating to their county departments or agencies.

In the circumstances, Management was in breach of law.

**Management Response**

The management acknowledges the audit observations made during the audit period under review. The management states as follows; the data substantiating the claims is available

SN	CATEGORY	CARRY FOWARD	TOTAL CLAIMS	TOTAL CLAIMS PAID	OUTSTANDING CLAIMS
	NHIF	7,897,350.00	7,897,350.00	0	7,897,350
	SHA	0	11,781,332.00	7,276,028	4,505,304

**Committee Observation**

The Committee observed outstanding receivables of Kshs. 7,903,462 owed by SHA, with the NHIF portion of Kshs. 7,897,350 recording zero recovery.

**Committee Recommendation**

The Committee recommends that-

- 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 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 and the Auditor-General to provide a status update on the same during the subsequent audit cycle.

**4. Failure to Meet Level 4 Hospital Requirements**

Review of hospital records, staffing levels, and physical verification of medical equipment revealed significant shortfalls against the Kenya Quality Model for Health Policy Guidelines for a Level 4 facility. The medical staffing shortfalls were noted as follows:

Item	Level 4 Standard	Actual in Hospital	Variance	Shortfall (%)
Medical officers	16	3	13	81%
Anesthesiologists	2	0	2	100%
General Surgeon	2	0	2	100%
Gynecologists	2	0	2	100%
Pediatricians	2	0	2	100%
Radiologists	2	0	2	100%
Registered Community Health Nurses	75	24	51	68%
<b>Total</b>	<b>101</b>	<b>27</b>	<b>74</b>	<b>73%</b>

### Management Response

The Management is working progressively with the County executive to ensure that the hospital is sufficiently staffed. There was employment in January see attached posting order.

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

Services	Level 4 Hospital Standard	Actuals in the Hospital	Variance	Shortfall (%)
Resuscitaire in Labour Ward	2	2	0	0%
New Born Unit incubators	5	3	2	40%
Functional ICU Beds	6	0	6	100%
High Dependency Units (HDU) Beds	6	0	6	100%
Renal Units with at Least 5 Dialysis Machines	5	0	5	100%
Functional Operating Theaters Maternity and General	2	1	1	50%
<b>Total</b>	<b>26</b>	<b>6</b>	<b>20</b>	<b>77</b>

The deficiencies contravene the First Schedule of the Health Act, 2017 and imply that accessing the highest attainable standard of health, which includes the right to health care services, including reproductive health care as required by Article 43(1) of the Constitution of Kenya, 2010 may not be achieved. Further, this contravened the Kenya Quality Model for Health Policy Guidelines and hindered the realization of the Government program on Universal Health Coverage (UHC).

In the circumstances, the members of public may not efficiently get the required medical services that are set to be offered by a level 4 hospital.

### **Management Response**

The management acknowledges the audit observations made during the audit review. The management states as follows; There is a request made to National Equipment service Programme(NESP) for the identified necessary hospital equipment. However, the critical service equipment are currently centralized to offer specialized services that is ICU and renal services. The facility is leveraging on reverse referral.

### **Committee observation**

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

### **Committee Recommendation**

**The Committee recommends that—**

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

## **5. Non-Compliance with Law on Occupation Safety and Health (OSH)**

Review of OSH compliance at the hospital revealed that mandatory fire safety audits and annual occupational safety, and health audits by approved OSH advisors as required by Occupational Safety and Health Act, 2007 was not conducted. Further, the hospital was not registered as a workplace under the Directorate of Occupational Safety and Health Services.

In the circumstances, Management was in breach of law.

### **Management Response**

The department is in the process of obtaining the unique number so as to register the facility on the list of work places.

### **Committee Observation**

The Committee observed that the hospital has not conducted mandatory fire safety audits or annual OSH audits, and is not registered as a workplace under the Directorate of Occupational Safety and Health Services contrary to the Occupational Safety and Health Act, 2007.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures the hospital is registered as a workplace and all mandatory OSH audits are conducted and submitted to the relevant authorities within ninety (90) days of adoption of this report and provide evidence to Senate and Auditor-General in line Occupational Safety and Health Act, 2007.**

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

Review of the bank account documents revealed that although the hospital had opened a special purpose a Facility Improvement Financing bank account on 31 July, 2024, monies in respect to the facility improvement fund were not paid into this account. Further, the bank account was not disclosed in the financial statements. This was contrary to Section 5(2) of the Facilities Improvement Financing Act, 2023 which provides that there shall be opened a facility improvement financing account for each public health facility into which shall be paid all monies received by or on behalf of the respective public health facility.

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

### **Management Response**

The health facilities are in compliance with section (5)2 of the FIF Act 2023 where all facilities have bank accounts where SHA remittances are received and expended at facility level. (facilities with bank accounts)

Secondly, the accounts referred to are Special Purpose Accounts opened in Central bank and its main purpose was to enable facilities transact in IFMIs and also migrate to e-procurement.

Therefore, the first phase was to open the SHA accounts to receive all the revenues and these accounts shall be sweeping account to the special purpose account.

The phase two was to ensure that all the audited entities have special purpose account where the chief officer has requested opening of special purpose account

### **Committee Observation**

The Committee observed that although the hospital opened a FIF bank account on 31 July 2024, no facility improvement funds were channelled through it, and the account was not disclosed in the financial statements contrary to Section 5(2) of the Facilities Improvement Financing Act, 2023.

### **Committee Recommendation**

**The Committee recommends that—**

- v. **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;**
- vi. **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;**
- vii. **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**
- viii. **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**

### **Conclusion**

#### **Basis for Conclusion**

### **1. Weaknesses in Revenue Collection System**

Review of the hospital system revealed significant weaknesses in the internal control environment governing revenue management. The hospital operated a partially automated billing system lacking adequate safeguards for effective billing and revenue control since patients' data from registration, appointments, and consultation was inconsistent, while the pharmacy section operated manually, creating gaps in data integrity.

Further, the system developer retained super user rights, and the hospital's ICT officer had limited access and was not trained on using the system. Additionally, the hospital management had not been granted administrative rights, increasing the risk of data manipulation, leakage of patient information, and unauthorized corrections to posted transactions.

In the circumstances, the effectiveness in revenue management could not be confirmed.

### **Management Response**

The department of health has 191 facilities across the county with different operating health management systems. In view of this, the county treasury procured a HMIS targeting 12 facilities, during the audit, the system was still under implementation.

While implementing the system, DHA rolled out a nationwide system (Taifa-care-Tiberbu) where our facilities were issued with tablets and majority of them are now using the system.

The HMIS faced a challenge when the vendor issued a notice of which rendered the system non-operational thus forcing the department to fully implement taifacare system awaiting integration with the HMIS.

The benefit of Taifacare system, it will cover all the 191 facilities thus the most preferred system

### **Committee Observation**

The Committee observed weaknesses in the revenue management system including inconsistent patient data, manual pharmacy operations, the system developer retaining super-user rights, and the ICT officer having limited access and no training

### **Committee Recommendation**

The Committee recommends that—

- iii. **the Governor ensures the Accounting Officer implements corrective measures to fully operationalize the HMIS, addressing all functional and integration gaps, including real-time updates, laboratory tracking, departmental interfaces, and walk-in patient management, in line with Section 149(2) of the Public Finance Management Act, 2012,**
- iv. **The Governor ensures the Accounting Officer ensures the vendor provides adequate on-site support and response mechanisms to resolve operational issues promptly, with initial corrective actions completed within 90 days of the adoption of this report. And**
- v. **the Governor ensures the ICT officer is trained and granted appropriate system access, and a formal ICT policy is finalized and operationalized and Auditor to provide status in the subsequent audit cycle.**

## **2. Weaknesses in Inventory Management**

T Regulations, 2015, which requires that stock-taking be performed by officers independent of those responsible for custody or record-keeping.

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

### **Management Response**

The hospital-maintained bin cards and also stock take was conducted.

### **Committee Observation**

The Committee observed that stock-taking was not conducted by officers independent of those responsible for custody or record-keeping, contrary to the PFM (County Governments) Regulations, 2015. Management provided bin cards as evidence of stock management.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures stock-taking is henceforth conducted by officers independent of custody and record-keeping functions, in strict compliance with the PFM (County Governments) Regulations, 2015.**

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

The Governor of Bungoma County H.E Kenneth Lusaka, EGH, presented a written response before the Committee to respond to audit queries raised in the report of the Auditor-General on financial statements for the Kimilili Sub-County Hospital for the Financial Year 2024/2025.

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

The Auditor-General rendered a **qualified opinion** on the financial statements of Kimilili Sub-County Hospital for the period under review on the following basis –

##### **1. Inaccuracy of the Financial Statements**

###### **1.1. The Statement of Changes in Net Assets**

The statement of changes in net assets reflects net assets balance of Kshs.2,098,614 as at 30 June, 2025. However, the statement of financial position reflects a balance of Kshs.12,391,857 resulting to unexplained variance of Kshs.10,293,243. Further, the statement reflects capital fund balance of Kshs.288,826 as at 30 June, 2025, while recalculation of the balance gives Kshs.13,937,651 resulting to unexplained variance of Kshs.13,648,825.

In the circumstances, the accuracy and completeness of the net assets balance of Kshs.2,098,614 as at 30 June, 2025 could not be confirmed.

##### **Management Response**

The management acknowledges the audit observations made during the audit review. The management states as follows; the reconciliation has been done and restatement to be done in FY 2025/2026

SN	net assets balance(Kshs)	statement of financial position (Kshs)	Variance	Remarks
1.	2,098,614	12,391,857	10,293,243	Appendix 1

SN	capital fund balance (Kshs)	statement of financial position (Kshs)	Variance	Remarks
	288,826	13,937,651	13,648,825	Appendix 1

### **Committee Observation**

The Committee observed unexplained variances in the statement of changes in net assets differed with the statement of financial position, resulting in a variance of Kshs. 10,293,243. Further, the capital fund differed with the recalculated balance, resulting in a variance of Kshs. 13,648,825.

### **Committee Recommendation**

The Committee recommends that-

- i. the Governor ensures the Accounting Officer undertakes prior year adjustments to reconcile the variance of Kshs. 10,293,243 in the net assets balance and Kshs. 13,648,825 in the capital fund balance in the subsequent audit cycle FY 2025/2026.**
- 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

### 1.2. The Statement of Cash Flows

The statement of cash flows reflects net cash outflows from operating activities balance of Kshs.7,914,676. However, Note 23 to the financial statements on cash generated from operations shows a balance of Kshs.33,106,248, resulting to unreconciled variance of Kshs.41,020,924. Further, the statement shows net decrease in cash and cash equivalents of Kshs.2,255,280. However, recalculation of the amount shows a balance of Kshs.9,726,682 resulting to unreconciled variance of Kshs.7,471,402.

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

### Management Response

SN	Description	Amount (Kshs)
1.	Recalculation of —	7,914,676
2.	Cash generated from operations balance	33,106,248
	Unreconciled balance total	41,020,924

The management acknowledges the audit observations made during the audit review. The management states as follows; the reconciliation has been done and restatement to be done in FY 2025/2026.

SN	Description	Amount (Kshs)
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1.	Recalculation cash and cash equivalents	9,726,682
2.	net decrease in cash and cash equivalents	(2,255,280)
	Unreconcilled variance	7,471,402

### **Committee Observation**

The Committee observed unreconciled variances in the statement of cash flows where net cash outflows from operating activities of Kshs. differed with Note 23 balance resulting in a variance of Kshs. 41,020,924. Further, the net decrease in cash and cash equivalents differed with the recalculated balance, resulting in a variance of Kshs. 7,471,402.

### **Committee Recommendation**

The Committee recommends that—

- i. the Governor ensures the Accounting Officer undertakes prior year adjustments to reconcile the variance of Kshs. 41,020,924 in cash generated from operations and Kshs. 7,471,402 in net decrease in cash and cash equivalents in the subsequent audit cycle FY 2025/2026.
- 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

### 1.3. The Statement of Comparison of Budget and Actual Amounts

The statement of comparison of budget and actual amounts shows actual surplus of Kshs.288,826 and budgeted surplus of Kshs.2,544,106. However, recalculation of the totals shows actual deficit of Kshs.26,783,225 and budgeted deficit of Kshs.10,659,422 resulting to unreconciled variances of Kshs.27,072,051 and Kshs.13,203,528 respectively.

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

#### MANAGEMENT RESPONSE

SN	Estimated Budgeted (target) surplus	Actual budget	Variance
1.	288,826	26,783,225	27,072,051
2.	2,544,106	10,659,422	13,203,528

The management acknowledges the audit observations made during the audit review. The management states as follows; the reconciliation has been done and restatement to be done in FY 2025/2026.

#### Committee Observation

The Committee observed unreconciled variances in the statement of comparison of budget and actual amounts where the reported actual surplus differed with the recalculated actual deficit, resulting in a variance of Kshs. 27,072,051. Further, the budgeted surplus differed with the recalculated budgeted deficit, resulting in a variance of Kshs. 13,203,528.

#### Committee Recommendation

The Committee recommends that—

- i. the Governor ensures the Accounting Officer undertakes prior year adjustments to reconcile the variance of Kshs. 27,072,051 in actual amounts

and Kshs. 13,203,528 in budgeted amounts in the subsequent audit cycle FY 2025/2026

- 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

**2. Unsupported Rendering of Services**

The statement of financial performance and Note 7 to the financial statements show rendering of services-medical income of Kshs.47,275,846 which includes P3 Forms balance of Kshs.40,800 and Oxygen balance of Kshs.58,000. However, supporting schedules and ledgers were not provided for audit.

In the circumstances, the accuracy and completeness of the rendering of services-medical income of Kshs.47,275,846 could not be confirmed.

**MANAGEMENT RESPONSE**

SN	ITEM	AMOUNT	
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1.	rendering of services- medical income	47,275,846	
2.	P3 Forms	40,800	
3.	oxygen	58,000	

The management acknowledges the audit observations made during the audit review. The management states as follows; the schedules have been provided.

#### **Committee Observation**

The Committee observed that the management provided monthly supporting schedules which do not have necessary details of the revenue.

#### **Committee Recommendation**

The Committee recommends that the Governor ensures all revenue line items are supported by schedules and ledgers and availed to Senate and copy to the Auditor-General at the commencement of every audit, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply without fail.

### **3. Unvalued Property, Plant and Equipment**

The statement of financial position reflects property, plant and equipment balance of Kshs.1,654,535 as disclosed in Note 20 to the financial statements. However, review of the Hospital records and physical inspection revealed that the Hospital owns items of plant, property and equipment, freehold land, capital work in progress, buildings and motor vehicles that were not valued for inclusion in the statement of financial position.

Further, the motor vehicles, the land on which the Hospital is built, and the developments therein did not have ownership documents. In addition, the Hospital did not have an updated asset register in the format prescribed by the guidelines from The National Treasury.

In the circumstances, the accuracy and completeness of the property, plant and equipment balance of Kshs.1,654,535 could not be confirmed.

### Management Response

The management acknowledges the audit observations made during the audit period under review and the status is as shown below.

#### CURRENT STATUS

SN	SUBJECT	Status	VALUE KSHS	ACTION
	Land	1.Title deed processing in progress 2.Land valuation of 5.2 acres in progress	Nil	Valuation in progress
	Buildings	1.List of buildings 2.Purpose/functionality of the building 3. valuation of the building	Nil	Awaiting valuation
	Medical equipment	1. List of medical equipment 2. Valuation of the medical equipment	Nil	Awaiting valuation
	Furniture	List of furniture	Nil	Awaiting valuation
	Motor vehicle	List of motor vehicle	Nil	Awaiting valuation
	Capital work in progress		Nil	No work in progress

#### Action plan

SN	ITEM	Description	Current status	Time frame
1.	Land and buildings	1.Title deed processing in progress	1.Letter requesting for title deed processing.	Letter done
		2.Land valuation of 14 acres in progress	2.Letter requesting for valuation.	Follow up for valuation by

				end of June 2026
2.	Buildings	1. List of buildings	Buildings listed	
		2. Purpose/functionality of the building	Purpose documented	
		3. valuation of the building	Letter requesting for valuation of fixed assets.	Follow up for valuation by end of June 2026
3.	Medical equipment	1. List of medical equipment	Medical equipment identified and listed	Done
		2. Valuation of the medical equipment	Letter requesting for valuation of medical equipment	Follow up for valuation by end of June 2026
4.	Motor Vehicle	Listing	Request to mechanical works for assesment	Follow up for assesment by end of June 2026

### Committee Observation

The Committee observed that Land, buildings, medical equipment, furniture, motor vehicles and capital works in progress were not valued for inclusion in the financial statements. Ownership documents for motor vehicles and land do not exist, and the hospital does not maintain an updated asset register in the prescribed format. Management has initiated valuation requests with a timeline of June 2026.

### Committee Recommendation

The Committee recommends that-

- v. within sixty (60) days of the adoption of this report, the Governor, through the CECM responsible for matters health, engages with the Ministry of Health of

the National Government to ensure the transfer of ownership documents of land and buildings is fast tracked;

- vi. the Governor ensures that the management of the hospital fast track the valuation of all assets of the hospital and submits the valuation report to the Auditor- General for verification during the subsequent audit cycle;
- vii. 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; and
- viii. 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.

**Other Matter**

**Unresolved Prior Year Audit Matters**

In the audit report for the previous year, issues were raised under Report on the Financial Statements, Emphasis of Matter, Report on Lawfulness and Effectiveness in the Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance as detailed in However, no evidence was provided indicating whether the issues have been resolved or not.

In the circumstances, the issues remain unresolved.

**Management Response**

Reference No. of the Auditor-General's Audit Report	Title of Audit Issue	Management Comments	Remarks/ Action

	<b>Report on the Financial Statements</b>		
1	<b>Inaccuracy of the Statement of Financial Position</b>	The management has initiated reconcilliations from the first year of audit	The Financial Statements to be restated in the FY 2025/2026
2.	<b>Lack of Trial Balance</b>		
3.	Variance Between the Financial Statements and Supporting Schedules	The management has initiated reconcilliations from the first year of audit	The Financial Statements to be restated in the FY 2025/2026
4.	Unsupported Receivables from Exchange Transactions		
5.	Unsupported Trade and Other Payables		
6.	Unvalued Property, Plant and Equipment		
7.	Accuracy of the General Expenses		
8.	Unsupported Inventory Balance		
9.	Anomalies in Accuracy, Presentation and Disclosure of Annual Report Financial Statements		
10.	Unsupported Board Expenses		
	<b>Emphasis of Matter</b>		
	Budgetary Control and Performance		
	<b>Report on Lawfulness and Effectiveness in the Use of Public Resources</b>		

1	Non-Compliance with Kenya Quality Model for Health Policy Guidelines		
2	Failure to Undertake Safety and Health Audits		
3	Operating without an Approved Strategic Plan		
	<b>Report on Effectiveness of Internal Controls, Risk Management and Governance</b>		
1	Poor Waste Management System		
2	Failure to Establish Internal Audit Unit and Audit Committee		
3	Lack of Information Communication Technology (ICT) Policies and Plans		
4	Lack of Risk Management Policy		

### **Committee Observation**

The Committee observed that all prior year audit issues across all four sections of the audit report remain unresolved.

### **Committee Recommendation**

The Committee recommends that —

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

**Section 199 of the Public Finance Management Act on penalties for offences shall apply; and**

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

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

### **Conclusion**

#### **Basis for Conclusion**

##### **1. Failure to Undertake Safety and Health Audits**

Review of documents provided revealed that there were no safety and health audits carried out by the Hospital during the year under review contrary to Section 11 (1) of the Occupational Safety and Health Act, 2007 which states that the occupier of a workplace shall cause a thorough safety and health audit of his workplace to be carried out at least once in every period of twelve months by a safety and health advisor, who shall issue a report of such an audit containing the prescribed particulars to the occupier on payment of a prescribed fee and shall send a copy of the report to the Director.

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

#### **Management Response**

The department is in the process of obtaining the unique number so as to register the facility on the list of work places.

#### **Committee Observation**

The Committee observed that the hospital did not conduct mandatory safety and health audits and is not registered as a workplace under the Directorate of Occupational Safety and Health Services contrary to Section 11(1) of the Occupational Safety and Health Act, 2007.

#### **Committee Recommendation**

The Committee recommends that the Governor ensures the hospital is registered as a workplace and all mandatory safety and health audits are conducted and evidence

sent to Senate and copy to the Auditor-General within ninety (90) days of adoption of this report, failure to which the provisions of Section 199 of the Public Finance Management Act on penalties for offences may apply

## 2. Lack of Imprest Register

Review of imprests management revealed that the Hospital did not maintain an updated imprest register contrary to Section 149(2)(b) of the Public Finance Management Act, 2012 which mandates keeping of financial and accounting records that complies with the Act.

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

### Management Response

The management acknowledges the audit observations made during the audit review. The management states as follows; the imprest register is available.

### Committee Observation

The Committee observed that the hospital has an updated imprest register which was verified.

### Committee Recommendation

The Committee recommends the matter be marked as resolved.

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

Review of Hospital records, physical verification and interviews revealed that the Hospital did not meet the requirements of the Kenya Quality Model for Health Policy Guidelines due to staff deficits as shown below:

Item	Level 4 Standard A	Number in Hospital B	Variance C=(B-A)	Percentage (%) (C/A)*100
Medical officers	16	6	-10	-63
Anesthesiologists	2	0	-2	-100
General Surgeon	2	0	-2	-100
Gynecologists	2	0	-2	-100
Pediatricians	2	0	-2	-100

Radiologists	2	0	-2	-100
Registered Community Health Nurses	75	58	-17	-23

### Management Response

The Management is working progressively with the County executive to ensure that the hospital is sufficiently staffed.

Item	Level 4 Standard A	Number in Hospital B	Current status	locum	referral	Variance C=(B-A)
Medical officers	16	6	6	10	0	0
Anesthesiologists	2	0	0	0	2	0
General Surgeon	2	0	0	0	2	0
Gynecologists	2	0	0	0	2	0
Pediatricians	2	0	0	0	2	0
Radiologists	2	0	0	0	2	0
Registered Community Health Nurses	75	58	58	10	7	0
	101	64	64	20	17	0

In addition, the Hospital lacked equipment and machines recommended in the Health Policy Guidelines as shown below:

Item	Level 4 Hospital Standard A	Actuals in the Hospital B	Variance C=B-A	Percentage (%) (C/A)*100
Resuscitaire in Labour Ward	2	1	-1	-50
New Born Unit Incubators	5	5	0	
Functional ICU Beds	6	0	-6	-100
High Dependency Units (HDU) Beds	6	0	-6	-100
Renal Units with at Least 5 Dialysis Machines	5	0	-5	-100

Functional Operating Theaters Maternity and General	2	1	-1	-50
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These deficiencies contravene the First Schedule of the Health Act, 2017 and imply that accessing the highest attainable standard of health, which includes the right to health care services, including reproductive health care as required by Article 43(1) of the Constitution of Kenya, 2010 may not be achieved. Further, this contravened the Kenya Quality Model for Health Policy Guidelines and hindered the realization of the Government program on Universal Health Coverage (UHC).

### ACTION PLAN

SN	Item	Description	Mitigations
1.	Functional ICU (Intensive Care Unit) Beds	Machines/beds for patients with severe life threatening conditions	1.Kimilili Sub county hospital is the main hub for (PCN) 2. BCRH has 5 ICU beds that can be utilized under the referral policy 3.Private hospitals ICU beds under referral policy(Hopkins , Life care and Bungoma west Hospitals) at least 10 ICU beds
2.	High Dependency Units (HDU) Beds	Machines/Beds for specialized care and monitoring and support for patients from ICU	1.Kimilili Sub county hospital is the main hub for (PCN) 2. BCRH has 3 HDU beds that can be utilized under the referral policy 3.Private hospitals HDU beds under referral policy(Hopkins , Life care and Bungoma west Hospitals) at least 8 HDU beds
3.	Renal Units with at Least 5 Dialysis Machines	Specialized hospital department dedicated for diagnosing, managing and treating patients with kidney(renal) diseases.	1.Kimilili Sub county hospital is the main hub for (PCN) 2. BCRH has 8 beds that can be utilized under the referral policy 3.Private hospitals 10 renal beds under referral policy(Hopkins , Life care and Bungoma west Hospitals)

## ACTION PLAN

Item	Level 4 Hospital Standard A	Actuals in the Hospital B	Current status Net additions	Referral Public D	Referral private	Variance C=B-A
Resuscitaire in Labour Ward	2	1	2	0	0	0
New Born Unit Incubators	5	5	0	0	0	0
Functional ICU Beds	6	0	0	5	1	0
High Dependency Units (HDU) Beds	6	0	0	3	3	0
Renal Units with at Least 5 Dialysis Machines	5	0	0	5	0	0
Functional Operating Theaters Maternity and General	2	1	2	0	0	0

## ACTION PLAN

SN	Item	Description	Mitigations
1.	Functional ICU (Intensive	Machines/beds for patients with severe life threatening conditions	1.Kimilili Sub county hospital is the main hub for (PCN) 2. BCRH has 5 ICU beds that can be utilized under the referral policy

	Care Unit) Beds		3.Private hospitals ICU beds under referral policy(Hopkins , Life care and Bungoma west Hospitals) at least 10 ICU beds
2.	High Dependency Units (HDU) Beds	Machines/Beds for specialized care and monitoring and support for patients from ICU	1.Kimilili Sub county hospital is the main hub for (PCN) 2. BCRH has 3 HDU beds that can be utilized under the referral policy 3.Private hospitals HDU beds under referral policy(Hopkins , Life care and Bungoma west Hospitals) at least 8 HDU beds
3.	Renal Units with at Least 5 Dialysis Machines	Specialized hospital department dedicated for diagnosing, managing and treating patients with kidney(renal) diseases.	1.Kimilili Sub county hospital is the main hub for (PCN) 2. BCRH has 8 beds that can be utilized under the referral policy 3.Private hospitals 10 renal beds under referral policy(Hopkins , Life care and Bungoma west Hospitals)

The management acknowledges the audit observations made during the audit review. The management states as follows; There is a request made to National Equipment service Programme(NESP) for the identified necessary hospital equipment. However ,the critical service equipment are currently centralized to offer specialized services that is ICU and renal services. The facility is leveraging on reverse referral

In the circumstances, the Hospital may not provide the highest standard of healthcare services, including reproductive health care as envisioned for a Level 4 Hospital.

#### **Committee observation**

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

#### **Committee Recommendation**

**The Committee recommends that—**

- i. within sixty (60) days of the adoption of this report, the Governor submits to the Senate a comprehensive plan outlining the specific measures being taken to address the hospital's staffing shortages. The measures should include both short-term and long-term solutions, focusing on optimizing existing resources, improving employee welfare, and ensuring sustainable staffing levels moving forward; and
- ii. within ninety (90) days of the adoption of this report, the Committee recommends that the Governor ensures the hospital develops and implements a comprehensive plan, with appropriate budgetary allocations, to acquire and operationalize the required facilities and equipment to provide all services required for a Level 4 hospital. The Auditor-General should monitor progress and keep this matter under review in the subsequent audit cycle; and
- iii. the Governor ensures the officer in charge of the facility has the requisite academic and professional qualifications in accordance with the Health Act, 2017 and provide evidence of measures taken to address the matter to Senate within 60 days of the adoption of this report.

#### **4. Failure to Open Facility Improvement Financing Bank Account**

Review of the bank accounts documents revealed that the hospital had not opened a special purpose Facility Improvement Financing bank account. This was contrary to Section 5(2) of the Facilities Improvement Financing Act, 2023 which provides that there shall be opened a facility improvement financing account for each public health facility into which shall be paid all monies received by or on behalf of the respective public health facility.

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

#### **Management Response**

The health facilities are in compliance with section (5)2 of the FIF Act 2023 where all facilities have bank accounts where SHA remittances are received and expended at facility level. (facilities with bank accounts)

Secondly, the accounts referred to are Special Purpose Accounts opened in Central bank and its main purpose was to enable facilities transact in IFMIs and also migrate to e-procurement.

Therefore, the first phase was to open the SHA accounts to receive all the revenues and these accounts shall be sweeping account to the special purpose account.

The phase two was to ensure that all the audited entities have special purpose account where the chief officer has requested opening of special purpose account

### **Committee Observation**

The Committee observed that the hospital had not opened a Facility Improvement Financing bank account contrary to Section 5(2) of the Facilities Improvement Financing Act, 2023.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures the hospital opens a designated Facility Improvement Financing bank account and channels all facility revenues through it immediately in compliance with Section 5(2) of the FIF Act, 2023; and the Governor ensures the FIF account is disclosed in the FY 2025/2026 financial statements, failure to which the provisions of Section 199 of the Public Finance Management Act on penalties for offences may apply.**

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

### **Conclusion**

#### **Basis for Conclusion**

#### **1. Information and Communication Technology Internal Control Environment**

Review of Information and Communication Technology (ICT) controls environment and records revealed that the Hospital had an ICT Department with one ICT officer. However, it was observed that the department lacked ICT strategic plan, approved ICT policy, established ICT steering committee, remote backup/replication server and backup system.

In the circumstances, the effectiveness of the Hospital's ICT environment internal controls could not be confirmed.

#### **Management Response**

The management acknowledges the audit observations made during the audit review. The management states as follows; the entity under the department of Public Administration has domiciled the National ICT policy. Additionally, the facility has a backup and server

ICT strategic plan

ICT steering committee

remote backup/replication server

SN	ITEM	Current status
1.	ICT Policy	Leveraging on County Government draft ICT Policy
2.	ICT strategic plan	Leveraging on draft County ICT strategic plan
3.	ICT steering committee	Not established
4	remote backup/replication server	Backup is available

### **Committee Observation**

The Committee observed weaknesses in the hospital's ICT control environment including lack of an ICT strategic plan, no approved ICT policy, no established ICT steering committee, and no remote backup or replication server.

### **Committee Recommendation**

The Committee recommends that the Governor ensures a facility-specific ICT policy and strategic plan are finalized and approved within sixty (60) days of adoption of this report and the Accounting Officer ensures an ICT steering committee is formally established and operationalize and a verified remote backup and replication server is in place and The Auditor-General to provide status in the subsequent audit cycle.

### **2. Lack of Internal Audit Function**

During the year under review, the Hospital did not have an Internal Audit Function to perform risk assessment processes and evaluation of operational effectiveness through reviews of the internal controls, contrary to Section 155(1)(a) and (5) of the Public Finance Management Act, 2012 which states that a County Government entity shall ensure that it complies with this Act and has appropriate arrangements for conducting internal audit according to the guidelines issued by the Accounting Standards Board.

In the circumstances, the absence of an operational Internal Audit unit creates a significant gap in the Hospital's governance and control framework, increasing its vulnerability to various risks.

### **Management Response**

The management acknowledges the audit observations made during the audit review. The management states as follows; the entity leverages on the County treasury internal audit function as a support service that carries out all audit

### **Committee Observation**

The Committee observed that the hospital does not have an internal audit function. Management relies on the County Treasury internal audit as a support service contrary to Section 155(1)(a) and (5) of the Public Finance Management Act, 2012.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures the hospital establishes a functional internal audit unit or formalizes a documented service level agreement with the County Treasury internal audit function with clear scope, frequency and reporting lines; and also the Governor ensures internal audit reports for FY 2024/2025 and FY 2025/2026 are submitted to the Auditor-General within ninety (90) days of adoption of this report, failure to which the provisions of Section 199 of the Public Finance Management Act on penalties for offences ma**

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

The Committee received written management responses to the following queries raised in the report of the Auditor-General on financial statements of Mt. Elgon Sub-County Hospital for the Financial Year 2024/2025.

#### REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **qualified opinion** on the financial statements of Mt. Elgon Sub-County Hospital for the period under review on the following basis –

##### 1. Misstatement of Rendering of Services Income

The statement of financial performance and Note 8 to the financial statements reflects rendering of services -medical service fees amounting to Kshs.21,243,584. However, the supporting ledgers reflects Kshs.21,377,210, resulting in an unexplained variance of Kshs.54,150.

In the circumstances, the accuracy and completeness of rendering of services -medical service income amounting to Kshs.21,243,584 could not be confirmed.

##### Management Response

From the statement of financial performance note 8 it has ledgers totaling to Kshs.21,243,584

Supporting ledgers reflected Kshs 21,377,210 resulting to a variance of 133,626 not kshs 54,150 as shown below

SN	ITEMS	AMOUNT
1.	note 8 reflected amount	21,243,584
2.	Xray services omitted	83,476
3.	Public health services omitted	50,150
	Total expected	21,377,210
	Supported ledgers total	21,377,210
	variance	0

##### Committee Observation

The Committee observed that the statement of financial performance understated rendering of services income due to the omission of X-ray services and Public Health services,

resulting in a variance of Kshs. 133,626 between the financial statements and the supporting ledgers.

### **Committee Recommendation**

The Committee recommends that—

- i. The Governor ensures that the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- ii. the National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties;**
- iii. the Governor ensures the Accounting Officer strengthens internal audit controls and ensures proper record keeping in line with section 155 of the Public Finance Management Act, Cap.412A and 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;**
- iv. the Governor ensures that the Accounting Officer enhances the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements; and**

### **2. Unsupported Loss from Medical Services Contracts**

The statement of financial performance indicates medical services contracts losses of Kshs.725,950 in respect to waivers and exemptions. However, the supporting ledgers and the approvals were not provided for audit review.

In the circumstances, the accuracy and completeness of medical services contracts losses of Kshs.725,950 could not be confirmed.

### **Management Response**

Evidence of list of beneficiaries, and waiver and exemptions schedules were provided for committee verification

### **Committee Observation**

The Committee observed that the list of the beneficiaries was provided but ledgers were not provided. The Waivers are yet to be approved by the board.

### **Committee Recommendation**

**The Committee recommends that-**

- I. the governor should ensure that the Accounting Officer ensures timely submission of documents during the audit process in line with section 47(1) of the Public Audit Act, Cap.412B as read together with section 149(2)(k) failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act in the subsequent audit cycle**
- II. The Governor ensures the Accounting Officer obtains formal Board approval for all waivers and exemptions and reconciles them with supporting ledgers, providing evidence to Senate and the Auditor-General for verification within 90 days of adoption of this report.**

### **3. Incorrect Opening Balances**

The statement of cash flows shows comparative balances for rendering of services of Kshs.18,331,234 and purchase of property, plant and equipment of Kshs.5,586,091. However, the balances differ with the audited financial statements for the previous year 2023/2024 amounts of Kshs.17,376,332 and Kshs.7,454,200 resulting to unreconciled variances of Kshs.954,902 and Kshs.1,868,109 respectively.

Further, Note 21 the financial statements in respect to property, plant and equipment shows accumulated depreciation comparative balance of Kshs.698,525 which differs with Kshs.660,800 reported in audited financial statements for the previous year 2023/2024, resulting to an unreconciled variance of Kshs.37,728.

In the circumstances, the accuracy and completeness of respective financial statements' opening balances could not be confirmed.

Management response

**Management Response**

The revenues omitted will be adjusted in the subsequent Financial statement. See the adjustments below;

SN	ITEM	captured	ADJUSTMENT	corrected
1.	Rendering of services	17,376,332	954,902	18,331,234
2.	Amount omitted		954,902	
3.	Purchase of property plant and equipment	5,586,091	1,868,109	7,454,200
	Amount omitted		1,868,109	
4.	accumulated depreciation property plant and equipment	660,800	37,728	698,525
	Amount omitted		37,728	

Plant property and equipment omissions, to be restated in the FY 2025/2026  
 accumulated depreciation property plant and equipment omissions to be restated in the  
 FY 2025/2026

#### **Committee Observation**

The Committee observed variances of Kshs. 954,902 on rendering of services, Kshs. 1,868,109 on purchase of property, plant and equipment, and Kshs. 37,728 on accumulated depreciation.

#### **Committee Recommendation**

The Committee recommends that-

- i. the Governor ensures the Accounting Officer effects prior year adjustments to restate all incorrect opening balances in the FY 2025/2026 financial statements and submits evidence of the restatements to the Senate and Auditor-General for within 60 days of the adoption of this report for verification.
- ii. The Governor ensures the Accounting Officer should further institute a robust financial statement review process to ensure that closing balances in one financial year correctly become the opening balances in the subsequent year, in compliance with applicable IPSAS standards.

#### **4. Failure To Value Property, Plant and Equipment**

The statement of financial position and Note 21 to the financial statements reflects property, plant and equipment balance of Kshs.6,749,994. However, the values of land and buildings which were occupied by the hospital had not been determined and included in the financial statements. Further, the hospital did not have a title deed for the land it occupied.

In the circumstances, the accuracy, ownership and completeness of the property, plant and equipment balance of Kshs.6,749,994 could not be confirmed.

### Management Response

### Management Response

The management acknowledges the audit observations made during the audit period under review and the status is as shown below.

SN	SUBJECT	Status	VALUE KSHS	ACTION
	Land	1.Title deed processing in progress 2.Land valuation of 5 acres in progress	Recorded nil	Valuation in progress
	Buildings	1.List of buildings 2.Purpose/functionality of the building 3. valuation of the building	Recorded nil	Awaiting valuation
	Medical equipment	1. List of medical equipment 2. Valuation of the medical equipment	Recorded nil	Awaiting valuation

### Action plan

SN	ITEM	Description	Current status	Time frame
1.	Land and buildings	1.Title deed processing in progress	1.Letter requesting for title deed processing.	Letter done

		2.Land valuation of 14 acres in progress	2.Letter requesting for valuation.	Follow up for valuation by end of June 2026
2.	Buildings	1.List of buildings	Buildings listed	
		2.Purpose/functionality of the building	Purpose documented	
		3. valuation of the building	Letter requesting for valuation of fixed assets.	Follow up for valuation by end of June 2026
3.	Medical equipment	1. List of medical equipment	Medical equipment identified and listed	Done

#### **Committee Observation**

The Committee observed that the hospital does not yet possess a title deed for the land it occupies, contrary to Regulation 136 of the Public Finance Management (County Governments) Regulations, 2015, although Management has initiated the valuation and title deed processing process

#### **Committee Recommendation**

The Committee recommends that-

- ix. within sixty (60) days of the adoption of this report, the Governor, through the CECM responsible for matters health, engages with the Ministry of Health of the National Government to ensure the transfer of ownership documents of land and buildings is fast tracked;
- x. the Governor ensures that the management of the hospital undertakes the valuation of all assets of the hospital and submits the valuation report to the Auditor- General for verification during the subsequent audit cycle;
- xi. 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; and

- xii. 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.

#### Other Matter

#### Unresolved Prior Year Audit Matters

In the audit report for the previous year, several issues were raised under lawfully and in an effective way.

#### Basis for Conclusion

#### 1. Non-Compliance With Kenya Quality Model for Health Policy Guidelines On Staffing and Equipment

Review of hospital records and interviews on verification of services offered, equipment used and medical specialists revealed that the hospital did not meet the requirements of Kenya Quality Model for Health Policy Guidelines due to staff deficits as detailed below:

Personnel	Level standard	4	Actual Numbers	Deficit
Medical Officers				
Anesthesiologists / anesthetic-diploma				
General Surgeons				
Gynecologists				
Pediatrics				
Radiologists/radiographer-no degree				
Kenya Registered Community Health Nurses				
BScN Nurses				
Kenya Enrolled Nurses				

Personnel	Level 4 standard	Actual Numbers	Deficit
<b>Total</b>			

### Management Response

The Management is working progressively with the County executive to ensure that the hospital is sufficiently staffed.

### Action plan

Personnel	Level 4 standard	Actual Numbers	Current status	locum	referral	variance
Medical Officers						
Anesthesiologists / anesthetic-diploma						
General Surgeons						
Gynecologists						
Pediatrics						
Radiologists/radiographer-no degree						
Kenya Registered Community Health Nurses						
BScN Nurses						
Kenya Enrolled Nurses						
<b>Total</b>						

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

Service	Level 4 Standard	Actual Numbers	Deficit
Beds			

Resuscitative			
New born unit Incubators			
New born unit cots			
Functional ICU Beds			
High Dependency Unit (HDU) beds			
Renal unit			
Maternity and General Theatre			
<b>Total</b>			

These deficiencies contravene the First Schedule of Health Act, 2017 and imply that accessing the highest attainable standard of health, which includes the right to health care services, including reproductive health care as required by Article 43(1) of the Constitution of Kenya, 2010 may not be achieved. Further, this contravened the Kenya Quality Model for Health Policy Guidelines and hindered the realization of the Government program on Universal Health Coverage (UHC).

In the circumstances, hospital may not provide the highest standard of healthcare services, including reproductive health care as envisioned for a Level 4 Hospital.

#### Action plan

Service	Level 4 Standard	Actual Numbers	Referral Public	Referral private	Deficit
Beds					
Resuscitative					
New born unit Incubators					
New born unit cots					
Functional ICU Beds					
High Dependency Unit (HDU) beds					

Renal unit					
Maternity and General Theatre					
<b>Total</b>					

**Management Response**

The management acknowledges the audit observations made during the audit review. The management states as follows; There is a request made to National Equipment service Programmed (NESP) for the identified necessary hospital equipment. However, the critical service equipment are currently centralized to offer specialized services that is ICU and renal services. The facility is leveraging on reverse referral.

**Committee observation**

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

**Committee Recommendation**

**The Committee recommends that—**

- i. within sixty (60) days of the adoption of this report, the Governor submits to the Senate a comprehensive plan outlining the specific measures being taken to address the hospital’s staffing shortages. The measures should include both short-term and long-term solutions, focusing on optimizing existing resources, improving employee welfare, and ensuring sustainable staffing levels moving forward; and**
- ii. within ninety (90) days of the adoption of this report, the Committee recommends that the Governor ensures the hospital develops and implements a comprehensive plan, with appropriate budgetary allocations, to acquire and operationalize the required facilities and equipment to provide all services required for a Level 4 hospital. The Auditor-General should monitor progress and keep this matter under review in the subsequent audit cycle; and**
- iii. the Governor ensures the officer in charge of the facility has the requisite academic and professional qualifications in accordance with the Health Act, 2017 and provide evidence of measures taken to address the matter to Senate within 60 days of the adoption of this report.**

## **2. Failure to Maintain Board Members Personal Files and to Undertake Board Performance Evaluation**

During the year under review, the hospital did not maintain Board members personal files and failed to undertake performance evaluation for individual Board members and Board of Management. This was contrary to Part 1.11 of Mwongozo Code of Governance which states that the Board should conduct an annual evaluation to appraise its performance in accordance with the Board evaluation tool.

In addition, review of Board and sub committees' composition revealed lack of a member with financial expertise, and Board committees' composition did not reflect a mix of skills and competencies necessary for effective committees functioning as defined under Governance Parameter 1.1 (6).

Further, a Board member was not formally appointed to the Board through a Gazette Notice as required.

In the circumstances, Management was in breach of law.

### **Management Response:**

appointments for hospital management boards for a period of 3 years. For our in the gazette notice no. 7056, county government of Bungoma made members appointed were 11, names of chairman and 7 members were expressly stated but three members were office holders. Copies of holders of office of medical superintendent, county head of division of public health and sanitation and sub county administrator.

Board membership composition is a mix of skills and competencies because, board members come from a diverse backgrounds. The chair of the board works with IEBC and heads a constituency, meaning that he is knowledgeable with public sector operations. The chair of audit and assurance subcommittee of the board is the former principal of secondary school. Pastor Miruni is a holder of master's degree in theology runs church and private school.

Other members are public servants with reputable careers. Also, appointment of sub county administrator and head of public health and sanitation officer in the county ensures that the board meets its mandate.

### **Committee Observation**

The Committee observed that-

- i. the hospital did not maintain personal files for Board members, failed to conduct annual Board performance evaluations contrary to Part 1.11 of the Mwongozo Code of Governance, lacked a Board member with formal financial expertise as required by Governance Parameter 1.1(6),
- ii. one member who was not formally appointed through a Gazette Notice, all of which undermine effective Board oversight and governance of the hospital.

### **Committee Recommendation**

**The Committee recommends that the Governor ensures the Accounting Officer maintains complete personal files for all Board members, conducts annual Board performance evaluations using the prescribed evaluation tool in compliance with Part 1.11 of the Mwongozo, ensures the Board composition includes a member with formal financial expertise, and ensures all Board appointments are formally gazetted as required by law, failure to which the provisions of Section 199 of the Public Finance Management Act on penalties shall apply.**

### **3. Failure to Open Facility Improvement Financing Bank Account**

Review of the bank accounts documents revealed that the hospital had not opened a special purpose Facility Improvement Financing bank account. This was contrary to Section 5(2) of the Facilities Improvement Financing Act, 2023 which provides that there shall be opened a facility improvement financing account for each public health facility into which shall be paid all monies received by or on behalf of the respective public health facility.

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

### **Management Response**

The health facilities are in compliance with section (5)2 of the FIF Act 2023 where all facilities have bank accounts where SHA remittances are received and expended at facility level. (facilities with bank accounts)

Secondly, the accounts referred to are Special Purpose Accounts opened in Central bank and its main purpose was to enable facilities transact in IFMIs and also migrate to e-procurement.

Therefore, the first phase was to open the SHA accounts to receive all the revenues and these accounts shall be sweeping account to the special purpose account.

The phase two was to ensure that all the audited entities have special purpose account where the chief officer has requested opening of special purpose account.

### **Committee Observation**

The Committee observed that the hospital had not opened a dedicated Facility Improvement Financing Account as required by Section 5(2) of the Facilities Improvement Financing Act, 2023.

### **Committee Recommendation**

The Committee recommends that the Governor ensures the Accounting Officer opens a dedicated Facility Improvement Financing bank account for the hospital in full compliance with Section 5(2) of the Facilities Improvement Financing Act, 2023, and submits evidence of the same to the Senate and Auditor-General within sixty (60) days of adoption of this report, failure to which the provisions of Section 199 of the Public Finance Management Act on penalties shall apply.

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

### **Conclusion**

#### **Basis for Conclusion**

#### **1. Undefined Pricing Policy for Sale of Drugs to Patients**

During the year under review, the hospital purchased drugs at Kshs.2,323,354 from several suppliers and dispensed them to patients at undefined prices due to lack of a formal drug pricing policy to define the selling prices of medicines to patients.

In the circumstances, the effectiveness of revenue management from sale of drugs could not be confirmed.

#### **Management Response**

The management acknowledges the observation made during audit period. An analysis has been made for drugs worth Kshs 2,323,354 and the cost has been confirmed to be within 0.3 % margin.

### **Committee Observation**

The Committee observed the hospital provided a price list instead of pricing policy.

### **Committee Recommendation**

The Committee recommends that the Governor ensures the Accounting Officer develops and implements a formal drug pricing policy defining the selling prices of all medicines dispensed to patients, ensures the policy is approved by the Board, and submits evidence of approval to the Auditor-General within sixty (60) days of adoption of this report.

## **2. Ineffective Motor Vehicle Management and Maintenance**

Note 21 to the financial statements reflects property, plant and equipment balance of Kshs.6,712,269, which includes motor vehicles balance of Kshs.4,845,000. However, physical verification carried out on 30 October, 2025 revealed that the two motor vehicles held were grounded, unserviceable, and kept in an open space without a shed thus exposed to effects of incremental weather conditions. No explanation was provided for failure to Board vehicles for onward disposal.

In addition, the hospital incurred total expenditure of Kshs.1,360,434 on repairing motor vehicles, which were not supported by job cards and records of defects on vehicles work tickets.

In the circumstances, the effectiveness of motor vehicles management could not be confirmed.

### **Management Response**

The management acknowledges the observation made at the time of audit. Inventory had been compiled for decision making and if unserviceable be proposed for disposal.

### **Committee Observation**

The Committee observed that-

- i. two motor vehicles valued at Kshs. 4,845,000 were grounded, unserviceable, and exposed to weather damage without protective storage, contrary to Regulation 136 of the PFM (County Governments) Regulations, 2015.
- ii. The Committee further observed that vehicle maintenance expenditure of Kshs. 1,360,434 was not supported by job cards or vehicle work tickets.

### **Committee Recommendation**

The Committee recommends that —

- i. The Governor ensures the Accounting Officer boards the unserviceable motor vehicles for disposal in accordance with the Public Procurement and Asset Disposal Act, 2015, and submits evidence of the boarding and disposal process to the Auditor-General within sixty (60) days of adoption of this report.
- ii. The Governor ensures the Accounting Officer institutes a requirement that all motor vehicle maintenance and repair works are supported by job cards, pre-inspection and post-inspection reports, and vehicle work tickets going forward, failure to which the provisions of Section 199 of the Public Finance Management Act on penalties shall apply.

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

During the year under review, the Management did not maintain risk management policy and risk assessment was not conducted contrary to Regulation 158(1) of the Public Finance Management (County Governments) Regulations, 2015 which states that – (a) the County Government entity develops risk management strategies, which include fraud prevention mechanism; and (b) the county government entity develops a system of risk management and internal controls that builds robust business operations.

In the circumstances, the effectiveness in risk management could not be confirmed.

### **Management Response**

The entity has leveraged on the County risk policy. The entity maintains a risk register which aligns with the County risk policy

### **Committee Observation**

The Committee observed that the hospital provided risk management policy for the county and a risk register but did not provide risk assessment.

### **Committee Recommendation**

The committee recommends that the Governor ensures the Accounting Officer conducts a comprehensive risk assessment for the hospital, updates the risk register accordingly, and develops an entity-specific risk management policy aligned with the County risk policy, providing evidence to the Senate and Auditor-General within 90 days of adoption of this report.

#### **4. Lack of Internal Audit Function and Reports**

During the year under review, the Management had not set up an operational internal audit unit and no internal audit report was provided for audit to show that internal audit unit of county executive of Bungoma reviewed the operations of the hospital.

In the circumstances, the effectiveness of the hospital's internal controls could not be confirmed.

#### **Management Response**

The management acknowledges the audit observations made during the audit review. The management states as follows; the entity leverages on the County treasury internal audit function as a support service that carries out all audit.

#### **Committee Observation**

The Committee observed that the hospital did not have a dedicated operational internal audit unit and no internal audit reports covering hospital operations were availed during the audit, contrary to Section 155 of the Public Finance Management Act, Cap. 412A.

#### **Committee Recommendation**

**The Committee recommends that the Governor ensures the Accounting Officer operationalizes a fully functional internal audit unit for the hospital, ensures regular internal audit reports covering all hospital operations are prepared and submitted to the Audit Committee and Board for review, and submits evidence of the same to the Auditor-General in the subsequent audit cycle, failure to which the provisions of Section 199 of the Public Finance Management Act on penalties shall apply.**

#### **5. Revenue Billing Internal Controls Weaknesses**

The statement of financial performance and Note 8 to the financial statements reflects rendering of service -medical service income of Kshs.21,243,584. However, review of the hospital's revenue processes revealed that patients were billed manually using undefined criteria, which did not provide an auditable trail to verify revenue earned, and there was no revenue reconciliation to ensure that amounts received matched those recorded.

In the circumstances, the effectiveness of internal controls for revenue billing, pricing, and collection could not be confirmed.

### **Management Response**

The department of health has 191 facilities across the county with different operating health management systems. In view of this, the county treasury procured a HMIS targeting 12 facilities, during the audit, the system was still under implementation.

While implementing the system, Digital Health Authority rolled out a nationwide system (Taifa-care-Tiberbu) where our facilities were issued with tablets and majority of them are now using the system.

The HMIS faced a challenge when the vendor issued a notice of which rendered the system non-operational thus forcing the department to fully implement Taifa care system awaiting integration with the HMIS.

The benefit of Taifacare system, it will cover all the 191 facilities thus the most preferred system

### **Committee Observation**

The Committee observed that –

- i. the hospital's revenue billing process relied on manual, undefined criteria without an auditable trail or revenue reconciliation system, creating significant risks of revenue leakage, underreporting, and inaccurate financial reporting.
- ii. The Committee further observed that while the rollout of the Taifa Care (Tiberbu) system is a positive step, the system was not yet fully operational.

### **Committee Recommendation**

The Committee recommends that —

- i. The Governor ensures the Accounting Officer fully operationalizes the Taifa Care (Tiberbu) system across all hospital service points to generate a complete and auditable revenue billing trail, and submits evidence of full implementation to the Auditor-General within ninety (90) days of adoption of this report.
- ii. The Governor ensures the Accounting Officer institutes a regular revenue reconciliation process to ensure that amounts billed, received, and recorded in the financial statements are in agreement, and that any variances are promptly investigated and resolved; and
- iii. The Auditor-General confirms the effectiveness of the revenue billing and collection controls in the subsequent audit cycle.

## **CHAPTER FOUR: FUNDS**

### **4.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR BUNGOMA 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 Bungoma 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. Bungoma County Bursary Fund
2. Bungoma County Climate Change Fund
3. Bungoma County Disaster and Emergency Management Fund
4. Bungoma County Persons with Disabilities Empowerment Fund
5. Bungoma County Trade Development Loan Fund
6. Bungoma County Youth and Women Empowerment 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 Bungoma 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.