



REPUBLIC OF KENYA



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

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 MAKUENI COUNTY WATER COMPANIES, MUNICIPALITIES, HOSPITALS, FUNDS AND COUNTY CORPORATIONS FOR THE FINANCIAL YEAR 2024/2025 (1st JULY, 2024 TO 30th JUNE, 2025):

SECTOR	NO.	ENTITIES
WATER COMPANIES	3	KIBWEZI MAKINDU WATER AND SANITATION COMPANY LIMITED
		MBOONI WATER AND SANITATION COMPANY LIMITED
		WOTE WATER AND SEWERAGE COMPANY LIMITED
MUNICIPALITIES	2	EMALI SULTAN HAMUD MUNICIPALITY
		WOTE MUNICIPALITY
HOSPITALS	5	KIBWEZI SUBCOUNTY HOSPITAL
		MAKINDU SUBCOUNTY LEVEL 4 HOSPITAL
		MAKUENI COUNTY REFERRAL HOSPITAL
		MBOONI SUBCOUNTY LEVEL 4 HOSPITAL
		SULTAN HAMUD SUBCOUNTY LEVEL 4 HOSPITAL
FUNDS	4	MAKUENI COUNTY EMERGENCY FUND
		MAKUENI COUNTY EXECUTIVE
		MAKUENI COUNTY CLIMATE CHANGE FUND
		MAKUENI COUNTY YOUTH, MEN, PERSONS WITH DISABILITIES AND TABLE-BANKING GROUPS EMPOWERMENT FUND
COUNTY CORPORATION	2	MAKUENI COUNTY FRUIT DEVELOPMENT & MARKETING AUTHORITY
		MAKUENI COUNTY SAND CONSERVATION AND UTILIZATION AUTHORITY

MARCH 2026

DATE	26/3/2026
TABLED BY	Sen. Cherandey
COMMITTEE	CPI & S.F
CLERK AT THE TABLE	Belinda

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ACRONYMS/ABBREVIATION

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

DEFINITION OF TERMS

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

PREFACE

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

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

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

This report covers the consideration by the Committee of the Auditor-General's reports on the financial statements of Makueni County water companies, municipalities, and hospitals for the Financial Year 2024/2025. The entities considered include Kibwezi Makindu Water And Sanitation Company Limited, Mbooni Water And Sanitation Company Limited, Wote Water And Sewerage Company Limited, Emali Sultan Hamud Municipality , Wote Municipality, Kibwezi Subcounty Hospital, Makindu Subcounty Level 4 Hospital, Makueni County Referral Hospital, Mbooni Subcounty Level 4 Hospital and Sultan Hamud Subcounty Level 4 Hospital.

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

COMMITTEE MEMBERSHIP

The membership of the Committee comprises of the following Senators-

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

COMMITTEE SECRETARIAT

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

ESTABLISHMENT OF THE COMMITTEE

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

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

EXECUTIVE SUMMARY

In the execution of its mandate, the Committee relied on the reports of the Auditor-General on audited Accounts of Kibwezi Makindu Water And Sanitation Company Limited, Mbooni Water And Sanitation Company Limited, Wote Water And Sewerage Company Limited, Emali Sultan Hamud Municipality , Wote Municipality, Kibwezi Subcounty Hospital, Makindu Subcounty Level 4 Hospital, Makueni County Referral Hospital, Mbooni Subcounty Level 4 Hospital and Sultan Hamud Subcounty Level 4 Hospital for the Financial year 2024/2025 (1st July, 2024 to 30th June 2025) as the primary documents for the interrogation. The Committee invited the Governor, as the Chief Executive Officer of Makueni County pursuant to Article 179(4) as witness to respond to the audit queries raised in the reports under consideration on Tuesday, 27th January 2026 for the water companies and municipalities and Tuesday, 3rd March 2026 for the hospitals. The Committee received written responses from the County Government on the funds.

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

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

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

REPORT STRUCTURE

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

CHAPTER ONE is a record of the audit queries raised in the Auditor-General's report on Makueni Water Companies (Kibwezi Makindu Water and Sanitation Company Limited, Mbooni Water and Sanitation Company Limited, Wote Water and Sewerage Company Limited) for the Financial Year 2024/25, along with the Committee's observations and recommendations for each audit query.

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

CHAPTER THREE is a record of the audit queries raised in the report of the Auditor-General for Makueni Hospitals (Kibwezi Subcounty Hospital, Makindu Subcounty Level 4 Hospital, Makueni County Referral Hospital, Mbooni Subcounty Level 4 Hospital and Sultan Hamud Subcounty Level 4 Hospital) for the Financial Year 2024/25, along with the Committee's observations and recommendations for each audit query.

CHAPTER FOUR is a record of county funds that were not considered by the Committee due to time constraints.

CHAPTER FIVE is a record of county funds that were not considered by the Committee due to time constraints

GENERAL OBSERVATIONS FOR THE WATER COMPANIES

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

1. **Late submission of documents and inaccuracies in Financial Statements** – The Committee observed a pattern of late submission of audit documents and financial statements that contained numerous inaccuracies. The delays hinder the audit process and may indicate an attempt to falsify records, while the prevalence of errors suggests a lack of competence that could potentially facilitate fraudulent activities.
2. **Non-Revenue Water (NRW)** – The Committee observed that the Water Company recorded NRW levels that significantly exceeded the sector benchmark of 25% prescribed by the Water Services Regulatory Board (WASREB). This was mostly attributed to physical losses from dilapidated infrastructure, commercial losses from inaccurate meter reading and billing, and illegal connections. Nyandarua Water and Sanitation Company Limited had non-revenue water of 39% and Olkalou Water and Sanitation Company Limited had 35%.
3. **Deficiencies in Financial Reporting** – The Committee noted widespread inaccuracies and errors in the preparation and presentation of financial statements. Furthermore, both Accounting Officers and Managing Directors exhibited challenges in complying with Section 62 of the Public Audit Act, Cap. 412B, by failing to submit supporting documents to auditors on time. This impedes the accountability and audit process, while the persistent delays in finalizing complete financial statements point to a lack of requisite competencies and experience within the entities.
4. **Non-Adherence to Accounting Standards** – The committee observed that accountants across several Water Companies faced challenges in fully adopting the International Public Sector Accounting Standards (IPSAS) framework. The Committee noted that while the Public Sector Accounting Standards Board (PSASB) periodically updates these standards to reflect emerging issues and best practices, many water companies struggle with their application, as evidenced by recurring audit queries.
5. **Material Uncertainty Regarding Going Concern** – The committee noted that Nyandarua Water and Sanitation Company Limited reported negative working capital during the review period, rendering them unable to meet short-term financial obligations as they fall due. Their continued operation is heavily reliant on financial support from County Executives or development partners, raising material doubts about their long-term financial sustainability.

GENERAL RECOMMENDATIONS FOR THE WATER COMPANIES

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

1. **Enhancement of Record Keeping and Audit Compliance** –The Governor ensures that the Board and Accounting Officer have proper record keeping and provide all requisite supporting documents to the Auditor-General in accordance with Section 9(1)(e) of the Public Audit Act, Cap. 412B, within the stipulated audit timelines. Adherence to the provisions of the Accountants Act, Cap. 531, is mandatory. Failure to comply with these requirements shall necessitate the invocation of Section 62 of the Public Audit Act by the Committee.
2. **Mitigation of Non-Revenue Water** – The Governor to ensure that the Board of Directors and Accounting Officer institute comprehensive measures to reduce Non-Revenue Water, addressing both physical and commercial losses. These measures should include the adoption of Geographic Information System (GIS) technology for real-time detection of bursts and leakages, installation of smart meters to ensure accurate billing, rehabilitation of dilapidated infrastructure, and the development of institutional anti-corruption policies with robust enforcement mechanisms to curb illegal connections. Furthermore, management should disclose the proportional breakdown of physical and commercial losses, expressed as percentages, in their periodic reports.
3. **Capacity Building on Financial Reporting Standards** – The Governor ensures that the Board of Directors, in consultation with the Public Sector Accounting Standards Board (PSASB), facilitate continuous capacity building for finance officers and management on International Public Sector Accounting Standards (IPSAS) to improve the quality of financial reporting and enhance compliance. The Governor ensures that the Board ensure that all accounting personnel possess the requisite competency and experience as mandated by the Accountants Act. Additionally, the Governor ensures the Accounting Officer enforce strict adherence to the financial reporting template prescribed by the National Treasury. These measures will strengthen the maintenance of books of account, improve the accuracy of financial statements, and ensure their timely submission to the Auditor-General.
4. **Strengthening Financial Sustainability and Asset Management** – The Governor ensures that the Board, accounting Officers and the County Governments should implement strategic and innovative measures to enhance the financial health and self-sustainability of water companies. This includes reviewing and regularizing existing assets, finalizing service provider agreements from the defunct local authorities, and maintaining updated asset registers that accurately reflect the current financial position. Companies must

determine and ascertain their commercial viability as required by the PSASB. Any financial support received from the County Executive should be clearly classified in the books of account as either a conditional grant or a donation, and should not be treated as a direct transfer. Furthermore, County Governors, through the County Executive Committee member responsible for water, are urged to monitor the financial operations of water companies pursuant to Section 184 of the Public Finance Management Act, Cap. 412A.

GENERAL OBSERVATIONS FOR THE MUNICIPALITIES

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

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

GENERAL RECOMMENDATIONS FOR THE MUNICIPALITIES

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

1. **Timely Submission of Audit Documents** – The Governor ensures that the Municipal Manager and the head of finance ensure that all supporting documents requested by the Auditor-General are submitted within the timelines stipulated in Section 62 of the Public Audit Act, Cap. 412B. The Municipal Board shall institute an internal tracking mechanism to monitor compliance, and any officer found to have caused undue delay shall be subject to disciplinary action.
2. **Enforcement of Municipal Autonomy** – The Governor ensures that the County Executive Committee member responsible for lands, housing, and urban development should, within sixty (60) days of the adoption of this report, take

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

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

GENERAL OBSERVATIONS FOR THE HOSPITALS

The Committee observed that-

1. **Employment and Contractual Issues:** The Committee observed that many healthcare workers under the Universal Health Coverage (UHC) program are engaged on short-term contracts without clearly defined renewal terms, creating significant job insecurity. This instability can lead to high turnover rates, affecting the quality and continuity of healthcare services in public facilities. Additionally, the contractual terms and conditions for UHC workers often lack clarity and transparency, leading to misunderstandings and potential exploitation.
2. **Resource and Infrastructure Constraints:** The Committee observed that healthcare workers frequently operate in facilities that lack essential resources, including adequate medical supplies and equipment necessary for the delivery of quality care. This shortage of basic resources is demoralizing for healthcare professionals and significantly limits the overall effectiveness of service delivery to patients.
3. **Inaccuracies of the Financial Statements** - The Committee observed that there were inaccuracies and errors in regards to the preparation and presentation of financial statements in the hospital. Further, the management faced challenges in submitting supporting documents to the auditors on time, contrary to Section 62 of the Public Audit Act, Cap. 412B. This impedes the accountability and audit process. The persistent delays in preparing complete financial statements indicate a lack of requisite competencies and experience within the hospital finance department.
4. **Weak Budgetary Control and Performance**— the Committee observed that the hospital exhibit weaknesses in budget execution and fail to adhere to approved budget ceilings for programs. The hospital was observed to under-utilize appropriated funds. In some instances, funds were reallocated to items that were not budgeted for without prior approval by the management. Additionally, the hospital experienced high revenue shortfalls attributable to unrealistic budgeting and poor revenue forecasting.
5. **Deficient Asset Register:** The Committee observed that the hospital failed to maintain an updated fixed asset register as required by Section 149(2) (o) of the Public Finance Management Act, 2012, Cap. 412A. As a result, the hospital is unable to reflect its correct financial position in its books of account, exposing assets to risk of loss, misuse, or misappropriation.

GENERAL RECOMMENDATIONS FOR THE HOSPITALS

The Committee recommends that-

1. **Regularization of UHC Worker Contracts** – The Governor ensures that The County Public Service Board, in collaboration with the County Executive Committee member for health and the Ministry of Health, should regularize UHC workers' contracts to ensure job security by offering either permanent or long-term contracts based on performance and service needs. Additionally, the roles of the national and county governments regarding UHC employment, funding, and healthcare delivery should be clearly defined to ensure better accountability and streamlined management of resources.
2. **Investment in Essential Medical Resources** – The Governor ensures that the County Government should prioritize investment in essential medical resources, including adequate medical supplies, protective gear, and functioning equipment. This investment will enable healthcare workers to provide effective care and sustain their motivation to serve in underserved areas.
3. **Compliance with Record Keeping and Audit Requirements** – The Governor ensures that the management ensures proper record keeping and provide all supporting documents to the Auditor-General in accordance with Section 9(1) (e) of the Public Audit Act, Cap. 412B, during the audit period, and adhere to the provisions of the Accountants Act, Cap. 531. Failure to comply shall result in the Committee invoking Section 62 of the Public Audit Act.
4. **Capacity Building on Financial Reporting Standards** – The Governor ensures that the management, in consultation with the Public Sector Accounting Standards Board (PSASB), facilitate continuous capacity building on financial reporting standards for finance officers and management in hospitals to improve the quality of reporting and enhance compliance. The Governor should ensure that accountants possess the requisite competency and experience in financial management as required by the Accountants Act. Furthermore, the Governor ensures that the Accounting Officer complies with the financial reporting template prescribed by the National Treasury. These measures will strengthen the maintenance of books of accounts, improve the preparation of financial statements, and ensure timely submission of statements and documents to the Auditor-General.
5. **Preparation of Realistic Budgets and Revenue Projections** – The Governor ensures that the management prepares realistic budgets and revenue projections to avert revenue shortfalls that negatively impact hospitals' service delivery. In the budget preparation process, the Board should consider previous budgetary allocations and ensure that any proposed increases are reasonable and justified. Additionally, the Governor ensures that the management seeks the necessary approvals by forwarding budget estimates to the County Executive Committee

member for health, who shall then submit them to the County Treasury as required by law. Further, hospitals should automate their billing systems to enhance revenue collection and financial control.

6. **Transfer of Assets and Maintenance of Fixed Asset Registers** - The Governor should ensure that all assets are formally transferred to hospital to enable them to reflect their true financial position in their books of account. The Governor ensures that the management should ensure that hospital maintains an updated fixed asset register pursuant to Section 136(1) of the Public Finance Management (County Government) Regulations, 2015, in the format prescribed by the National Treasury, and submit the same to the Auditor-General within sixty (60) days of the adoption of this report.

ACKNOWLEDGEMENTS

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

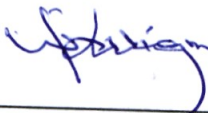
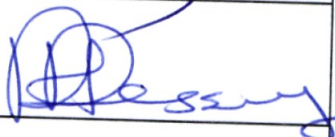
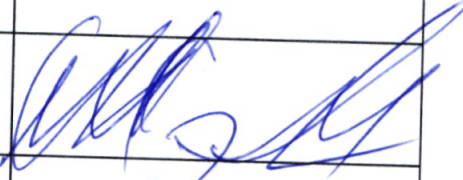
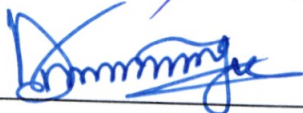
DATE: 23/03/2026 —

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

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

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		WOTE WATER AND SEWERAGE COMPANY LIMITED
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		WOTE MUNICIPALITY
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		MBOONI SUBCOUNTY LEVEL 4 HOSPITAL
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		MAKUENI COUNTY CLIMATE CHANGE FUND
		MAKUENI COUNTY YOUTH, MEN, PERSONS WITH DISABILITIES AND TABLE-BANKING GROUPS EMPOWERMENT FUND
COUNTY CORPORATION	2	MAKUENI COUNTY FRUIT DEVELOPMENT & MARKETING AUTHORITY
		MAKUENI COUNTY SAND CONSERVATION AND UTILIZATION AUTHORITY

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

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

CHAPTER ONE: WATER COMPANIES

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

The Governor of Makueni County, Hon. Mutula Kilonzo Jnr, CBS appeared before the Committee on Tuesday, 27th January 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Kibwezi Makindu Water and Sanitation Company Limited the financial year 2024/2025. The Governor was accompanied by:

1. Mr.David Makau -Chief Officer Water
2. Mr. Jackson Daudi - Chief Officer lands
3. Mr. Joseph Mwololo - Managing Director Kibwezi Makindu Water

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **qualified opinion** on the Financial Statements of the Kibwezi Makindu Water and Sanitation Company Limited for the period under review on the following basis-

1. Variance between Ledger and Financial Statements Balances

The statement of financial position and as disclosed in Note 28 to the financial statements reflect refundable deposits and prepayments of Kshs.17,885,800. However, review of the customers' deposits and prepayment ledgers revealed a balance of Kshs. 17,618,800 resulting in unexplained variance of Kshs. 267,000. In the circumstances, the accuracy and completeness of the refundable deposits and prepayments balance of Kshs.17, 885,800 could not be confirmed.

Management Response

The customers' deposits balance of Kshs. 17,885,800 as disclosed in the Statement of Financial Position is accurate and fairly stated. The apparent variance of Kshs. 267,000 between the general ledger and the financial statements arose from a casting error of the ledger.

Committee Observation

The Committee observed that there was unexplained variance of Kshs. 267,000 between the refundable deposits and prepayments in the statement of financial position and the customers' deposits and prepayment ledgers. This was attributed to a casting error of the ledger. However, the Schedule of payments amounting to Kshs. 267,000 was availed and the updated deposit and prepayment ledger of Kshs.17,885,800 provided and reviewed by the Auditor General.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures that the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;
- ii. the Governor takes appropriate administrative action on responsible officers within the Accounts and Finance department who fail to keep complete financial records in accordance with section 156(1) of the Public Finance Management Act, Cap.412A and in line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply. Further, the Governor submits a status update report of the administrative action taken to the Senate within 60 days of the adoption of this report; and
- iii. the Governor ensures the Accounting Officer strengthens internal audit controls and ensure proper record keeping in line with section 155 of the Public Finance Management Act, Cap.412A and submit a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply.

2. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.118,147,971 and Kshs.101,933,311 respectively resulting to a shortfall of Kshs.16,214,660 or approximately 14% of the budget. The underfunding affected the planned activities and may impact negatively on service delivery to the public.

Management response

Management stated that;

The company's budgeted income is based on projected water bills revenue, which is subject to water consumer consumption behaviors among other external factors. Whenever the projected revenue is not achievable the management has to cut down some expenses to match the realizable revenue. Expenditure is managed to ensure that the core mandates of the company are not underfunded in avoidance of adverse impact

on service delivery to the public. The projected revenue was based on the anticipated new tariff which was not approved in time as was expected by WASREB. As a result, the company revised the budget from Ksh. 131,682,443 to Ksh. 118,147,971 to provide for the reduced revenue. The tariff has since been approved and is under implementation.

Committee Observation

The Committee observed that there was an underfunding of Kshs.16,214,660 or approximately 14% of the budget.

Committee Recommendation

The Committee recommends that –

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

3. Non-Compliance with Law on Affirmative Action

Review of Kibwezi - Makindu Water Company's Human Resource data revealed that the entity had eighty-two (82 No.) staff on contract and Permanent and pensionable terms. Further, review of affirmative action on gender revealed that only 26% of the staff were women. Top Management composition revealed that there were four (4 No.) members in the entity's Top Management and that Management was composed of members of one gender (Male). Further, review of the Board of Directors revealed that there was also only one (1) woman out of the eight (8) members of the Board representing 13% of the Board. In addition, there were only two (2) Persons Living with Disability (PWD) represented in the general staff representing 3% of the total population.

This is contrary to Section 7 (1) and (2) of the National Integration and Cohesion Act, 2008 and Paragraph 2.2.2(1) of the Public Service Commission Diversity Policy, 2016 which state that all public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff and no public establishment shall have more than one third of its staff from the same ethnic community and that at least five per cent (5%) of appointments in the public sector shall comprise persons living with disabilities. In the circumstances, Management is in breach of the law.

Management Response

Management affirms its commitment to full compliance with Articles 27 and 232(1)(i) of the Constitution of Kenya, 2010. In this regard, corrective and policy measures are being implemented:

- Gender balance and inclusion of Persons with Disabilities (PWDs) shall be systematically mainstreamed in all future recruitment.
- The County Government of Makueni has appointed Ms. Sylvia Mbevi and Ms. Caroline Ngina as Alternate Directors, increasing female representation on the Board to 38%.
- No recruitment has been undertaken since the date of audit. However, all future vacancy advertisements shall explicitly encourage applications from qualified women and PWDs.

Committee Observation

The Committee observed that only 26% of the total staff were women and that only only two (2) Persons Living with Disability (PWD) represented in the general staff representing 3% of the total population.

Committee Recommendation

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

4. Non-Compliance with Fiscal Responsibility Principles

4.1 Wages and Benefits

The statement of profit or loss and other comprehensive income reflects Kshs.56,534,094 in respect to staff costs. The amount represents approximately 55% of the total revenue of Kshs.101,933,311 which exceeds the recommended ratio of 35% as per Regulation 25 (1) (b) of the Public Finance Management (County Governments) Regulations, 2015.

Management response

Management remains committed to progressively reducing the ratio of staff costs to below 35%. This commitment is reflected in the approved budget for the FY 2025/2026, where staff costs amount to Kshs. 65,277,263 against budgeted revenue of Kshs. 162,621,136, translating to a ratio of 40%. A review of actual performance as at

31st December 2025 indicates revenue realized was Kshs. 77,793,541, while staff costs incurred stood at Kshs. 31,218,614, maintaining the ratio at 40%. The approved budget for FY 2025/2026 and the Statement of Profit or Loss for the period ended December 2025 were submitted.

Committee Observation

The Committee observed that the water company had staff costs of Kshs.56,534,094 (55% of total revenue) which was above the recommended ratio of 35%.

Committee Recommendation

The Committee recommends that the Governor ensures that the accounting officer ensures that staff costs are within the recommended 35% limit in accordance to Regulation 25 (1) (b) of the Public Finance Management (County Governments) Regulations, 2015, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences may apply.

4.2 Development Expenditure

The statement of comparison of budget and actual amounts reflects Kshs.3, 685,587 in respect to development budget. This represents approximately 3% of the total budget of Kshs.118, 147,971 which is less than the required expenditure of at least 30% of the budget as per Regulation 25(1)(g) of the Public Finance Management (County Governments) Regulations, 2015. In the circumstances, Management is in breach of the law

Management response

The Company was operating on a non-cost recovery tariff hence focused on operational and maintenance resulting to underfunding of the development expenditure in the budget. However, during the year under review, the County Government of Makueni, funded the water company Kshs 23,764,366 which was directed to development of infrastructure and Asset acquisition. e.g water pipeline extension, water pump and water doser. Following the incorporation of the County Government's contribution, the proportion of expenditure allocated to development activities increases to approximately 20% of the total budget. Management has put in place measures aimed at further enhancing development financing and is actively pursuing strategies to increase the development expenditure ratio to 30% within the current financial year.

Committee Observation

The Committee observed that the water company had a development budget of Kshs.3, 685,587 which was below the required expenditure of at least 30% of the budget.

Committee Recommendation

The Committee recommends that the Governor ensures that the development budget is at least 30% of the total budget in accordance to Regulation 25(1)(g) 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 may apply.

3. Irregular Procurement

Review of procurement documents for the Company revealed that the entity procured goods and services amounting to Kshs. 16,413,839. However, the following issues were observed:

- i) The water Company procured fuel oil and lubricants from two (2) suppliers through framework agreements. However, there was no proof that the entity had enlisted seven (7) alternative vendors for fuel as required by Section 114(1) of the Public Procurement and Assets Disposal Act, 2015 in undertaking procurement through frameworks
- ii) The water Company had irregularly extended a contract for Motor Vehicle and Motorcycle insurance from 1 July, 2024 to 30 June, 2025 in spite of the previous contract not having an extension clause.
- iii) There was no proof that the entity had submitted to the Board quarterly reports on the implementation of the Annual Procurement Plan for review and adjustments as required by section 139(5) of the Public Procurement and Assets Disposal Act, 2015.
- iv) There was no proof that the entity had reserved a minimum of thirty per cent (30%) of the budgetary allocations for enterprises owned by women, youth, persons with disabilities and other disadvantaged groups. In the circumstances, Management is in breach of the law

Management Response

- i. The company had entered into a Service Level Agreement with 4 Suppliers for Fuels for the 2024/25 FY, that is: - M/S Riverside filling station, M/S Mascot Service station, M/S Bilkheir Service Station and Dimka Power Station for 2024/2025. The company has since taken measures to ensure adherence to the law by having at least 7 Fuel Vendors/Suppliers in the subsequent financial year 2025/2026. The following are the new vendors for FY 2025/2026 the M/S Riverside filling station, M/S Mascot Service station-Mtito, M/S Mascot service Station-Makindu, M/S Bilkheir Service Station, Dimka Power Station, Marwa City and Ruo-Ben Investments.

- ii. Management took note of the observation of the Auditor regarding extension of a contract for Motor Vehicle and Motorcycle insurance. In the current financial year, the Company procured a new service provider through the prescribed procurement process.
- iii. Management took note of the observation on submission of quarterly procurement reports and, in the current financial year, submitted quarterly procurement reports on the implementation of the Annual Procurement Plan to the Board.
- iii. Management took note of the observation and will progressively implement measures to ensure compliance with the requirement to reserve a minimum of thirty per cent (30%) of the budgetary allocations for enterprises owned by women, youth, persons with disabilities and other disadvantaged groups.

Committee Observation

The Committee observed that the necessary documentation to support the procurement queries as raised by the Auditor General were provided and verified the by the Auditor General, therefore the matter is satisfactorily addressed.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

4. Excess Non-Revenue Water

Review of records reveals that the Company produced a total of 2,186,927 cubic Meters of water of which 1,012,964 cubic Meters of water were billed to customers. The balance of 1,173,963 cubic meters or approximately 54% of the total water productions represents Non-Revenue Water (NRW) which is above the acceptable threshold of 25% set by the Water Service Regulatory Board (WASREB). In the circumstances, Management is in breach of the law

Management Response

Kibwezi Makindu Water and Sanitation Company Limited (KIBMAWASCO) recorded Non-Revenue Water (NRW) of 54% as of FY 2024-2025, the water loss is attributed to water leakages through dilapidated water infrastructure and pipeline burst, illegal connections, water infrastructure vandalism and metering inefficiency. The company has put in place the following measures to reduce the Non-Revenue Water.

- i) The company has established a Non-Revenue Water Unit to implement the NRW reduction plan.
- ii) The company has continued to receive funding from the County Government of Makueni to carry out phased augmentation of the dilapidated distribution infrastructure and new water infrastructure developments. For the FY 2024/2025

the company received Ksh. 9,429,723 and it anticipates to receive Ksh.13,499,155 FY 2025/2026.

iii) The company has verified and approved Performance Improvement Action Plan (PIAP) which has enabled the company to qualify for funding from the World Bank and state Department of Water and Sanitation.

iv) The company has an approved metering policy to assist in accuracy of the water billings and control water metering inefficiencies.

v) The company has embarked to develop District Metering Areas (DMAs) in order to measure water supplied and billed within the District Metering Areas. The company has procured and installed scheme smart meters for all its three schemes to measure the water supplied and billed as evidenced in Appendix 7(f).

vi) The company is embracing use of technology through acquisition of leak detectors, pipe locators, smart meters and Geographic Information System (GIS).

Committee Observation

The Committee observed that the water company had non-revenue water of 54% which was above the acceptable threshold of 25% set by the Water Service Regulatory Board (WASREB).

Committee Recommendation

The Committee recommends that—

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

- iv. **The EACC investigates the high Non-Revenue Water (NRW) levels to determine whether it was as a result of systemic commercial theft, illegal connections, collusion between staff and unauthorized water users or any other administrative lapses, and provide status update on the matter to the Senate within 90 days of the adoption of this report.**

5. Lack of a Staff Establishment

Review of human resource records revealed that the Company did not have an approved staff establishment in place. In addition, the entity did not have an approved organogram showing the reporting structure in the organization. It was therefore, unclear how the entity carried out recruitment of staff without assessing the staffing gap from an approved staff establishment. Further, it was not clear how roles for the employees have been segregated and their various reporting lines. In the circumstances, the effectiveness of internal controls on staffing could not be confirmed.

Management Response

The Company has undertaken a comprehensive review of its staff establishment and organisational structure (organogram) to ensure alignment with its current operational needs, governance framework, and strategic objectives.

Committee Observation

The Committee observed that the matter is satisfactorily addressed.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

6. Lack of a Training Committee

The statement of profit or loss and other comprehensive income reflect Kshs.49,870,482 in respect to general and operating expenses which include Kshs.518,400 incurred on staff training as disclosed in Note 11 to the financial statements. However, the requisition, names of the training committee and training needs assessment plan were not provided for audit review. In addition, it was unclear how the entity determined suitability for the trainings without recommendations from the training committee and training needs assessment plans. In the circumstances, the effectiveness of training needs assessment in the absence of training committee could not be confirmed.

Management response

The company has established a Training Committee in line with Sec 9(2)(vi) of the Human Resource Policy Manual, 2022. The Committee will be responsible for reviewing training needs assessment, recommending suitable employees for training and ensuring compliance with the approved training plan.

Committee Observation

The Committee observed that the matter is satisfactorily addressed.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

7. Internal Control Weaknesses

Review of general information and operation environment of the Company revealed the following internal control weaknesses:

- i) There was no strategic plan, operational plan and organizational chart.
- ii) Management did not explain how the budget estimates for the year were developed without an approved strategic plan.
- iii) There was no IT strategy committee and IT steering committee. This resulted in inadequacy in IT governance, which forms a critical part of the Kibwezi-Makindu Water and Sanitation Company Limited governance structure.
- iv) There was no mapping out its water infrastructure and networks in order to improve efficiency and security. Management does not embrace technology in the construction of different water service facilities to differentiate the quality-of-service levels for different categories of consumers like digitalization of consumer meter and mapping of all its clients.
- v) There was no business continuity plan and the IT continuity plan.
- vi) The Company is yet to approve and adopt a Risk Management Policy to guide Management on Risk Management assessment and fraud prevention mechanisms for its financials, human resource and operational systems. In the circumstances, the Company's ability to execute its strategic goals, disaster management, business recovery and continuity of the operations may not be guaranteed.

Management response

- i. The Company has developed a draft Strategic Plan and whose formulation process was discussed by the Board. Upon approval of the Strategic Plan, the Company will proceed to develop a Business Plan and a Financing Plan to support resource mobilization for the development and augmentation of major water infrastructure projects.
- ii. The company's Board of Directors has three (3) Committees as provided for in the WASREB guidelines; The Audit Committee, The Finance and Administration Committee and The Technical Committee. The IT department is

under the Finance and Administration Board committee. The company has an IT steering and strategy committee in place.

iii. The company has undertaken GIS mapping of its entire water infrastructure network that is in operation for efficiency, safety and security of water services.

iv. The Company has made provision in its FY 2025/2026 budget for the procurement of an Enterprise Resource Planning (ERP) system, which will integrate Geographic Information System (GIS) mapping and consumer metering across different categories of consumers. The approved FY 2025/2026 Budget for the procurement of the ERP system and the award letter for the supply of the ERP system was submitted. In addition, the smart meters already procured are equipped with monitoring software to track water usage, as evidenced by the procurement documents.

v. The Company currently relies on the County Executive's Risk Management Policy to mitigate risks; however, it is in the process of developing its own Risk Management Policy.

Committee Observation

The Committee observed that the water company has not finalised the process the process of developing its own Risk Management Policy. The company has however resolved the other issues.

Committee Recommendation

The Committee recommends that —

- i. the Governor ensures the accounting officer ensures that the fund puts in place all internal control systems such as the Internal Audit Committee as provided under section 155 (5) of the Public Finance Management Act, 2012, and a Risk Management Policy as provided under section 158 (1) of Public Finance Management (County Governments) Regulations, 2015 among others to guide the internal operations of the water company. Further, the managements to submit evidence of the same to the Auditor General for verification; and**
- ii. the Auditor-General to keep this in view in the subsequent audit cycle.**

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

The Governor of Makueni County, Hon. Mutula Kilonzo Jnr, CBS appeared before the Committee on Tuesday, 27th January 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Mbooni Water and Sanitation Company Limited the financial year 2024/2025. The Governor was accompanied by:

1. Mr. David Makau - Chief Officer Water
2. Mr. Jackson Daudi -Chief Officer Lands
3. Mr. Joseph Mutuku -Senior Accountant

REPORT ON THE FINANCIAL STATEMENTS

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

1. Long Outstanding Trade and Other Receivables

The statement of financial position and as disclosed in Note 29 to the financial statements reflect trade and other receivables balance of Kshs. 5,189,111 Included in the balance are receivables totaling Kshs. 4,118,889 which have been outstanding for more than three hundred and sixty (360) days. Management did not provide measures put in to recover the long outstanding receivables. In the circumstances, the accuracy and recoverability of trade and other receivables balance of Kshs. 4,118,889 could not be confirmed.

Management Response

The Management has implemented structured initiatives to address the issue and improve the recoverability of these long outstanding balances. The following measures have been put in place to recover the long outstanding trade and other receivables:

- a) A Debt Recovery Policy has been developed and is currently in draft stage to provide a structured framework for management of bad and doubtful debts.
- b) Management has commenced sending of reminder alerts and demand letters to customers with long outstanding balances.
- c) Management has engaged debtors and agreed on part-payment arrangements, allowing settlement of outstanding balances through installment payment plans.
- d) Management is undertaking customer sensitization initiatives to create awareness on the obligation to settle water bills promptly.

Committee Observation

The Committee observed that the water company had receivables totaling Kshs. 4,118,889 which have been outstanding for more than three hundred and sixty (360) days.

Committee Recommendation

The Committee recommends that—

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

2. Non-Disclosure of Property, Plant and Equipment

— The statement of financial position reflects property, plant and equipment balance of Kshs.21, 000 in respect to purchase of a computer during the year under review and as disclosed in Note 20 to the financial statements. However, review of the Company's records provided revealed various assets including land, motor cycle, furniture, tanks and equipment which were not disclosed in the financial statements. Further, ownership documents for land and motor vehicles were not provided for audit review. In the circumstances, the accuracy, completeness and ownership of property, plant and equipment balance of Kshs. 21,000 could not be confirmed.

Management Response

The undisclosed assets had not been valued and the management has since appointed a taskforce committee to conduct a comprehensive verification, reconciliation, and

documentation exercise for all Property, Plant and Equipment, ensuring compliance as per the Appointment Letter. The company will engage a valuer who will give a report and statuses of the property owned by the company.

Committee Observation

The Committee observed that the assets including land, motor cycle, furniture, tanks and equipment were not disclosed in the financial statements and there were no ownership documents for the vehicles and land.

Committee Recommendation

The Committee recommends that-

- i. within sixty (60) days of the adoption of this report, the Governor, through the CECM responsible for matters of water, should engage with the relevant Water Works Development Agencies to ensure the transfer of ownership documents of the donated items is fast-tracked;
 - ii. the Governor ensures that the management of the water company ensures that the valuation of all assets of the water company is fast-tracked and submits the valuation report to the Auditor- General for verification. The Auditor general to provide a status update on the matter in 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 Senate and a copy to the Auditor General for verification;
 - iv. the governor should ensure that the accounting officer undertakes adjustments to the financial statements so as to reflect the true value of the assets and auditor general should keep the matter in view in the subsequent audit cycle; and
 - v. the Accounting Officer ensures that the water company maintains an up-to-date asset register in accordance with section 149(2)(o) of the Public Finance Management Act Cap 412A and in the format prescribed by the Public Sector Accounting Standards Board (PSASB), failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply.
3. **Unconfirmed refundable deposits and pre payments.**

The statement of financial position reflects refundable deposits and pre-payment balance of Kshs. 297,000 as disclosed in Note 43 to the financial statements. However, the certificate of bank balance indicated a closing balance of Kshs.118, 891 resulting to

variance of Kshs.178, 109, which represents the amount borrowed by the management to finance other company activities. Further, the annual report indicates that the company had 1,558 registered connections as at 30 June, 2025. Analytical review of documents revealed that the Company charges a deposit of Kshs.1000 for each connection resulting to projected customer deposits of Kshs. 1,558,000 as at 30 June, 2025 which differs with the disclosed balance of Kshs. 297,000 resulting to unexplained variance of Kshs. 1,261,000. In the circumstances, the accuracy and completeness of customers' deposits balance of Kshs. 297, 000 could not be confirmed.

Management Response

Most of the customers were inherited from Mukundi water project, Mbumbuni water supply and Mulima water supply and no deposit payments were inherited and thus the projected customer deposits of Kshs. 1,558,000 could not be achieved. Initially deposits and water sales were banked in the same account and used to run operations of the company. However, a deposit account has since been opened where all customer deposits are banked with no withdrawals from the account enabling the company to keep a clear and accountable record of customer deposits as evidenced in deposit account opening introduction letter.

A standing order arrangement has been instituted with the bank to ensure recovery of the customer deposits amounting to Kshs. 178,109.00 as evidenced in standing order form attached in Appendix 3b. Going forward, The Company will develop a formal Customer Deposit Policy to provide guidance on collection, recording, tracking, refunding, and utilization of customer deposits, ensuring transparency and compliance.

Committee Observation

The Committee observed that there was a variance of Kshs.178, 109 between refundable deposits and pre-payment balance and certificate of bank balance.

The Committee recommends that—

- i. the Governor ensures that the accounting officer undertakes Prior year adjustments to reconcile the variances in the financial statement in the next Audit cycle FY 2025/2026, and the Auditor-General should keep the matter in view in the subsequent audit cycle;
- ii. the Governor takes appropriate administrative action on responsible officers within the Accounts and Finance department who fail to keep complete financial records in accordance with section 156(1) of the Public Finance Management Act, Cap.412A and in line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply. Further, the Governor submits a status

update report of the administrative action taken to the Senate within 60 days of the adoption of this report;

- iii. the Governor ensures that the Accounting Officer should comply with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply; and
- iv. the Governor ensures the Accounting Officer should strengthen internal audit controls and ensure proper record keeping in line with section 155 of the Public Finance Management Act, Cap.412A and submit a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply.

4. Material Uncertainty Related to Going Concern

The statement of profit or loss and other comprehensive income reflects loss before taxation of Kshs.1, 446,430 (Deficit of Kshs.720, 634 for financial year 2023/2024). In addition, the statement of financial position reflects current liabilities totaling Kshs.11, 100,019 against current assets of Kshs.5, 385,026 resulting in a negative working capital of Kshs.5, 714,993. Further, trade and other payables balance of Kshs. 11,100,019 increased by Kshs. 2,619,838 from the previous year's balance of Kshs. 8,480,181, which may be an indication of the Company's inability to settle its obligations as and when they fall due. Management highlighted in the annual report several challenges which include dilapidated water distribution infrastructures, which may have contributed greatly to increased loss of water, limited external support, broken/leaking water storage tanks/ reservoir and faulty three phase motor pump. Although, Management has outlined a number of measures taken to ensure future improved profitability of the Company including; improvement of water access and service delivery within its area of operation, making proposals to rehabilitate Mbumbuni, Mulima, and Mukundi water supplies and application and submission of tariff application to the regulator for review, the measures may not bear immediate results. In the circumstances, the ability of the Company to continue to sustain its services could not be confirmed.

Management Response

The company through the department of water, sanitation and irrigation has initiated an ongoing process of taking over the management and operationalization of viable water

projects within the area of jurisdiction. See the hand over Minutes and attendance register. So far, projects which were done by the county government of Makueni in partnership with World Vision Kenya namely Kalawa, Kakuli, Kyaani, and Kwa Nzili have brought an additional 116 new connections to the company. This is a strategic approach towards increasing the company's revenue base, profitability and coverage.

The Government of Makueni County in partnership with World Vision Kenya is implementing a mega Athi-Kalawa water project which is expected to ultimately supply water to 80% of the population in Kalawa with additional 2000m³ of water. This will increase the revenue base of the company since more water connections will be achieved. Athi-Kalawa Water project (AKWASH) designed water demand projection summary was attached.

The government of Makueni County has invested in treatment, desilting and enhancing distribution of water by rehabilitation of existing dilapidated water infrastructure for Mulima dam which is a main supply for the company. Upon completion, Mulima dam is expected to increase water supply and cover areas of Mbooni, Tulimani, Kithungo/Kitundu and Kisau/Kiteta wards which are all in the area of jurisdiction of the company.

With Solarization of Kinze pumping station, rehabilitation of Kinze-Namba Nyaanya pipeline, installation of 3 No 10m³ plastic tanks and Construction of water kiosk 1 No, through FLLOCA funding as per the bill of quantity (BQ), the Company will realize increased customers and saving on power cost hence an expected gradual increase in revenue.

The company developed and submitted a cost recovery tariff to WASREB which was reviewed and reverted back to the management to provide further information and submitted back to WASREB as per the WASREB correspondencies on tariff. With a new tariff, the company foresees increase in revenue base since the inherited tariffs are low and unable to smoothly meet company operational expenses.

Committee Observation

The Committee observed that the water company operated with a negative working capital during the financial year under review, casting doubt on the Company's ability to continue as a going concern.

Committee Recommendation

The Committee recommends that—

- i. **The Governor of Makueni County should take keen interest in the management and operations of the water company in line with Article 179 (4) of the Constitution;**

- ii. The Governor ensures that the Accounting Officer prepares and submits quarterly reports in regard to the financial and non-financial status of the water company in line with section 166 of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;
- iii. The Governor ensures that the County Executive Committee Member in charge of water takes full responsibility for monitoring the financial performance of the county corporation in line with section 184 of the Public Finance Management Act, Cap.412A and regularly report to the Governor through the County Executive Committee in line with Article 179 (6) of the Constitution;
- iv. The Governor ensures that the County Treasury undertakes annual reporting on County Corporation including an assessment of the commercial viability of the company in line with the standards set by the Water Services Regulatory Board under section 77(2) of the Water Act, Cap.372, failure to which the provisions of section 147 of the Water Act on penalties for offences shall apply; and
- v. The Governor ensures that the Accounting Officer should, within 60 days of the adoption of this report, put in place strategic and innovative measures for recovery and to boost the financial health of the water company for self-sustainability. Additionally, the management reviews and regularizes the company's existing assets and have updated assets register that reflect the current financial position. Further, management to determine and ascertain their commercial viability as required by the Public Sector Accounting Standards Board (PSASB).

Emphasis of Matter

5. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs. 5,930,176 and Kshs. 1,664,130 respectively resulting to under-funding of Kshs.4, 266,046 or approximately 72% of the budget. The under-funding affected the planned activities and may have impacted negatively on service delivery to the public.

Management Response

Management acknowledges the underperformance in revenue collection, largely due to operating as a rural water provider in Mbooni, where many community members access alternative water sources such as streams and springs. To address this, the company is expanding its customer base through the taking over of County-funded water projects,

including key schemes such as Athi-Kalawa being constructed by the county government of Makueni in partnership with World Vision Kenya. Once completed, it is expected to give an increase of 2,000 m³/day of treated water to approximately 80% of Kalawa ward residents which is within the area of operation of the company. The desilting of Mulima dam and rehabilitation of the pipeline system by the County Government of Makueni, taking over the management and operationalization of Mukelenzu borehole, Kinyongo water project, Wathi, Kyambui and Mwenyeani are among viable projects the company anticipates to incorporate. These projects are expected to increase water supply, grow the customer base, and improve revenue, ensuring operational costs are covered while sustaining service delivery.

Committee Observation

The Committee observed that there was an under-funding of Kshs.4,266,046 or approximately 72% of the budget.

Committee Recommendation

The Committee recommends that –

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

6. Long Outstanding Trade and Other Payables

The statement of financial position and as disclosed in Note 42 to the financial statements reflect trade and other payables balance of Kshs. 11,100,019. Included in the balance are payables totaling Kshs. 5,664,499 which have been outstanding for more than three (3) years and no measures have been put in place to settle the debts. Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

Management Response

The long outstanding Trade and other payables mainly are due to cash flow constraints and prioritization of essential operational costs. Measures have been implemented to address this, including prioritizing settlement of aged debts, enhancing payment

planning and cash flow management, reconciling long-outstanding payables, and ensuring that future budgets treat payables as first charges. Further, the continued hand over of completed water projects within the area of jurisdiction for management is expected to increase water supply, grow the customer base, and improve revenue. The cost recovery tariff will also increase revenue. These measures will ensure operational costs are covered while sustaining service delivery.

Committee Observation

The Committee observed that the water company had Kshs. 5,664,499 which have been outstanding for more than three (3) years.

Committee Recommendation

The Committee recommends that-

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

REPORT ON THE LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

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

7. Excessive Non-Revenue Water

The statement of profit or Loss and Other Comprehensive Income and as disclosed in Note 6 to the financial statements reflect operating revenue from water sales of Kshs.2, 600,400. Review of records provided revealed that the Company produced a total of

51,341 cubic meters (m³) of water. However, only 32,686 cubic meters of water were billed to customers. The balance of 18,655 cubic meters or approximately 36% of the total production with a sale value of Kshs1,476,802 represents Non-Revenue Water (NRW) which is above the allowable loss of 25% provided under the Water Services Regulatory Board Guidelines. In the circumstances, Management was in breach of the law and Non-Water Revenue negatively impacts on the Company's service delivery, profitability and long-term sustainability.

Management Response

The Management notes that Non-Water Revenue (NRW) improved significantly, reducing from 45% in the 2023/24 financial year to 36% in FY 2024/25, and reflecting the impact of ongoing interventions. To further address NRW, management has appointed a dedicated NRW response team with clear terms of reference to monitor, investigate, and reduce water losses across the network as per the Letter of Appointment of NRW response unit team. In addition, ongoing rehabilitation projects supported by the County Government of Makueni at Kinze in partnership with FLLOCA (Financing Locally-Led Climate Action program) and Mulima are expected to strengthen the network, improve water supply reliability, and further reduce NRW. See extract of Impact 17 by WASREB (Performance Report of Kenya's Water Services Sector 2023/24) attached in Appendix 7 showing NRW of 45% compared to 36% in FY 2024/25.

Committee Observation

The Committee observed that the company had 36% Non-Water Revenue (NRW) which was above the acceptable threshold of 25% set by the Water Service Regulatory Board (WASREB).

Committee Recommendation

The Committee recommends that—

- v. the Governor should ensure that the Accounting Officer puts in place comprehensive measures to mitigate on the Non-Revenue Water, that is, both physical and commercial losses. The measures to include replacement of old age dilapidated infrastructure, installation of smart meters for accurate billing and the application of Geographical Information System (GIS) to receive real-time data for the detection of bursts and leakages among other measures. The Auditor-General to review the implementation of the measures put in place to mitigate the Non-Revenue Water and provide a status update on the matter in the subsequent audit cycle;

- vi. the Governor ensures that the Accounting Officer segregates NRW to both Physical or Commercial so that the water company can ascertain and identify specific mitigating measures to effectively address and reduce the NRW levels; and
- vii. the County Government to collaborate with the Ethics and Anti-Corruption Commission to ensure pre-emptive measures are put place to reduce cases of theft and illegal connections.

8. Lack of an Approved Water Tariff

The statement of profit or Loss and Other Comprehensive Income and as disclosed in Note 6 to the financial statements reflect operating revenue from water sales of Kshs.2, 600,400. However, the tariff in use is undated and is not approved and gazetted by the Water Services Regulatory Board (WASREB). This is contrary to Paragraph 4.0 (11) of the WASREB Tariff Guidelines of June, 2023 which states that the process for Tariff adjustments is initiated by the Water Service Provider (WSP) and upon approval by the Board of Directors, WASREB shall gazette the tariff with a 30 days' notice for implementation by the WSP and this process shall take a maximum of six (6) months from the receipt of a complete application. Although Management explained that the undated and ungazetted tariff was in use since 2012, the same has not been updated. In the circumstances, Management was in breach of the law.

Management Response

Management prepared and submitted to WASREB all required documents for tariff review, as per the WASREB Tariff Guidelines. See the submission email & forwarding letter attached in Appendix 8. If the WASREB certifies the application, they will call for a tariff negotiation meeting with the management. Management is committed to following up with WASREB to ensure timely approval, gazettelement, and implementation of the revised tariff in compliance with regulatory requirements.

Committee Observation

The Committee observed that the Water Tariff is undated, not approved and gazetted by the Water Services Regulatory Board (WASREB).

Committee Recommendation

The Committee recommends that the Governor ensures that the water company should ensure that the water tariff is approved by Water Services Regulatory Board (WASREB) and should submit a status report to the Senate and a copy to the Auditor General within 60 days of the adoption of this report.

9. Lack of an Annual Procurement Plan

The statement of profit or loss and other comprehensive income and as disclosed in Note 12 to the financial statements reflect general and operations expenses amount of Kshs. 1,512,142. However, Review of the procurement process for the financial year ending 30 June, 2025 revealed that the Company did not prepare a procurement plan contrary to Regulation 113(2) of the Public Finance Management (County Governments) Regulations, 2015 which stipulates that every year a Procurement Plan shall be prepared by the Accounting Officers to form the basis for procurement activities undertaken by Government entities in the fiscal year. In the circumstances, Management was in breach of the law.

Management Response

The Management has acknowledged the importance of an Annual Procurement Plan and has since prepared a comprehensive annual procurement plan for FY 2025/26 in line with Regulation 113(2) of the Public Finance Management (County Governments) Regulations, 2015. This plan will guide all procurement activities, ensuring compliance with the law, proper planning of expenditures, and alignment with operational needs.

Committee Observation

The Committee observed that the matter is satisfactorily addressed.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

10. Failure to Maintain an Imprest Register

Review of records revealed that Management did not maintain an imprest register and imprest warrants for issuance of imprest. This is contrary to Regulations 91(2), 93(4)(c)(d) and 93(5) of the Public Finance Management (County Governments) Regulations, 2015 which require formal application of imprest through an imprest warrant. Further, the Accounting Officer shall ensure the applicant imprest has been recorded in the imprest register including the amount applied for and that adequate funds are available against the relevant items of expenditure to meet the proposed expenditure. In the circumstances, Management was in breach of the law.

Management Response

Management acknowledges the audit observation regarding the non-maintenance of an imprest register and imprest warrants and has implemented issuance of imprests using formal imprest warrants ensuring that all applications are properly documented, funds are verified, and expenditures are tracked. This measure ensures compliance with Regulations 91(2), 93(4) (c) (d), and 93(5) of the Public Finance Management (County

Governments) Regulations, 2015, and promotes transparency and accountability in financial management.

Committee Observation

The Committee observed that the matter is satisfactorily addressed.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

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

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

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

Review of the Company's information technology systems revealed that the Company did not have an approved ICT Policy for governance and management of its ICT resources. In addition, there is no ICT steering committee in place to assist in the development of ICT policy framework to enable the Company to realize long-term ICT strategic goals. Lack of an approved ICT Policy may result in an unclear direction regarding maintenance of information security across the organization and safeguarding the Company's ICT assets. Further, without a sound and approved framework, users do not have any rules and procedures to follow in order to minimize risk of errors, fraud and the loss of data confidentiality, integrity and availability.

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

Management Response

The company has been receiving technical support from the Department of ICT of the Government of Makueni County. The management has since appointed an ICT steering committee which will develop an ICT Policy for the company which give direction regarding maintenance of information security across the organization and safeguarding the Company's ICT assets.

Committee Observation

The Committee observed that the matter is satisfactorily addressed.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

2. Lack of Risk Management Policy and Strategy

The Company Management had not put in place a Risk Management Policy, Strategies, and Risk Register to mitigate against risk. It was, therefore, not clear how Management manages risk exposures. This is contrary to Regulation 158 (1)(a) and (b) of the Public Finance Management (County Governments) Regulations, 2015 which require the Accounting Officer to ensure that the County Government entity develops risk management strategies, which include fraud prevention mechanism; and the County Government entity develops a system of risk management and internal control that builds robust business operations. In the circumstances, the effectiveness of risk management system could not be confirmed.

Management Response

The Company has since appointed a Risk Champion to spearhead the development of a comprehensive Risk Management Policy and Strategy. This includes preparing a risk register that identifies key operational, financial, and strategic risks, and incorporates fraud prevention mechanisms and internal controls. The preparation of the Risk Management Policy and Strategy is in the draft stage as per the Draft Risk Management Policy.

Committee Observation

The Committee observed that the water company has not finalised the process the process of developing its own Risk Management Policy.

Committee Recommendation

The Committee recommends that —

- i. the Governor ensures the accounting officer ensures that the fund puts in place all internal control systems such as the Internal Audit Committee as provided under section 155 (5) of the Public Finance Management Act, 2012, and a Risk Management Policy as provided under section 158 (1) of Public Finance Management (County Governments) Regulations, 2015 among others to guide the internal operations of the water company. Further, the managements to submit evidence of the same to the Auditor General for verification; and
- ii. the Auditor-General to keep this in view in the subsequent audit cycle.

3. Lack of Company's Strategic Plan

During the year under review, Management did not develop a Strategic Plan in conformity with the Medium-Term Fiscal Framework financial objectives for the entity. This is contrary to Section 149(2) (g) of the Public Finance Management Act, 2012 which states that in carrying out a responsibility imposed by Sub-Section (1), an Accounting Officer shall, in respect of the entity concerned, prepare a Strategic Plan for the entity in conformity with the Medium-Term Fiscal Framework financial objectives of the County Government. In the circumstances, Management was in breach of the law and the Company may not be able to achieve its goals and objectives.

Management Response

The company has already appointed a steering committee which is in the process of reviewing the already expired strategic plan for 2018 to 2023 to develop a new five-year strategic plan proposed to run from 2026 to 2031. Once this is done, it will be presented to the board of directors for their input and approval.

Committee Observation

The Committee observed that the water company did not develop a Strategic Plan in conformity with the Medium-Term Fiscal Framework financial objectives.

Committee Recommendation

The Committee recommends that the Governor ensures that the water company adheres to Section 149(2) (g) of the Public Finance Management Act, 2012, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply.

4. Ineffective Board of Directors

Review of the records revealed that during the year under review the Board of Directors held two full board meetings on 4th November, 2024 and 1st April, 2025. This is contrary to Parameter 1.8(1) (a) of Mwongozo Code of Governance for State Corporations on Board meetings which stipulate that Board members should meet as regularly as required and at least quarterly in order to effectively lead the organization. In addition, the Board lacked Annual Board Work Plan, Board Charter and a Board Evaluation Report. In the circumstances, effectiveness of governance measures put in place could not be confirmed.

Management Response

The board of Directors should comprise of Seven (7) members for small water companies. The company at the beginning of financial year 2024/2025 had five (5) members i.e. two (2) institutional and three (3) independent members. The operations

of the Board were temporarily incapacitated by the resignation of two members in October 2024 and September 2025 remaining with one (1) independent and Two (2) institutional. To address this, the Government of Makueni County initiated the process of recruiting new Board members, including the formation of an appointing authority which closed on 4th December, 2025 was non-responsive, and the appointing authority is now in the process of re-advertising the positions.

Committee Observation

The Committee observed that the water company did not appoint Seven (7) members board of directors after the resignation of two members.

Committee Recommendation

The Committee recommends that the Governor ensures that the water company concludes the process of appointing the two board members and submit a status report to the Senate and a Copy to the Auditor General within 60 days of the adoption of this report.

1.3 REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR WOTE WATER AND SEWERAGE COMPANY LIMITED FOR THE FINANCIAL YEAR 2024/2025

The Governor of Makueni County, Hon. Mutula Kilonzo Jnr, CBS appeared before the Committee on Tuesday, 27th January 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Wote Water and Sewerage Company Limited the financial year 2024/2025. The Governor was accompanied by:

1. Mr. David Makau - Chief Officer Water
2. Mr. Jackson Daudi -Chief Officer Lands
3. Mr. Urbanus Ndunda -Managing Director Wote Water

REPORT ON THE FINANCIAL STATEMENTS

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

1. Material Uncertainty Relating to Going Concern

The statement of profit or loss and other comprehensive income reflects loss before taxation of Kshs.7,731,335 (Deficit of Kshs 7,475,843) for financial year 2023/2024). In addition, the statement of financial position reflects current liabilities totalling Kshs 43,045,510 against current assets of Kshs 20,297,092 resulting in a negative working capital of Kshs 22,748,418. Further, trade and other payables balance of Kshs 43,045,510 increased by Kshs 11,382,070 from the previous year's balance of Kshs 31,663,440, which may be an indication of the company's inability to settle its obligation as and when they fall due. Management highlighted in the annual report several challenges which include infrastructure vandalism, frequent bursts occasioned by dilapidated infrastructure, frequent pump machine breakdown and burnt electrical parts in Kaiti pumping station. Although, Management has outlined a number of measures it intends to take to ensure future improved profitability of the company including seeking funding from County Government and other stakeholders for solarisation of all pumping stations to reduce on the operational costs, the measures may not bear immediate results. In the circumstance, the ability of the company to continue to sustain its services is dependent on continued support from the County Government and other stakeholders.

Management Response

The financial statements have been prepared on a going concern basis due to the Company's mandate as an essential service provider and the continued policy, institutional, and financial support from the County Government. To restore and sustain

the Company's financial viability, the following specific interventions have been undertaken:

a) Application for a Cost-Recovery Tariff

Management has applied for a cost-recovery tariff with the Water Services Regulatory Board (WASREB), and the approval process is at an advanced stage. The Company has fully complied with WASREB tariff review guidelines, including conducting public consultation meetings on the proposed tariff adjustment. The signed minutes of the public consultation meeting were provided while the consolidated Public Consultation Process Report and acknowledgment by WASREB

b) Secondment of Senior Management by the County Government

To strengthen governance, operational oversight, and financial management, the County Government has seconded a senior management team to the Company, including the Acting Managing Director, Acting Technical Manager, and Acting Commercial, Finance and Administration Manager,

c) County Government Commitment to a Three-Year Graduated Support Framework

The County Government has committed to supporting the Company's recovery through a three-year graduated support framework, as proposed under the WASREB conditional approval. This commitment is documented through the WASREB conditional proposal and the corresponding commitment letter issued by the Executive Committee Member for Water and Sanitation.

d) Infrastructure Rehabilitation and Energy Cost Reduction Support

The County Government is currently supporting the Company through targeted infrastructure rehabilitation initiatives and energy cost reduction measures, including the solarisation of pumping stations. These interventions are provided for in the Makueni County Government FY 2025/26 Budget, as evidenced in Appendix 1(f).

e) Solar Installation by Tana Athi Water Works Development Agency (TAWWDA)

In addition, the Tana Athi Water Works Development Agency (TAWWDA) is undertaking the installation of solar panels at the Company's main pumping station, aimed at reducing electricity costs and enhancing operational efficiency.

Committee Observation

The Committee observed that the water company operated with a negative working capital during the financial year under review, casting doubt on the Company's ability to continue as a going concern.

Committee Recommendation

The Committee recommends that—

- i. The Governor of Makueni County should take keen interest in the management and operations of the water company in line with Article 179 (4) of the Constitution;**
- ii. The Governor ensures that the Accounting Officer prepares and submits quarterly reports in regard to the financial and non-financial status of the water company in line with section 166 of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- iii. The Governor ensures that the County Executive Committee Member in charge of water takes full responsibility for monitoring the financial performance of the county corporation in line with section 184 of the Public Finance Management Act, Cap.412A and regularly report to the Governor through the County Executive Committee in line with Article 179 (6) of the Constitution;**
- iv. The Governor ensures that the County Treasury undertakes annual reporting on County Corporation including an assessment of the commercial viability of the company in line with the standards set by the Water Services Regulatory Board under section 77(2) of the Water Act, Cap.372, failure to which the provisions of section 147 of the Water Act on penalties for offences shall apply; and**
- v. The Governor ensures that the Accounting Officer should, within 60 days of the adoption of this report, put in place strategic and innovative measures for recovery and to boost the financial health of the water company for self-sustainability. Additionally, the management reviews and regularizes the company's existing assets and have updated assets register that reflect the current financial position. Further, management to determine and ascertain their commercial viability—as required by the Public Sector Accounting Standards Board (PSASB).**

Emphasis of Matter

2. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects total revenue budget and actual on comparable basis of Kshs.55,247,500 and Kshs.44,356,455 respectively resulting to under-collection of Kshs.10,891,045 or approximately 20% of the budget.

In addition, the Company expended Kshs.52,870,006 against actual receipts of Kshs.44,356,455 resulting to over-absorption of Kshs.8,513,551 or approximately 19%

of actual receipts. The under-collection of revenue negatively affected service delivery to the public and the over-absorption may imply that the Company performance is poor.

Management Response

The shortfall was due to delays in tariff adjustments, timing differences between billing and cash receipts, and reduced water supply from Kamunyolo Dam caused by below average rainfall. Over expenditure was occasioned by essential costs required to sustain service delivery. Despite these variances, services were maintained, and Management anticipates improved budgetary recovery following the implementation of revised tariff rates. Measures to enhance financial performance include strengthened billing and collection by forming revenue collection teams, monthly budget monitoring, expenditure prioritization, and exploration of alternative water sources e.g transfer of poorly managed community water projects for instance Kikumini and Kwa Kamende water projects as per the handover documents (a). The Board of directors in collaboration with the County government has developed a comprehensive Rapid Results Initiative program covering Water Production, Non-revenue water, Billing and revenue improvement, Leadership, Governance and Management as evidenced in appendix 2(b). The RRI program is currently under implementation with deployment of dedicated teams.

Committee Observation

The Committee observed that there was under-collection of Kshs.10,891,045 or approximately 20% of the budget and over-absorption of Kshs.8,513,551 or approximately 19% of actual receipts.

Committee Recommendation

The Committee recommends that—

- i. **The Governor ensures that the Accounting Officer complies with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- ii. **the 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
- v. the Accounting Officer ensures that prior year adjustments are carried out in the company's financial statements of the subsequent year to correct the errors to reflect the true financial position of the company.

3. Long Outstanding Payables

The statement of financial position reflects trade and other payable balance of Kshs. 43,045,510 as disclosed in Note 25 to the financial statements. Review of ageing analysis revealed trade payables amounting Kshs.15,854,605 or approximately 37% had been outstanding for more than three (3) years. This implies that the Company failed to prioritize settlement of debts and were not treated as a first charge in the subsequent years as required. Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

Management Response

Trade payables have been outstanding for more than three years, mainly due to cash flow constraints and prioritization of essential operational costs. Initiatives have been put to address this, including prioritizing settlement of aged debts. To ensure this is addressed, the Management has formally written to the Board of Directors seeking consideration and approval of a Supplementary Budget specifically to accommodate the accumulated pending bills and prioritize their settlement as a first charge against anticipated revenues and Government support. This is evidenced in Appendix 3(a). Further, of the total long outstanding payable of Kshs. 15.8 million, an amount of Kshs. 7.5 million relates to Tana Athi. Management formally applied for a waiver of this amount in August 2023 and has since issued several follow-up reminders, the most recent being in March 2025.

Committee Observation

The Committee observed that the water company had payables amounting Kshs.15,854,605 or approximately 37% had been outstanding for more than three (3) years.

Committee Recommendation

The Committee recommends that-

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

4. Unresolved Prior Year Audit Matters

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

#	Financial Year	Audit Issue
1	2023/2024	Unconfirmed Customer Deposits
2	2023/2024	Lack of Approved Information Technology Security Policy
3	2023/2024	Non-Compliance with Law on Ethnic Composition

Management response

a) Unconfirmed Customer Deposits

The previously borrowed customer deposit has since been fully refunded through the bank standing order as evidenced in the management instructions to the bank in a corresponding bank statement and reconciliation statement on the account as evidenced. Further, the Company is in the process of developing customer deposit management policy to guide on how these deposits are managed.

b) Lack of Approved Information Technology Security Policy

The management is in the process of finalizing several draft policies including the Information Technology Security Policy which once completed will be presented to the board for approval.

c) Non-Compliance with Law on Ethnic Composition

Management is committed to progressive compliance through targeted recruitment, affirmative action, and regular monitoring, and assures that future appointments will increasingly reflect statutory requirements while maintaining operational efficiency. However, the Company has not been able to attract employees from other ethnic communities. Notably, the only non-Kamba staff member resigned in July 2025.

Committee Observation

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

Committee Recommendation

The Committee recommends that—

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

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

1. Excessive Non-Revenue Water

Review of the Company's records revealed that water production was 457,983 cubic meters (M³) during the year under review, out of which only 297,896 cubic meters (M³) was billed to customers. The balance of 160,087 cubic meters (M³) or approximately 35% of total production represents Non-Revenue Water (NRW) valued at Kshs.19,210,440. The NRW for the Company was above the allowable loss threshold of 25%. Although Management attributed the high levels of Non-Revenue Water (NRW) to frequent bursts due to dilapidated distribution network, vandalism of water supply infrastructure, illegal water connections and inefficient production and consumer water meters, no measures had been put in place to address the issue. In the circumstances, the effectiveness of the Company's water production, profitability and sustainability of service to the residents of Makueni could not be continued.

Management response

The elevated Non-Revenue water(NRW) levels were largely attributable to pipeline bursts arising from ageing infrastructure, vandalism, illegal connections, and inefficiencies associated with obsolete and inaccurate customer meters. To address this challenge, Management has undertaken and initiated the following corrective and preventive interventions:

a) Development of an NRW Reduction Strategy

Management has developed a comprehensive Draft NRW Reduction Strategy, which outlines targeted technical, commercial, and enforcement interventions aimed at progressively reducing NRW. The draft policy is currently awaiting presentation to the Board of Directors for review and adoption.

b) Meter Audits and Meter Accuracy Improvement

Management has conducted systematic meter audits to assess meter accuracy, identify under-registering or faulty meters, and inform prioritization for meter replacement and calibration. Findings from the audit are being implemented through phased meter replacement and improved billing accuracy.

c) Provision of Master Meters for Zonal/Regional Monitoring

To strengthen bulk flow measurement and enable effective zonal NRW analysis, Tana Athi Water Works Development Agency (TWWDA) has committed to providing master meters for designated zonal and regional areas. This intervention will enhance monitoring, leak detection, and accountability across the distribution network.

d) Pipeline Rehabilitation and Network Rationalization

In collaboration with Tana Athi Water Works Development Agency (TWWDA), the Company is undertaking pipeline rehabilitation works, including the installation of 13.5 kilometres of HDPE pipes to replace the most dilapidated sections of the network and eliminate inefficient "spaghetti" pipe networks that contribute significantly to water losses.

e) Operational Support for Rapid Response Teams

To improve response time to bursts, leaks, and illegal connections, Tana Athi Water Works Development Agency (TAWWDA) has also committed to providing two motorbikes to support NRW response teams. This will enhance staff mobility and enable faster field interventions, particularly in hard-to-reach areas, thereby reducing water losses and service downtime.

Routine Maintenance and Enforcement Measures

Management has intensified routine maintenance of the distribution network and strengthened enforcement actions against illegal connections and vandalism, in line with the draft NRW Reduction Strategy.

Committee Observation

The Committee observed that the company had 35% Non-Water Revenue (NRW) which was above the acceptable threshold of 25% set by the Water Service Regulatory Board (WASREB).

Committee Recommendation

The Committee recommends that—

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

- iii. the County Government to collaborate with the Ethics and Anti-Corruption Commission to ensure pre-emptive measures are put place to reduce cases of theft and illegal connections.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISKS MANAGEMENT AND GOVERNANCE

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

6. Lack of a Strategic Plan

The Company did not have a Strategic Plan during the year under review to guide its long-term objectives. In the circumstances, the Company is not able to coordinated activities, and ensure efficient resource utilization.

Management Response

Management acknowledges that the Company did not have an approved Strategic Plan during the year under review. However, subsequent to the reporting period, the Company has undertaken a structured strategic planning process and has since developed a draft Strategic Plan, which is currently under review. The Board has already been notified, and the plans will be included in the agenda of the next Board meeting for review and formal approval to ensure coordinated activities, efficient resource use, and achievement of long-term objectives.

Committee Observation

The Committee observed that the matter is satisfactorily addressed.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

7. Lack of a Risk Management Policy and Disaster Recovery Plan

The Company Management had not put in place a Risk Management Policy, Strategies and Risk Register to mitigate against risk. It was therefore not clear how risk exposure was managed. This is contrary to Regulation 158(1)(a) and (b) of the Public Finance Management (County Governments) Regulations, 2015. Further, the Company did not have a disaster recovery and business continuity plans required for identifying, preventing, and mitigating against disasters and ensuring that its operations are not

interrupted. In the circumstances, Management's preparedness towards responding to risk could not be confirmed.

Management Response

To address this, Management has initiated the development of a Risk Management Policy and associated risk registers, alongside Disaster Recovery and Business Continuity Plans, to identify, assess, and mitigate operational and financial risks and ensure continuity of essential services. The Board has already been notified vide a letter to the Chairman.

Committee Observation

The Committee observed that the water company has not finalised the process the process of developing its own Risk Management Policy.

Committee Recommendation

The Committee recommends that —

- i. **the Governor ensures the accounting officer ensures that the fund puts in place all internal control systems such as the Internal Audit Committee as provided under section 155 (5) of the Public Finance Management Act, 2012, and a Risk Management Policy as provided under section 158 (1) of Public Finance Management (County Governments) Regulations, 2015 among others to guide the internal operations of the water company. Further, the managements to submit evidence of the same to the Auditor General for verification; and**
- ii. **the Auditor-General to keep this in view in the subsequent audit cycle.**

8. Lack of Annual Board Work Plan

The statement of profit or loss and other comprehensive income and as disclosed in Note 11 to the financial statements reflect Kshs.852,115 in respect to Board expenses which includes Kshs.310,500 incurred on sitting allowances. Review of Board operations revealed that the annual Board workplan had not been developed contrary to Parameter 1.9 of Mwongozo Code of Governance for State Corporations which states that the Board should ensure the development of an annual Board workplan that guides on strategic policies, risks, budget and finance, quality assurance, evaluation, review, governance and compliance among others. In the circumstances, the effectiveness of the operations of the Board could not be confirmed.

Management response

The Board has since developed and is now operating under a comprehensive workplan that guides strategic policy oversight, risk management, budget and finance, quality assurance, evaluation, and governance, in line with Parameter 1.9 of the Mwongozo Code.

Committee Observation

The Committee observed that the matter is satisfactorily addressed.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

9. Excessive Electricity Bills

The statement of profit or loss and other comprehensive income and as disclosed in Note 10 to the financial statements reflect Kshs. 26,151,216 in respect to general and operational expenses which includes Kshs. 14,701,429 incurred on electricity. The expenditure is approximately 56% of the total operating expenses. This may negatively affect operations of the water Company. In the circumstances, the high-power costs impacted negatively on the profitability and sustainability of the services by the Company.

Management Response

To mitigate high electricity consumption, Management has initiated several measures to reduce energy costs and ensure continuity of service delivery as follows: a) Solarisation of Pumping Stations - Implementation of solar energy solutions at key pumping stations, with support from Tana Athi Water Works Development Agency (TWWDA), to reduce reliance on conventional electricity. This is expected to cut energy cost by 33% b) Energy Efficiency Measures - Optimization of pump operations, replacement of inefficient equipment, and scheduling operations to reduce peak-hour electricity consumption. c) Infrastructure Upgrades – Rehabilitation of pipelines and removal of inefficient networks to reduce pumping requirements and associated power consumption. d) Tariff Recovery and Financial Planning - Application for a cost-recovery tariff with WASREB and implementation of revenue enhancement measures to offset high operating costs. e) Engagement with Kenya Power and Lighting Company (KPLC) – Management has requested a meeting with KPLC to discuss a payment plan that will ensure continued electricity supply and uninterrupted water service delivery.

Committee Observation

The Committee observed that the electricity bill was 56% of the total operating expenses.

Committee Recommendation

The Committee recommends that the Governor ensures that the accounting officer put in place measures to reduce the electricity bill and submit a status report to the Senate and a copy to the Auditor General.

CHAPTER TWO: MUNICIPALITIES

2.1 REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR EMALI SULTAN HAMUD MUNICIPALITY FOR THE FINANCIAL YEAR 2024/2025

The Governor of Makueni County, Hon. Mutula Kilonzo Jnr, CBS appeared before the Committee on Tuesday, 27th January 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Emali -Sultan Hamud Municipality the financial year 2024/2025. The Governor was accompanied by:

1. Mr. Jackson Daudi - Chief Officer lands
2. Mr. David Makau - Chief Officer Water
3. Mr. Philip Ngila - Municipal Manager

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified opinion** on the Financial Statements of the Emali -Sultan Hamud Municipality for the period under review on the following basis-

1. Misclassification of expenditure

The statements of financial performance and as disclosed in note 12 to the financial statements reflect use of goods and services of Kshs 20,882,748 which includes Kshs 15,681,187 relating to other operating expenses. Review of payment vouchers and support documents revealed that the expenditure includes Kshs 2,809,073 which was wrongly charged to other operating instead of various components as analyzed in the table below;

Correct Account Item	Amount
Domestic Travel and Subsistence	1,334,527
Fuel, Oil and Lubricants	835,519
Hospitality, Supplies and Services	29,400
Routine Maintenance Expenses	6,000
Staff Costs	603,627
Grand Total	2,809,073

In the circumstances, the accuracy of the various expenditure items under use of goods and services could not be confirmed.

Management Response

Management stated that;

The expenditure of Kshs 2,809,073 pertains to programs budgeted under "Other Operating Expenses." This expenditure was incurred in accordance with the planned budget and has been properly accounted for. Moving forward, the Municipal will refine

its budgeting processes to ensure that expenditures are appropriately classified within the relevant categories of the Standard Chart of Accounts (SCOA), thereby improving financial transparency and accountability. Management has acknowledged the misclassification and will reclassify the affected transactions through journal entries, with the necessary prior period adjustments to be effected in the FY 2025/2026 financial statements

Committee Observation

The Committee observed that the municipality had an expenditure of Kshs 2,809,073 which was wrongly charged to other operating expenses instead of various expenditure items under use of goods and services.

Committee Recommendation

The Committee recommends that—

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

Emphasis of matter

1. Budgetary control and performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs 74,790,011 and Kshs 48,045,038 respectively resulting to underfunding of Kshs 26,744,973 or approximately 36% of the budget.

Similarly, the municipality expended Kshs 27,603,884 against actual receipts of Kshs 48,045,038 resulting to under absorption of Kshs 20,441,154 or approximately 43% of the receipts. The underfunding and under absorption affected the implementation of the planned activities and programs and may have impacted negatively on service delivery to the public

Management response

Management stated that;

The Municipality acknowledges the revenue shortfall of Kshs. 26,744,973 (36%) against the approved budget. Out of the revenue shortfall. 20,083,771 related to Kenya Urban Support project (KUSP)- Urban Development Grant (UDG) which was not disbursed during the period. Additionally following a countywide budget cut amounting to Kshs 265,507,864.00, the County Executive was unable to disburse the full approved budget to the Municipality.

Committee Observation

The Committee observed that there was an underfunding of Kshs 26,744,973 or approximately 36% of the budget and under absorption of Kshs 20,441,154 or approximately 43% of the receipts. The underfunding was attributed To Kenya Urban Support project (KUSP)- Urban Development Grant (UDG) which was not disbursed during that financial year.

Committee Recommendation

The Committee recommends that-

- i. The Governor, through the Accounting Officer, should undertake a reconciliation that pertains to payments for outstanding works for which no certificate had been issued. The Auditor-General to provide a status update in the subsequent audit cycle;**
- ii. The Governor, through the Accounting Officer should ensure compliance with section 149(2) of the Public Finance Management Act, Cap. 412A regarding preparation and management of financial and accounting records failure to which provisions of section 199 of the Public Finance Management Act on penalties for offenses shall apply;**
- iii. The Governor, through the Accounting Officer, should strengthen internal audit controls and ensure proper record keeping;**
- iv. The Governor, through the Accounting Officer, should enhance the capacity of officers preparing financial statements to comply with the accounting standards and should further invest in technology and**

processes that reduce inaccuracies in the preparation of financial statements; and

- v. The Governor, through the Accounting Officer, to take administrative action on the officers within the Accounts and Finance department who fails to keep complete financial records in accordance with their terms and conditions of appointment or employment and as required by the Accountants Act, Cap. 534.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

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

1. Lack of Internal Audit Function and an Audit Committee of the Board

The Municipality has not established an internal audit function and an Audit Committee of the Board. This is contrary to section 155 of the Public Finance Management Act, 2012 which provides for the establishment of the internal audit function and an Audit Committee of the Board. As such the Municipality did not benefit from the assurance and advisory services from the internal audit function as well as oversight from the Audit Committee. In the circumstances, the effectiveness of the internal controls could not be confirmed.

Management Response

Management stated that;

The municipality constituted an Audit Committee in December 2025 and held their first meeting in January 2026 to review Quarterly Report and Financial Statements for the Period ended 31st December, 2025. The Municipality relies on the County Government's Internal Audit function for assurance and advisory services. Although no internal audit was conducted during the year under review, the Municipality has engaged the County Treasury to facilitate the provision of internal audit services from its Internal Audit Unit in the current financial year.

Committee Observation

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

Committee Recommendation

The Committee recommends that the Governor ensures the Municipality puts in place all internal control systems such as the Internal Audit Function as provided under section 155 (5) of the Public Finance Management Act, 2012 among others to guide the internal operations of the Municipality. Further, the County Executive Committee Member (CECM) – Finance to submit evidence of the same to the Auditor General for verification.

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

The Governor of Makueni County, Hon. Mutula Kilonzo Jnr, CBS appeared before the Committee on Tuesday, 27th January 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Wote Municipality the financial year 2024/2025. The Governor was accompanied by:

1. Mr. Jackson Daudi - Chief Officer lands
2. Mr. David Makau - Chief Officer Water
3. Ms. Everlyn Mutua -Municipal Manager

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **qualified opinion** on the Financial Statements of the Wote Municipality for the period under review on the following basis-

1. Unconfirmed Property, Plant and Equipment Balance

The Statement of Financial Position and as disclose in Note 24 to the Financial Statements reflect Property, Plant and Equipment (PPE) balance of Kshs 29,087,397 net of depreciation for the year totaling Kh 1,745,927. However, review of the financial records revealed that the Municipality did not have an approved depreciation Policy. In the circumstances, the accuracy of property plant and equipment balance of Kshs 29,087,397 could not be confirmed.

Management Response

Management stated that;

In March 2024, the Government approved the transition from cash-based to accrual accounting, effective 1st July 2024, with implementation to be undertaken over a three-year transition period. Under the approved roadmap, the first year of implementation (FY 2024/2025, ending 30th June 2025) prioritizes the recognition and reporting of financial assets and liabilities, while non-financial assets are to be progressively recognized over the three-year period, with full compliance expected by FY 2026/2027. Accordingly, FY 2024/2025 was designated for asset identification, verification and updating of the asset register.

As early adopters of the accrual accounting reforms, the County Treasury established the Makueni County Assets and Liabilities Unit to provide institutional oversight and technical leadership in the implementation process. Among its key responsibilities is the development of County-specific Assets and Liabilities Guidelines through the customization of the National Treasury Assets and Liabilities Guidelines. These guidelines are intended to ensure consistency in asset and liability recognition, measurement and reporting across all County entities, while aligning implementation with the national accrual accounting framework.

Within this framework, the Municipality was guided by the National Assets and Liabilities Policy and the National Roadmap Guidelines to Accrual Accounting during the year under review. These frameworks provide for the recognition and depreciation of assets in accordance with prescribed rates. Depreciation for the year amounting to Kshs 1,745,927 was computed in line with the approved policy guidelines.

Committee Observation

The Committee observed that the municipality did not have an approved depreciation Policy at the time of audit.

Committee Recommendation

The Committee recommends that the Governor ensures that the municipality develops and implements an approved depreciation policy within 60 days of the adoption of this report and submit the same to both to the Senate and Auditor-General, further the municipality should ensure the development of the Depreciation policy is done in accordance to the PSASB requirements.

Emphasis of Matter

1. Budgetary Control and Performance

The Statement of Comparison of Budget and actual amounts reflect final revenue budget and actuals on comparable basis of Kshs 137,852,740 and Kshs 100,907,573 respectively resulting to underfunding of Kshs 36,945,167 or approximately 27% of the budget. The underfunding affected the planned activities and may have impacted negatively on service delivery to the public.

Management Response

Management stated that;

Following a countywide budget cut amounting to Kshs 265,507,864.00, the County Executive was unable to disburse the full approved budget to the Municipality. Consequently, the Municipality experienced underfunding during the year under review. Attached find Appendix 2a and 2b being an abstract of the assented County Allocation Revenue Act 2024 (CARA) and County Government Additional Allocation 2025 (CGAA), respectively.

Committee Observation

The Committee observed that there was an underfunding of Kshs 36,945,167 or approximately 27% of the budget.

Committee Recommendation

The Committee recommends that-

- i. The Governor, through the Accounting Officer, should undertake a reconciliation that pertains to payments for outstanding works for which no certificate had been issued. The Auditor-General to provide a status update in the subsequent audit cycle;
- ii. The Governor, through the Accounting Officer should ensure compliance with section 149(2) of the Public Finance Management Act, Cap. 412A regarding preparation and management of financial and accounting records failure to which provisions of section 199 of the Public Finance Management Act on penalties for offenses shall apply;
- iii. The Governor, through the Accounting Officer, should strengthen internal audit controls and ensure proper record keeping;
- iv. The Governor, through the Accounting Officer, should enhance the capacity of officers preparing financial statements to comply with the accounting standards and should further invest in technology and processes that reduce inaccuracies in the preparation of financial statements; and
- v. The Governor, through the Accounting Officer, to take administrative action on the officers within the Accounts and Finance department who fails to keep complete financial records in accordance with their terms and conditions of appointment or employment and as required by the Accountants Act, Cap. 534.

CHAPTER THREE: HOSPITALS

3.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR KIBWEZI SUBCOUNTY HOSPITAL FOR THE FINANCIAL YEAR 2024/2025

The Governor of Makueni County, Hon. Mutula Kilonzo Jnr, CBS appeared before the Committee on Tuesday, 3rd March 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Kibwezi Subcounty Level 4 Hospital for the financial year 2024/2025. The Governor was accompanied by:

1. Ms. Joyce M Mutua -CECM Health
2. Ms. Damaris Kavoi -CECM Finance
3. Dr. Harvey Mulei -Chief Officer Health

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified opinion** on the Financial Statements of the Kibwezi Subcounty Hospital for the period under review on the following basis-

1. Unconfirmed Property, Plant and Equipment

The statement of financial position and as disclosed in Note 32 to the financial statements reflect a balance of Kshs. 8,186,685 in respect to property, plant and equipment which excluded the value for land. In addition, the assets register reflects one parcel of land and four (4) motor vehicles whose ownership documents were not provided for audit review. Further, the fixed assets register reflects parcels land, buildings, civil works and motor vehicles owned by the Hospital whose corresponding values were not disclosed.

In the circumstances, the accuracy, completeness and ownership of property, plant and equipment balance of Kshs. 8,186,685 could not be confirmed.

Management Response

The Management stated that asset identification for motor vehicles, plant, and equipment previously owned by the defunct Local Authorities and the National Government relating to devolved functions was carried out by the State Department for Roads in 2023, under the coordination of the Intergovernmental Relations Technical Committee (IGRTC). Once the required asset transfer processes are finalized and ownership documents are issued, the hospital will recognize the respective assets in its financial statements in accordance with public sector accounting standards.

With regard to land ownership, the hospital occupies land that was inherited from the National Government, which currently lacks a title deed. However, Makueni County has been identified among the 30 counties participating in Phase I of the County Fixed Assets Valuation Programme, being implemented by the State Department for Lands

and Physical Planning, in collaboration with the State Department for Devolution and the Intergovernmental Relations Technical Committee (IGRTC). This has since not been finalized due to budgetary constraints..

In addition, the hospital wrote to the Ministry of Housing requesting facilitation in the valuation of hospital buildings. A brief on the intergovernmental county assets valuation and transfer exercise was attached for reference.

The logbooks for the three (3) motor vehicles are under the County Government of Makueni and the facility has initiated the transfer process. Regarding motor vehicle GKA314 the asset was among those inherited from the Local Authority at the onset of devolution in 2013 and are yet to be revalued.

Management remains committed to ensuring that all hospital assets are fully identified, valued, and properly recorded in compliance with the Public Finance Management Act, 2012, and the Public Sector Accounting Standards.

Committee Observation

The Committee observed that the hospital has not valued the parcel of land to date and neither has it acquired the ownership documents for the 4 motor vehicles.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures that the hospital secures full ownership of the 4 motor vehicles and provide a status update to the committee within 60 days of adoption of this report;
- ii. the Governor ensures the hospital completes the valuation process and provide a status update to the committee within 60 days of adoption of this report;
- iii. the Governor ensures that the Accounting Officer ensures that the hospital maintains an up-to-date asset register in the format prescribed by the Public Sector Accounting Standards Board (PSASB) and the company to carry out a valuation of all its assets and submit the same to the Auditor-General within 60 days from the adoption of this report;
- iv. the Governor engages the Intergovernmental Relations Technical Committee (IGTRC) to ensure that the process of transfer of all assets and liabilities are completed in a timely manner; and
- v. the Auditor-General to undertake physical verification of all assets of the hospital and provide a status report to the Committee within 60 days from the adoption of this report.

2. Long Outstanding Receivables from Exchange Transactions

The statement of financial position and as disclosed in Note 29 to the financial statements reflect a balance of Kshs. 35,293,110 in respect to receivables from exchange transactions. Review of the supporting schedules and ageing analysis revealed that Kshs. 13,851,361 or approximately thirty-nine (39%) percent of the receivables had remained outstanding for more than one year. However, Management did not provide measures put in place to recover the long-outstanding debts.

In the circumstances, the accuracy and recoverability of receivables from exchange transactions balance of Kshs. 35,293,110 could not be confirmed.

Management Response

The outstanding receivables primarily relates to unpaid claims as at 30th June 2025 from:

- The defunct National Health Insurance Fund (NHIF) amounting to Kshs. 19,668,562 .
- The Social Health Authority (SHA) amounting to Kshs. 15,624,562 bringing the total outstanding receivables to Kshs. 35,293,110.

In an effort to recover the outstanding amounts, the hospital management followed up by issuing demand letters to the Social Health Authority (SHA) requesting settlement of the pending claims. Subsequently, the facility received kshs. 20,711,530 as at 3ft January 2026.

Management remains committed to ensuring that the outstanding balances are recovered and that all future claims are submitted, tracked, and reconciled in a timely manner to minimize the accumulation of aged receivables.

Committee Observation

The Committee observed that Kshs. 13,851,361 or approximately thirty-nine (39%) percent of the receivables had remained outstanding for more than one year.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures the Accounting Officer should, within 60 days of the adoption of this report, submit a debtors' schedule to the Auditor-General for verification;
- ii. the Governor ensures the Accounting Officer should within 60 days of the adoption of this report, submit an approved copy of the Debt Management Policy to the Auditor general for verification. The Auditor-General to verify the policy and submit a status update on the same in the subsequent audit cycle;
- iii. the Governor ensures the Accounting Officer should, within 60 days of the adoption of this report, put in place recovery measures for the outstanding

- amount with clear timelines. The Auditor-General should review the implementation of the measures put in place provide a status update on the matter in the subsequent audit cycle; and
- iv. the Governor ensures that the Accounting Officer undertakes a detailed ageing analysis of its long outstanding trade receivables and with the Board's approval, write off the irrecoverable debts in line with the Section 130 (2) (d) of the Public Finance Management (County Governments) Regulations, 2015.

Emphasis of Matter

1. Long Outstanding Trade and Other Payables

The statement of financial position and as disclosed in Note 36 to the financial statements reflect a balance of Kshs. 32,002,128 in respect to trade and other payables. Review of the ageing analysis revealed that Kshs. 16,622,894 or approximately 52% of the payables were outstanding for over one (1) year. Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

Management Response

The outstanding payables were occasioned by delays in receipt of receivables comprising of unreimbursed NHIF and SHA claims. As at the closure of the FY 2024/2025, the outstanding amount due to the facility was Kshs 35,293,110. In the current financial year, the hospital has paid kshs. 3,318,648 relating to payables that have been outstanding for more than one year.

The facility provides essential and critical services that must be delivered continuously in order to safeguard life and maintain high standards of healthcare. Due to irregular cash inflows from the defunct National Hospital Insurance Fund (NHIF) and the Social Health Authority (SHA), the hospital has at times relied on creditors to avert disruption of services. The hospital, however, anticipates a significant reduction in outstanding payables upon recovery of long-outstanding receivables from the defunct NHIF and SHA.

Committee Observation

The Committee observed that Kshs. 16,622,894 or approximately 52% of the payables were outstanding for over one (1) year.

Committee Recommendation

The Committee recommends that-

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

- the payables and file a report on the same with the Auditor-General for verification. The Auditor-General to provide a status update on the matter in the subsequent audit cycle;
- ii. the Governor to ensure 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.

2. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects total budgeted income and actual on comparable basis of Kshs. 101,704,574 and actual income of Kshs. 71,028,903 respectively resulting to under-collection of Kshs. 30,675,671 or approximately 30% of the revenue budget. The under-collections affected the planned activities and may have impacted negatively on service delivery to the public.

Management Response.

The hospital experienced a shortfall of 30% of its revenue collection during the period under review. This was largely due to receivables that were not settled by the closure of the 2024/2025 financial year. Part of the receivables were from the defunct NHIF and SHA which totaled Kshs 35,293,110.

In this regard, the hospital put the following measures to increase revenue;

- a) Ensuring all patients are enrolled in the Social Health Insurance Fund (SHIF) and that claims are submitted promptly. This has led to 58% increase in reimbursements from kshs. 13,086,286 for the period July 2024 to January 2025 to kshs 20,711,530 during the same period in the current Financial Year.
- b) Follow up on outstanding NHIF and SHA claims by the facility.
- c) Automation of billing and receipting system through TibERbu and Caresoft as shown in the snapshot attached in Appendix 46. This has led to 19% increase in revenue from Ksh. 26,857,156 for the period July 2024 to January 2025 to kshs 31,981,026 during the same period in the current Financial Year.
- d) Strengthening Billing and Collection Processes: The hospital has taken steps to streamline billing procedures by eliminating cash transactions at all service points. Receipts are now processed exclusively through a Paybill number.
- e) Makueni County plans to implement a UHC programme given the high poverty level of 39% that means some of the patients are unable to pay for SHIF

resulting to waivers. To mitigate on growth of waivers, and hence secure the hospital revenue, the county government will pay SHIF premiums for an estimated 11,000 indigents in the county while mobilizing more residents to register to SHA in FY 2025/26.

Committee Observation

The Committee observed that there was under-collection of Kshs. 30,675,671 or approximately 30% of the revenue budget.

Committee Recommendation

The Committee recommends that –

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

Other Matter

Unresolved Prior Year Issues

In the prior years' audit report, several issues were raised under Lawfulness and Effectiveness in Use of Public Resources. Review of the status during audit of Kibwezi Sub-County Level 4 Hospital in 2024/2025 revealed that the following matters remained unresolved.

No	Financial Year	Audit Issue
1	2023/2024	Non-Compliance with Biomedical – Waste Management Requirement
2	2023/2024	Expiry of Medical Supplies
3	2023/2024	Weaknesses in Medical Stores Management
4	2023/2024	Use of Manual Accounting System

a) Non-Compliance with Biomedical Waste Management Requirement Management Response

The hospital management took advisory from the audit and commenced a proper management and disposal for biomedical waste. Currently, the hospital transports its biomedical waste to Makindu Sub-county hospital for safe disposal. Further, the County

Government in partnership with Mpesa Foundation is currently constructing a maternity building at the facility that includes a septic tank, which will enhance waste management and improve safe disposal of waste at the facility.

b) Expiry of Medical Supplies

Management Response

The hospital adopted commodities monitoring system (TibERbu and Caresoft) that tracks and manages the stock levels, orders and deliveries. The system crucial in managing pharmaceuticals and non-pharmaceuticals stock and therefore making timely decisions to procure to avoid stock outs and eliminate waste resulting from expiry of medical drugs. The hospital pharmacy adheres to the above system for dispensing pharmaceutical commodities as outlined in the Standard Operating Procedure (SOP). The expired drugs consisted exclusively of programme commodities from the national government i.e. ARVs for the period 2020 and 2021. During this period, there was a change in the HIV treatment guidelines, rendering the available stock obsolete, leading to expiry. The expired drugs were forwarded to the county drug store for disposal.

c) Weaknesses in Medical Stores Management

Management Response

To address gaps in store management several corrective measures aimed at enhancing the accuracy, reliability, and accountability of inventory records have been implemented. These measures include:

1. Conducting monthly physical stock counts across all pharmaceutical and non-pharmaceutical stores.
2. Regularly updating bin cards immediately after every issue and receipt of items to ensure real-time accuracy of stock records.

Further, the management constituted an End-of-Year Stock Take Committee with the mandate to conduct comprehensive stock counts, reconcile physical stock with bin card records, and prepare an official stock report. In addition, the hospital adopted the TibERbu Health Management Information System (HMIS), which includes an inventory management module.

Management remains committed to strengthening internal control systems related to stores management, ensuring transparent, efficient, and accountable handling of all medical commodities.

d) Use of Manual Accounting System

Management Response

The County Government recognizes the risks associated with manual processes, including susceptibility to human error, incomplete records, and limited internal control checks. To address this challenge, the County Government of Makueni, in collaboration with the Digital Health Agency (DHA), successfully rolled out the Tiberbu Hospital Management Information System (HMIS) to further digitize service delivery, enhance financial reporting, and strengthen accountability across all public health facilities. The

ongoing automation initiatives will significantly enhance efficiency, accuracy, and internal controls within the hospital.

Committee Observation

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

Committee Recommendation

The Committee recommends that—

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

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

Basis for Conclusion

1. Understaffing in the Hospital

Review of the staff establishment during the year under review and the payroll revealed that the Hospital had one hundred and ninety (190) employees against a staff establishment of three hundred and sixty-six (366) resulting in a deficit of one hundred and seventy-six (176) personnel. Management explained that they had engaged qualified contracted professionals and casual staff on short term engagements. However, the reliability of the contracted professionals and casual staff could not be confirmed. In the circumstances, failure to recruit and retain the optimal number of employees hinders the effective delivery of services by the Hospital.

Management Response

The County Government of Makueni faces financial constraints that have limited its capacity to fully address the existing human resource deficits. They include the following;

- a) The PFM requirement that the County wage bill should not exceed 35% of the County budget is an impediment in hiring more personnel to meet the threshold set by the Kenya Quality Model for Health Policy Guidelines.
- b) The PFM Act further sets an irreducible minimum ratio of the development budget vis a vis recurrent budget to 30:70 thereby tightening the fiscal space to allocate more resources on recurrent operations such as the wage bill, hospital supplies and equipment.
- c) The budgetary provision for the health department stands at 38% of the total county budget and further increase is expected to affect the operation efficiency of the other departments.

Nonetheless, the hospital has taken proactive measures by engaging qualified contracted professionals and casuals to increase reliability and ensure continuity in the provision of quality healthcare services.

Committee Observation

The Committee observed that the hospital had a deficit of one hundred and seventy-six (176) personnel.

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 Dispose of Unserviceable Assets

Physical inspection conducted at the Hospital in October, 2025 revealed that there were three (3) unserviceable motor vehicles of undetermined value which had been grounded in the Hospital's parking yard for several years. This is contrary to Section 163(1) of the Public Procurement and Asset Disposal Act, 2015 which states that an Accounting Officer shall establish a Disposal Committee as and when prescribed for the purpose of disposal of unserviceable, obsolete, obsolescent or surplus stores, equipment or assets. In the circumstances, Management was in breach of the law.

Management Response

The Accounting Officer constituted a Disposal Committee to identify unserviceable, obsolescent, obsolete, or surplus assets within the facility. The asset identification process was duly conducted, and the resulting schedule of identified assets submitted to the Head of Procurement for further action in accordance with the Act.

The County Treasury, has a disposal committee in place which is in the process of disposing all the unserviceable vehicles and other equipment's. So far, the committee has disposed some vehicles to CTTIs for learning purposes.

Committee Observation

The Committee observed that the management of the hospital constituted a Disposal Committee to identify unserviceable, obsolescent, obsolete, or surplus assets within the facility. However, the disposal process has not been initiated.

Committee Recommendation

The Committee recommends that the Governor ensures that the disposal committee of the hospital initiated the process of disposing off unserviceable, obsolescent, obsolete, or surplus assets within the facility within 60 days of the adoption of this report and submit a status report of the same within 60 days of the adoption of this report to the Senate and a copy to the Auditor General.

3. Deficiencies in Implementation of Universal Health Care

Review of the Hospital's records and interviews on verification of services offered, equipment used and medical specialists in the Hospital as at the time of audit revealed that the Hospital did not meet the requirements of Kenya Quality Model for Health Policy Guidelines due to staff deficit by sixty-nine (69) or approximately 68% of the authorized staff establishment as shown in Table 1 below:

Table 1: Deficiencies in Staff Requirements

Staff Requirement	Minimum Requirement	Actual Numbers	Variance	% Actual against Minimum Requirement
Medical Officers	16	3	13	19

Staff Requirement	Minimum Requirement	Actual Numbers	Variance	% Actual against Minimum Requirement
Anesthesiologists	2	0	2	0
General Surgeons	2	0	2	0
Gynecologists	2	1	1	50
Pediatricians	2	1	1	50
Radiologists	2	0	2	0
Registered Community Health Nurses	75	27	48	36
Total	101	32	69	68

In addition, the Hospital lacked the necessary equipment and machines outlined in the Health Policy Guidelines as shown in Table 2 below:

Table 2: Deficiencies in Equipment

Equipment & Machine	Minimum Requirement	Actual Numbers	Variance	% Actual Against Minimum Requirement
Incubators (newborn)	5	1	4	20
Beds Available	150	81	69	54
COTS	5	0	5	100
Resuscitaire in Theatre	1	1	0	0
Resuscitaire in Labour Ward	2	1	1	50
Functional ICU Beds	6	0	6	0
HDU Beds	6	0	6	0
Renal Unit with Dialysis Machines	5	0	5	0
Functional Operating Theatres Maternity and General	2	1	1	50
Ambulances Available	2	0	2	0

Service	Service Offered
Surgical Services	Yes
Pediatric Services	Yes
Gynecology Services	Yes
Radiology Services	Yes
Renal Services	No
Tuberculosis Services	Yes

The deficiencies contravene the First schedule of the Health Act, 2017 and imply that accessing the highest attainable standards of health care as required by Article 43(1) of the Constitution of Kenya, 2010 may not be achieved. In the circumstances, the Hospital Management will not be able to deliver on its mandate and Universal Health Care Services may not be effectively delivered at the Hospital.

Management Response

The Hospital Management acknowledges the importance of the Kenya Quality Model for Health Policy Guidelines, which serve as a critical framework for enhancing efficiency and quality in the delivery of health services. The County Government of Makueni continues to face several constraints that limit full compliance with these guidelines, particularly in addressing human resource and equipment gaps such as Public Finance Management (PFM) Act Wage Bill Limitation and an irreducible minimum ratio of the development budget vis a vis recurrent budget to 30:70.

To mitigate staffing gaps and enhance service delivery, the hospital management contracted 96 employees comprising of casuals and contracted professionals. This intervention helped to bridge critical shortages and ensured continuity of healthcare services.

Further, the County Government has invested in Proximie technology in Kibwezi Subcounty hospital which allows consultants from Makueni County Referral Hospital and beyond to provide surgical services to patients. To strengthen its infrastructure and improve maternal and child health services, plans are underway to construct a 61-bed capacity Mother and Child Hospital Block in the Financial Year 2025/2026, through partnership with Mpesa Foundation. The proposed facility will include two fully equipped operating theatres, significantly expanding the hospital's capacity to handle deliveries, surgeries, and specialized maternal care.

Committee Observation

The Committee observed that the hospital was not offering key services required in a level 4 hospital and the staffing requirements did not meet a number of key specifications as prescribed by the Kenya Quality Model for health policy guidelines.

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. Non-Compliance with Law on Ethnic Composition

Review of the payroll database for the Hospital as at the time of audit revealed that out of a total of eighty-four (84) employees, seventy-five (75) staff members or approximately 89% of the total workforce, were from the dominant ethnic community in the County. This is contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that all public establishments shall seek to represent the diversity of the people of Kenya in employment of staff and that no public establishment shall have more than one third (33%) of its establishment from the same ethnic community. In the circumstances, Management was in breach of the law.

Management Response

The county undertakes open and competitive recruitment by advertising vacancies publicly and shortlisting of candidates based on merit and responsiveness to the job requirements. All qualified applicants, irrespective of ethnic background, are eligible to apply and be considered for engagement on contract terms. In a recent recruitment, out the 150 shortlisted candidates twelve (12) were not from the dominant ethnic community and three (3) applicants employed out of the twelve (12).

Committee Observation

The Committee observed that 75 employees were from the dominant community.

Committee Observation

The Committee recommends that—

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISKS MANAGEMENT AND GOVERNANCE

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

Basis for conclusion

1. Lack of Internal Audit Unit

Review of the Hospital's governance framework revealed that the Hospital does not have an established Internal Audit Unit and relies on audit services provided by the County Government's Internal Audit Department. However, no internal audit reports for the year ended 30 June, 2025 were provided for audit review. In the circumstances, the Hospital did not benefit from the assurance and advisory services from the internal audit function.

Management Response

The facility has been hampered by budgetary constraints which could not allow it to have its own independent audit function. The hospital relies on services of Internal Audit establishment based at the County Treasury for review of internal systems and procedures. In addition, the Board has established the Human Capital Finance, Administration and Audit committee to oversee governance and audit matters.

Committee Observation

The Committee observed that the Hospital operated without an Audit Committee, although audit oversight was provided through the County Treasury Audit Committee.

Committee Recommendation

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

3.2. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR MAKINDU SUBCOUNTY LEVEL 4 HOSPITAL FOR THE FINANCIAL YEAR 2024/2025

The Governor of Makueni County, Hon. Mutula Kilonzo Jnr, CBS appeared before the Committee on Tuesday, 3rd March 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Makindu Subcounty Level 4 Hospital for the financial year 2024/2025. The Governor was accompanied by:

1. Ms. Joyce M Mutua -CECM Health
2. Ms. Damaris Kavoi -CECM Finance
3. Dr. Caroline Kavilu -Ag Medical superintendent

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified opinion** on the Financial Statements of the Makindu Subcounty Level 4 Hospital for the period under review on the following basis-

Unconfirmed Property, Plant and Equipment

The statement of financial position reflects a balance of Kshs. 41, 076,485 in respect to property, plant and equipment as disclosed in Note 32 to the financial statements. However, land where the Hospital is built was not disclosed in the financial statements. In addition, ownership documents for the land were not provided for audit review and had not been included in the assets register.

In the circumstances, the accuracy and completeness of property, plant and equipment balance of Kshs. 41, 076,485 could not be confirmed.

Management Response

In the year 2023, the State Department for Roads, under the coordination of the Intergovernmental Relations Technical Committee (IGRTC), undertook the identification of motor vehicles, plant, and equipment previously owned by the defunct Local Authorities and the National Government that are associated with the performance of devolved functions. Upon completion of the requisite transfer processes and issuance of formal ownership documentation, the assets allocated to the Hospital will be formally recognized in the Hospital's Financial Statements in accordance with the applicable Accounting Standards.

The Hospital is situated on a parcel inherited from the National Government, which currently lacks a title deed. However, Makueni County has been selected among 30 counties participating in Phase I of the fixed assets valuation exercise being carried out by the State Department for Lands and Physical Planning, in collaboration with the State Department for Devolution and IGRTC. The ownership documentation for the land is

expected to be finalized upon completion of the valuation exercise and issuance of the corresponding report. The asset register and Financial statements will subsequently be updated to include the land value.

Committee Observation

The Committee observed that the Hospital has not valued the parcel of land where it is built and neither has it acquired the ownership documents for the same.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures the hospital completes the valuation process and provide a status update to the committee within 60 days of adoption of this report;
- ii. the Governor ensures that the Accounting Officer maintains an up-to-date asset register in the format prescribed by the Public Sector Accounting Standards Board (PSASB) and carries out a valuation of all assets to be submitted to the Auditor-General within 60 days from the adoption of this report;
- iii. the Governor engages the Intergovernmental Relations Technical Committee (IGTRC) to ensure that the process of transfer of all assets and liabilities are completed in a timely manner;
- iv. and the Auditor-General to undertake physical verification of all assets of the hospital and provide a status report to the Committee within 60 days from the adoption of this report.

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual—on comparable basis of Kshs. 243,- 889,199 and -Kshs.147, 212,463 respectively resulting to under-funding of Kshs 96,676,736 or approximately 40% of the budget. Similarly, Management expended Kshs.167, 382,948 against actual receipts of Kshs.147, 212,463 resulting to over-utilization of Kshs. 20, 170,485 or approximately 14% of actual receipts. No explanation was provided by Management on the source of the extra funding.

The under-collection of revenue negatively affected service delivery to the public and the over-absorption may imply that the Hospital's budgeting process was poor.

Management Response

During the year under review, the Hospital experienced a revenue shortfall of 40% against its projected budgeted revenue. This shortfall is attributed to challenges in the

timely collection and reimbursement of claims. Despite this, the Hospital continues to implement a range of strategic interventions aimed at bridging the revenue gap and improving Own Source Revenue (OSR) performance as shown below;

- a) Registration with the Social Health Insurance Fund (SHIF): The hospital has intensified efforts to ensure that all patients, particularly unregistered individuals, are enrolled under SHIF. Additionally, mechanisms have been put in place to ensure that all claims are prepared, verified, and submitted promptly to minimize delays in reimbursements. Due to this initiative, there has been 62% increment of SHA reimbursements from July 2025 to January 2026 compared to the same period of the previous financial year.
- b) Employment of Eight (8) designated SHA clerks to carry out all the activities regarding offering of services via SHA/SHIF as the mode of payment.
- c) Strengthening Billing and Collection Processes: The hospital has taken steps to streamline billing procedures by eliminating cash transactions at all service points. To enhance accountability and ease of payment, the facility has implemented the use of a dedicated Paybill number for all collections.
- d) Automation and System Efficiency: To improve operational efficiency and revenue tracking, the County Government of Makueni in conjunction with the National government implemented TibERbu Hospital Management Information System (HMIS). This system will support automation of critical functions such as billing, claims management, reporting and inventory control.

The above measures, led to increase of revenue from Kshs. 64,236,910 in the period between July 2024 to January 2025 to Kshs. 78,816,871 in the same period of the current Financial Year representing a 19% increment. The hospital had an over-utilization of 14% of actual receipts. This is attributed to income received in quarter four of FY 2023/2024 which was spent in the first quarter of FY 2024/2025. The Management commits to ensure that all funds carried forward at the end of the financial year are factored in the next financial years' budget.

Committee Observation

The Committee observed that the hospital has under-funding of Kshs 96,676,736 or approximately 40% of the budget.

Committee Recommendation

The Committee recommends that –

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

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

Other Matter

1. Unresolved Prior Year Audit Matters

In the prior years' audit report, several issues were raised under the Report on Financial Statements, Lawfulness and Effectiveness in Use of Public Resources, and Effectiveness of Internal Controls, Risk Management and Governance, respectively. Review of the status during audit of Makindu Level 4 Hospital - County Government of Makueni in 2024/2025 revealed that the following matters remained unresolved:

No.	Financial Year	Audit Issue
1	2023/2024	Failure to Dispose Unserviceable Assets
2	2023/2024	Long Outstanding Trade and Other Payables
3	2023/2024	Unapproved Waivers of Patient's Bills

Management Response

Failure to dispose unserviceable Assets

In compliance with Section 163(1) of the Public Procurement and Asset Disposal Act, 2015, the Accounting Officer constituted a Disposal Committee to identify unserviceable, obsolescent, obsolete, or surplus assets within the facility. The asset identification process was duly conducted, and the resulting schedule of identified assets submitted to the Head of Procurement for further action in accordance with the Act. Supporting minutes of the committee meeting and. Subsequently, part of the identified assets in the disposal report have been taken to County Technical Training Institutes (CTTIs) for appropriate reuse. The hospital remains committed to full compliance with the Public Procurement and Asset Disposal Act, 2015, and is actively working to ensure the timely disposal of the remaining assets.

Long-Outstanding Trade and Other Payables

The late reimbursements of Social Health Authority (SHA) which are erratic led to accumulation of trade payables. The hospital has reduced the amount of outstanding payables by kshs. 5,219,340 . The hospital is committed to reducing the outstanding payables upon recovery of long outstanding receivables from the defunct National Hospital Insurance Fund (NHIF) and Social Health Authority (SHA).

Unapproved Waivers of Patients' Bills.

The hospital grants patient waivers only in cases where it is established that the patient lacks the financial capacity to settle their medical bills through a Social Worker who recommends to the waiver Committee. A Waiver Committee appointed by the Medical Superintendent was responsible for reviewing and approving waiver requests as per the appointment letter, minutes of the committee and sample assessment reports.

The County Government has developed the Makueni County Tax Waivers Administration Act, 2025 which provides a structured legal framework for granting waivers, ensuring compliance with the Public Finance Management regulations going forward. Makueni has a high poverty level of 39% and therefore some of the patients are unable to pay for SHIF. To mitigate on growth of waivers, the county government has launched a Makueni UHC program in which the county will pay SHIF for an estimated 11,000 indigents in FY 2025/26.

Committee Observation

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

Committee Recommendation

The Committee recommends that—

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

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

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

Review of the Hospital's records and interviews on verification of services offered, equipment used and medical specialists in the Hospital as at the time of audit in November, 2025 revealed that the Hospital did not meet the requirements of Kenya

Quality Model for Health Policy Guidelines due to staff deficits by fourteen (14) or approximately 42% of the authorized establishment excluding nurses and general surgeons.

Level 4 Staff Requirements

Level 4 Staff Requirements	Level 4 Standard	Number in Hospital	Variance	Variance Percentage (%)
Medical officers	16	8	8	50
Anesthesiologists	2	0	2	100
Gynecologists	2	1	1	50
Pediatrics	2	1	1	50
Radiologists	2	0	2	100
Total	24	10	14	42

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

Service	Level 4 Standard	Actuals in the Hospital	Variance	Variance Percentage %
Functional ICU beds	6	1	5	83
High Dependency Unit (HDU) Beds	6	1	5	83
Renal Unit with at least 5 dialysis machines	5	0	5	100

These deficiencies contravene the First Schedule of the Health Act, 2017 and imply that accessing the highest attainable standard of health, which includes the right to health care services, including Reproductive Health Care as required by Article 43(1) of the Constitution of Kenya, 2010 may not be achieved. In the circumstances, the Hospital will not be able to deliver on its mandate and Universal Health Care Services may not be effectively delivered at the Hospital.

Management Response

The Hospital Management acknowledges the importance of the Kenya Quality Model for Health Policy Guidelines, which serve as a critical framework for enhancing efficiency and quality in the delivery of health services. However, the County Government of Makeni faces financial constraints that have limited its capacity to fully address the existing human resource deficits. Despite these challenges, the growing enrolment under the Social Health Insurance Fund (SHIF) presents a promising opportunity to bridge these gaps through increased revenue. The County Government

has in the recent past recruited, confirmed (216) and promoted (497) officers leading to increased staff morale and retention.

Additionally, the County Government has invested in Proximie technology in Makindu hospital which allows consultants in other hospitals and beyond the county to provide medical services to patients in the hospital. The hospital therefore has access to more doctors and specialists through the use of technology than is physically present. The hospital has engaged the National Equipment Service Project (NESP) for placement one (1) X-ray machine and one (1) ultra sound machines. To expand renal services, County Government has deployed one (1) Nephrologist and two (2) Nephrology nurses to the facility awaiting placement of dialysis machines through NESP programme. Regarding infrastructure, the County Government of Makueni partnered with Aids Healthcare Foundation (AHF) Kenya to construct Makindu Chronic Care Centre which has since been completed, commissioned and is operational. Further, the county government engaged a partner, World Vision for construction and equipping of Ngaakaa Health centre, in Makindu ward to help in reducing workload and referrals to Makindu hospital, while bringing services closer to the people. The Ngaakaa facility was launched in January 2026.

Committee Observation

The Committee observed that the hospital was not offering key services required in a level 4 hospital and the staffing requirements did not meet a number of key specifications as prescribed by the Kenya Quality Model for health policy guidelines.

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. Lack of Motor Vehicles Ownership Documents

Review of documents revealed that the Hospital has three (3) motor vehicles, out of which two (2) of them were from the County Government of Makueni. However, the logbooks had not been transferred to the Hospital. In addition, the logbook of the third vehicle was not provided for audit review. In the circumstances, ownership of the vehicles by the Hospital could not be confirmed.

Management Response

The two motor vehicles allocated to the Hospital are registered under the County Government of Makueni. However, the process of transferring their ownership is already underway. Regarding motor vehicle GKB 652M, the asset was among those inherited from the Local Authority and National Government in 2013 after devolution and the process of transferring them to the County Government is ongoing.

Committee Observation

The Committee observed that the hospital lacks ownership documents for three motor vehicles, and ownership could not be confirmed at the time of audit. However, management stated that the vehicles were inherited from the Local Authority and the National Government in 2013 following devolution.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures the hospital secures full ownership documents for the three motor vehicles and provide a status update to the Senate within 60 days of adoption of this report; and**
- ii. the Auditor-General to verify the ownership documents in the subsequent audit cycle.**

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

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

1. Unsatisfactory inventory Management

The statement of financial position reflects inventories balance of Kshs. 12,141,916 as disclosed in Note 31 to the financial statements. However, review of the stock cards revealed that the Hospital experienced stock out of medical supplies ranging from 13 to

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

Management Response

The facility procures pharmaceuticals and non-pharmaceutical commodities valued at approximately Kshs. 6 million per quarter using its own-source revenue. In addition, the County Government supplements the facility with medical commodities estimated at Kshs. 7 million per quarter. Despite these interventions, the facility continues to experience stock-outs, largely attributable to the high patient turnover and increased service demand, which has significantly raised the consumption rate of health commodities. Management has therefore committed to progressively increasing the budgetary allocation for health commodities, in line with the expected growth in the facility's revenue envelope arising from the revenue enhancement measures currently being implemented.

The hospital utilizes the TibERbu Health Management Information System (HMIS) as a commodities monitoring and inventory management tool. The system supports real-time tracking of pharmaceutical and non-pharmaceutical stock levels, consumption patterns, and reorder thresholds, thereby enabling timely procurement decisions aimed at minimizing stock-outs. To ensure continuity in the supply of Health Products and Technologies (HPTs), the facility procures commodities from Kenya Medical Supplies Authority (KEMSA) and Mission for Essential Drugs and Supplies (MEDS).

Committee Observation

The Committee observed that the hospital experienced prolonged stock-outs of up to 307 days, indicating a failure in the internal control systems for inventory management.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures the Accounting Officer progressively increases the budgetary allocation for health commodities to match service demand;
- ii. the Governor ensures the hospital fully optimizes the TibERbu HMIS for real-time tracking to minimize stock-outs;
- iii. the Auditor-General to verify the effectiveness of the inventory management controls in the next audit cycle.

2. Lack of Audit Committee and Internal Audit Unit

During the year under review, the Hospital did not establish an Audit Committee of the Board and an internal audit unit. Although Management explained that the Hospital was audited by the Internal Audit Unit from the County Executive of Makueni, audit reports

were not provided for audit review. This is contrary to Regulation 167(1) of the Public Finance Management (County Governments) Regulations, 2015. In the circumstances, the Hospital did not benefit from the assurance and advisory services from the internal audit function as well as oversight from the Audit Committee.

Management Response

The facility has been hampered by budgetary constraints which could not allow it to have its own independent audit function. The hospital relies on services of Internal Audit establishment based at the County Government of Makueni for review of internal systems and procedures. In the year under review, the County Internal Audit conducted an Audit exercise for the facility. At the time of Audit, the Internal Audit file was under review and the files are available.

Committee Observation

The Committee observed that the Hospital operated without an Audit Committee, although audit oversight was provided through the County Treasury Audit Committee.

Committee Recommendation

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

3.3. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR MAKUENI COUNTY REFERRAL HOSPITAL FOR THE FINANCIAL YEAR 2024/2025

The Governor of Makueni County, Hon. Mutula Kilonzo Jnr, CBS appeared before the Committee on Tuesday, 3rd March 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements Makueni County Referral Hospital for the financial year 2024/2025. The Governor was accompanied by:

- | | |
|----------------------|--------------------------|
| 1. Ms. Joyce M Mutua | -CECM Health |
| 2. Ms. Damaris Kavoi | -CECM Finance |
| 3. Ms. Martha Munyao | -Chief Executive Officer |

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified opinion** on the Financial Statements of the Makueni County Referral Hospital for the period under review on the following basis-

1.0 Understated Property, Plant and Equipment Balance

The statement of financial position and as disclosed in Note 32 to the financial statements reflect property, plant and equipment balance of Kshs. 19,486,456. However, review of schedules, ledger and other supporting documents revealed the following;

- The balance excludes the value of a parcel of land on which the Hospital stands and the parcel of land on which the borehole which supplies the hospital with water is built on.
- Further, the two parcels of land do not have ownership documents.
- The balance excludes undetermined value of biological assets which include four (4) dairy cows owned by the Hospital as disclosed in Appendix VI under non-current assets.
- The balance excludes undetermined value of twenty-five (25) buildings, one hundred and thirty-six (136) pieces of furniture and fittings, one hundred and forty-six (146) ICT equipment and two hundred and sixty-three (263) plant and medical equipment as disclosed in Appendix VI to the financial statements.
- Although Management cited lack of professional valuation as the cause for failure to update the assets register, no reason was provided for failure to engage government valuers to carry out the valuation to ascertain fair values as provided for by IPSAS 46.
- Review of assets records revealed that the hospital received several plant and medical equipment under the Managed Equipment Services (MES) programme.
- However, physical inspection of the equipment in September, 2025 revealed that some of the equipment were non-functional, obsolete or had not been serviced.

In the circumstances, the accuracy of property, plant and equipment balance of Kshs.19, 486,456 could not be confirmed.

Management Response

The county Government has in the FY 2025/26 set aside funds for land survey of Wote town in which the hospital is situated. Once the survey is done, a title deed will be issued and subsequently valuation of the land will be done to enable recognition of the asset in the facility's financial statements.

In addition, the land on which the borehole supplying water to the hospital is located is a subject of a dispute between the County Government and the landowner's family. However, the government has sought alternative dispute resolution mechanism to resolve the impasse.

The hospital undertook a valuation exercise for its biological assets and recognized the biological assets in the Quarter 1 and 2 financial statements as per Note 36 of the Financial statements for the 2025/2026 financial year.

The County Government of Makueni established an asset Management unit to oversee the transition and recognition of all the assets to ensure they are recognized and reported as per the accrual basis of accounting. The hospital provided the asset register to the Asset Management unit to undertake asset mapping and verification. Upon completion of the mapping and verification exercise, the hospital management will engage the Chief Government Asset valuer to carry out the valuation of all the assets owned by the hospital.

The Ministry of Health programme under the Managed Equipment Services (MES) contract ended in 2023. Following the expiry of the contracts, the vendors handed over the equipment to the Hospital for management and maintenance. Management has been conducting maintenance for all MES machines that remain serviceable. However, for non-serviceable and obsolete equipment, a disposal committee was appointed to identify all obsolete equipment in the hospital for disposal.

Further, during the 2025/2026 financial year, National Equipment service project (NESP) was engaged to supply new and modern equipment to replace the unserviceable equipment. installation of new equipment in theatre and Xray has since been completed and the same commissioned.

Committee Observation

The Committee observed that the hospital land and borehole land remain untitled, and the borehole land is subject to an active dispute with the landowner's family. While biological assets have been valued and recognized in the 2025/2026 financial year, values for buildings, furniture, and ICT equipment are yet to be incorporated into the financial statements. Furthermore, there is no uniformization on the disposal of obsolete and non-functional MES equipment despite the handover from vendors.

Committee Recommendation

The Committee recommends that the Governor ensures the hospital provides a firm undertaking and evidence of survey and titling for the hospital land, and provides proof of settlement for the borehole land within 90 days of the adoption of this report. The Hospital must fast-track the valuation and recognition of all assets—including buildings, ICT, and medical equipment—into the assets register and financial statements. Additionally, the Accounting Officer should finalize the replacement and disposal of non-functional equipment and submit a report to the Senate and copy to the Auditor-General for verification within 60 days of the adoption of this report.

2.0 Unconfirmed Depreciation and Amortization Expenses

The statement of financial performance and as disclosed in Note 18 to the financial statements reflect depreciation and amortization expenses of Kshs.4,719,975. However, no depreciation was charged on several assets as Management is yet to determine their values. Further, Management has not developed an Accounting Policy to guide on the depreciation of the Institutions' assets. This is contrary to International Public Sector Accounting Standard 17 Paragraph 59 which requires each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item to be depreciated separately.

In the circumstances, the accuracy of the depreciation and amortization expense of Kshs.4,719,975 could not be confirmed.

Management Response

The County Government of Makueni established an asset Management unit to oversee the transition and recognition of all the assets to ensure they are recognized and reported as per the accrual basis of accounting. The hospital provided the asset register to the Asset Management Unit to undertake asset mapping and verification as per circular on asset mapping and verification. Upon completion of the mapping and verification exercise, the hospital management will engage the Chief Government Asset valuer to carry out the valuation of all the assets owned by the hospital.

The hospital has been relying on the Policy on Asset and Liability Management in The Public Sector which governs, standardizes and improves the management of public assets across Kenya's National and County Governments. However, the County Government of Makueni is in the process of finalizing the County Asset Policy which is aligned to the National Framework.

Committee Observation

The Committee observed that the hospital Management has not developed an Accounting Policy to guide on consistent application and disclosure of the policy.

Committee Recommendation

The Committee recommends that the Governor ensures the hospital develops and implements a comprehensive Accounting Policy to guide the depreciation of the institution's assets in accordance with IPSAS 17. Evidence of the adopted policy and its application to the assets register should be submitted to the Senate and a copy to the Auditor-General for verification within 60 days of the adoption of this report.

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts for the year ended 30 June, 2025 reflects final receipts budget and actual on comparable basis of Kshs.294,392,432 and Kshs.257,537,837 respectively resulting to an under-funding of Kshs.36,854,595 or approximately 13% of the budget. The under-funding affected the planned activities and may have impacted negatively on service delivery to the public.

Management Response

The Facility did not realize the budgeted revenue of Kshs.294,392,432 and therefore had a deficit of Kshs Kshs.36,854,595. This was largely due to receivables that were not settled by the closure of the 2024/2025 financial year. Part of the receivables were from the defunct NHIF which totaled Kshs 50,592,828. Consequently, the management has done follow up on the outstanding claims.

Towards this end the facility has instituted the following measures geared towards ensuring the growth of own source revenues:

- a) Increased specialized services like Neuro surgeon and anaesthesiologist as per the attached posting order copies.
- b) Rapid Result Initiatives (RRI) for SHIF/SHA registration.
- c) Follow up on unpaid NHIF/SHA dues.
- d) Automātion of billing and receipting system through Afya Makueni.
- e) Ensuring that all the processes are automated leading to cashless transactions.
- f) Establishment of Makueni UHC Program where the county will pay SHIF for an estimated 11,000 indigents leading to reduction of waivers.

As a result of the above measure, the facility increased revenue from kshs 117,287,405 (July 2024-January 2025) to kshs. 175,287,716 (July 2025 to January 2026), representing 49.5% increment.

Committee Observation

The Committee observed that the hospital had under-funding of Kshs.36,854,595 or approximately 13% of the budget.

Committee Recommendation

The Committee recommends that –

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

Other Matter

Unresolved Prior Year Matters

In the prior years' audit reports, failure to dispose of unserviceable motor vehicles and machines was raised under the report of lawfulness and Effectiveness in use of public resources. However, the assets had not been disposed as at the time of audit September, 2025.

Management Response

Failure to dispose of unserviceable motor vehicle and machines

The hospital Management appointed a disposal committee to identify the unserviceable motor vehicle and machines for disposal.

Committee Observation

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

Committee Recommendation

The Committee recommends that—

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

REPORT ON THE LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

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

Basis for Conclusion

1.0 Non-Compliance with Law on Ethnic Composition

During the year under review, the total number of employees of the Hospital was four hundred and sixty (460) out of which four hundred and thirty-seven (437) or approximately 95% of the total number were members of the dominant ethnic community in the County. This is contrary to Sections 7(1) and (2) of the National Cohesion and Integration Act, 2008 which state that, "all public offices shall seek to represent the diversity of the people of Kenya in the employment of staff and that no public Institution shall have more than one-third of its staff establishment from the same ethnic community". In the circumstances, Management was in breach of the law.

Management Response

The hospital has 460 employees that includes both staff directly engaged by the hospital and those employed by the County Public Service Board. The County undertakes open and competitive recruitment by advertising vacancies publicly and shortlisting of candidates based on merit and responsiveness to the job requirements. All qualified applicants, irrespective of ethnic background, are eligible to apply and be considered for engagement on contract terms. In a recent recruitment, three (3) applicants employed were not from the dominant ethnic community.

Committee Observation

The Committee observed that 95% of employees were from the dominant community.

Committee Observation

The Committee recommends that—

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

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

2.0 Understaffing in the Hospital

Review of the Makueni County Referral Level 5 Hospital staff records revealed that the Hospital has a total of four hundred and sixty (460) staff against an authorized staff establishment of six hundred (600), resulting to staff shortage of one hundred and forty (140). Although Management explained that the current staffing gap has been attributed to natural attrition and lack of fresh recruitment drives due to budgetary constraints, Management has no plans in place that can ensure bridging of the identified staffing gaps in the short run, a matter that might continue affecting service delivery to the public.

Management Response

The hospital Management employed various cadres during the FY 2024/2025 and FY 2025/2026 to bridge the staffing gap.

Other notable milestones include:

- 216 healthcare workers converted to permanent and pensionable terms, including doctors and nurses.
- Expansion to 34 specialist consultants, alongside strengthened cadres of medical officers, nurses, clinical officers, and laboratory staff.
- 497 staff promoted, improving morale and retention.

Committee Observation

The Committee observed that the hospital had a deficit of one hundred and forty (140) personnel.

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

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

3.0 Unconfirmed Waivers and Exemptions

Note 25 to the financial statements reflects Kshs.24,143,331 relating to waivers and exemptions under medical services contracts gains/losses. However, the Hospital does not have an approved Policy to guide on assessment, approval and documentation of cases eligible for financial waivers or exemption. This is contrary to Section 82(5)(e) of the Public Finance Management Act, 2012 which states that the receiver of revenue shall include in the report under Sub-Section (4) details in respect of each waiver or variation - the law in terms of which the waiver was granted. Although Management confirmed that the Hospital is yet to develop and approve a Policy framework to guide the issuance of medical service waivers and exemptions and that it is currently being guided by provisions of the National Guidelines on medical service exemptions, together with draft waiver protocols developed at the National Level, the assertion could neither be verified nor its suitability of application be determined. In the circumstances, the regularity of the approval, assessment and award process of the waivers could not be confirmed.

Management Response

The hospital implements a structured waiver assessment process, whereby individual cases are evaluated based on demonstrated financial need. Each waiver decision is supported by social worker assessments and formally documented through minutes prepared by the designated Waiver Committee. The County Government of Makueni has recently enacted a waiver Act that came into effect in January 2026 which will guide the waiver process going forward. See attached an extract of the Makueni County Tax Waivers Administration Act, 2025.

Committee Observation

The Committee observed that the matter is satisfactorily addressed.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

4.0 Long Outstanding Trade and Other Payables

Note 36 to the financial statements reflects a balance of Kshs.155,028,210 for trade and other payables which comprise of Kshs.122,062,893 and Kshs.32,965,317 for current and non-current liabilities respectively as reflected in the statement of financial position. However, review of the supporting schedules revealed that the balance of Kshs.32,965,317 relate to pending accounts payables which have been outstanding for more than one (1) year and were not treated as a first charge on the Hospital's budget for the financial year 2024/2025. This is contrary to Section 41(2) of the Public Finance Management (County Governments) Regulations, 2015 which states 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, Management was in breach of the law.

Management Response

The pending accounts payable were not accorded first-charge priority due to competing urgent basic expenditure requirements, including the payment of staff wages and the procurement of essential medical supplies such as drugs. Additionally, the hospital's operational costs increased significantly as a result of the high volume of patients served during the period under review. The facility has received SHA reimbursements of kshs. 129,902,002 (July 2025 to January 2026) compared to kshs. 56,238,229 received in a similar period 2024/2025 financial year. See attached bank statements in Appendix 7a. As a result, management successfully settled payables amounting to Kshs. 32,965,317 that had been outstanding for more than one year at the time of audit. In addition, a further Kshs. 22,043,758 was applied as part settlement of payables that had been outstanding for less than one year.

Committee Observation

The Committee observed that the hospital paid the payables and as such the matter is satisfactorily addressed.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

5.0 Deficiencies in Implementation of Universal Health Coverage

Review of Hospital records and interviews on verification of services offered, equipment used and medical specialists in the Hospital as at the time of audit revealed that the Hospital did not meet the requirements of Kenya Quality Model for Health Policy Guidelines due to staff deficits by one hundred and twenty-four (124) or approximately 38% of the authorized establishment.

The deficiencies contravene the First Schedule of Health Act, 2017 and imply that accessing the highest attainable standard of health, which includes the right to health care services, including reproductive health care as required by Article 43(1) of the Constitution of Kenya, 2010 may not be achieved. In the circumstances, the Hospital will not be able to deliver on its mandate.

Management response

The Hospital Management acknowledges the importance of the Kenya Quality Model for Health Policy Guidelines, which serve as a critical framework for enhancing efficiency and quality in the delivery of health services. However, the County Government of Makueni faces financial constraints that have limited its capacity to fully address the existing human resource deficits. They include the following;

- a) The PFM requirement that the County wage bill should not exceed 35% of the County budget is an impediment in hiring more personnel to meet the threshold set by the Kenya Quality Model for Health Policy Guidelines.
- b) The PFM Act further sets an irreducible minimum ratio of the development budget vis a vis recurrent budget to 30:70 thereby tightening the fiscal space to allocate more resources on recurrent operations such as the wage bill, hospital supplies and equipment.
- c) The budgetary provision for the health department stands at 38% of the total county budget and further increase is expected to affect the operation efficiency of the other departments.

Despite these challenges, the growing enrolment under the Social Health Insurance Fund (SHIF) presents a promising opportunity to bridge some these gaps. To mitigate these challenges, the hospital recruited additional staff to strengthen service delivery in critical departments.

In addition, the County Government converted 216 healthcare workers to permanent and pensionable terms, including doctors and nurses some of whom are stationed at MCRH. The County Government also promoted 497 staff leading to improved morale and retention. Further, the County Government has deployed Proximie technology at MCRH which allows consultants from other hospitals and beyond the county to provide medical services to patients. The hospital therefore has access to more doctors and specialists through the use of technology than is physically present.

On infrastructure and equipment improvement, the hospital placed through NESP one (1) X-Ray Machine, One (1) ultra sound machine and assorted theater equipment as per the attached delivery Notes in Appendix 8b. In addition, the County Government procured one (1) laparoscopic tower, two (2) ventilators, among other equipment, to enhance the provision of specialized healthcare services. The County Government in Partnership with ENI Kenya Ltd, a new Neonatal ICU (NICU) was established at the

MCRH in September 2025. This will serve the Lower Eastern region, including Kitui, Kajiado and Machakos Counties. Photos of the NICU.

Committee Observation

The Committee observed that the hospital was not offering key services required and the staffing requirements did not meet a number of key specifications as prescribed by the Kenya Quality Model for health policy guidelines.

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 5 hospital. The Auditor-General should monitor progress and keep this matter under review in the subsequent audit cycle; and
- iii. the Governor ensures the officer in charge of the facility has the requisite academic and professional qualifications in accordance with the Health Act, 2017 and provide evidence of measures taken to address the matter to Senate within 60 days of the adoption of this report.

6.0 Failure to Maintain an Updated Fixed Assets Register

The statement of financial position and as disclosed in Note 32 to the financial statements reflect property, plant and equipment balance of Kshs.19,486,456. However, the fixed asset register provided for audit review was not updated with information such as date of purchase, cost of asset, make and model, depreciation rates, annual depreciation amounts, accumulated depreciation, and net book values contrary to Section 170(1)(3) of the Public Procurement and Asset Disposal Regulations, 2020. The balance reported in the financial statements could not therefore be traced to the fixed assets register provided for audit review. In the circumstances, the existence of an effective mechanism to safeguard assets could not be confirmed and Management was in breach of the law.

Management Response

The management maintains a fixed assets register indicating all the assets belonging to the entity. However, the gaps noted were as a result of old assets with no values, date of acquisition and depreciation that were inherited from National Government. The Management is in the process of ensuring that all assets are valued and subsequently updated in the fixed asset register.

Committee Observation

The Committee observed that the assets register was not fully updated during the audit period, which compromised the accuracy of the PPE balances.

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 undertakes the valuation of all assets of the hospital and submits the valuation report to the Auditor- General for verification during the subsequent audit cycle;
- iii. upon completion of the transfer and valuation, the Accounting Officer should prepare an updated asset register within 60 days of the adoption of this report and submit to the Auditor-General for verification; 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.

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

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

1.0 Lack of Risk Management Policy and Disaster Recovery Plan

The Hospital has not put in place a Risk Management Policy, strategies and a risk register to militate against risks and a disaster recovery plan. This is Contrary to Regulations 158(1)(a) and (b) of the Public Finance Management (County

Governments) Regulations. In the circumstances the effectiveness of the entity to address emerging risks which may result to financial losses to the County Hospital could not be confirmed.

Management Response

The management in the financial year 2025/2026 developed and adopted a Risk Management Policy and Disaster Recovery Plan to guide its operation.

Committee Observation

The Committee observed that the matter is satisfactorily addressed.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

2.0 Expired Medical Supplies

The statement of financial position reflects inventories balance of Kshs.47, 907,401 as disclosed in Note 31 to the financial statements. Review of the store's records on pharmaceuticals and non-pharmaceuticals revealed that 6,055 units of various drugs of undetermined value had expired pending disposal by the Pharmacy and Poisons Board. In the circumstances, the effectiveness of internal controls on management of pharmaceuticals and non-pharmaceuticals could not be confirmed.

Management Response

During the year under review, the hospital adhered to first expiry first out method for dispensing pharmaceutical commodities as outlined in the standard operating procedures. The expired drugs consisted exclusively programme commodities from national government which include ARVs for the period 2020 and 2021. During this period, there was a change in the HIV treatment guidelines, rendering the available stock obsolete and have since expired. The expired drugs have been quarantined and FO58 disposal form filled. The County Government plans to set aside a budget to install a microwave incinerator that shall be used to safely dispose the expired commodities.

Committee Observation

The Committee observed that the presence of expired medical supplies in the hospital stores poses a risk to public safety and reflects poor inventory management.

Committee Recommendation

The Committee recommends that the Accounting Officer ensures all expired medical supplies are isolated and disposed of immediately in accordance with

national health regulations and submit a status report to the Senate and Auditor General within 60 days of this report. The Auditor General keep this matter in view in the subsequent audit cycle.

3.0 IT Control Environment

Review of the Hospital's IT environment revealed that Management did not have in place an IT Steering Committee and a formal approved IT Policy. Further, there is no formal documented disaster recovery plan in place to guarantee continuity in case of disaster involving IT environment. Inspection of physical access to the IT control environment revealed that there were no fire suppression systems and fire extinguishers. In addition, the organization lacked an IT Strategic Committee. In the circumstances, the effectiveness of internal controls regarding IT controls could not be confirmed.

Management response

The Management has since appointed an IT Steering Committee and IT Strategic Committee. In addition, the management has an approved IT policy. To minimize the risk of loss of IT information, the management procured a fire extinguisher and installed it in the server room.

Committee Observation

The Committee observed that the matter is satisfactorily addressed.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

4.0 Lack of Internal Audit Function and an Audit Committee of the Board

The Hospital has not established an internal audit function and an Audit Committee of the Board. This is contrary to section 155 of the public finance management act, 2012 which provides for the establishment of the internal audit function and an Audit committee of the Board. In the circumstances, the Hospital did not benefit from the assurance and advisory services from the internal audit function as well as oversight from the audit committee.

Management response

The facility has been hampered by budgetary constraints which could not allow it to have its own independent audit function. The hospital therefore, relies on services of Internal Audit establishment based at the County Treasury for review of internal systems and procedures. In addition, the Board has established the Human Capital Finance, Administration and Audit committee to oversee governance and audit matters.

Committee Observation

The Committee observed that the matter is satisfactorily addressed.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

3.4. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR MBOONI SUBCOUNTY LEVEL 4 HOSPITAL FOR THE FINANCIAL YEAR 2024/2025

The Governor of Makueni County, Hon. Mutula Kilonzo Jnr, CBS appeared before the Committee on Tuesday, 3rd March 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Mbooni Sub County Level 4 Hospital for the financial year 2024/2025. The Governor was accompanied by:

1. Ms. Joyce M Mutua -CECM Health
2. Ms. Damaris Kavoi -CECM Finance
3. Dr. Blastus Kakundi -Medical Superintendent

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified opinion** on the Financial Statements of the Mbooni Sub County Level 4 Hospital for the period under review on the following basis-

1. Non-Disclosure and Ownership of Property, Plant and equipment

The statement of financial position and as disclosed in Note 30 to the financial statements reflect Kshs. 7,785,402 in respect to property, plant and equipment. However, review of documents revealed that the hospital had various assets which include land, buildings, motor vehicles which had a nil balance. In addition, the valuation report and ownership documents were not provided for audit review.

In circumstances, the accuracy, ownership and completeness of property, plant and equipment balance of Kshs. 7,785,402 could not be confirmed.

Management Response

In the year 2023, the State Department for Roads, under the coordination of the Intergovernmental Relations Technical Committee (IGRTC), undertook the identification of motor vehicles, plant, and equipment previously owned by the defunct Local Authorities and the National Government that are associated with the performance of devolved functions. Upon completion of the requisite transfer processes and issuance of formal ownership documentation, the assets allocated to the Hospital will be formally recognized in the Hospital's Financial Statements in accordance with the applicable Accounting Standards. The Communication letter from the State Department for Devolution on the valuation of assets.

Makueni County has been selected among 30 counties participating in Phase I of the fixed assets valuation exercise being carried out by the State Department for Lands and Physical Planning, in collaboration with the State Department for Devolution and

IGTRC. The ownership documentation for the land is expected to be finalized upon completion of the valuation exercise and issuance of the corresponding report.

Committee Observation

The Committee observed that the Hospital has not valued the parcel of land where it is built and neither has it acquired the ownership documents for the same.

Committee Recommendation

The Committee recommends that—

- i. the Governor ensures the hospital completes the valuation process and provide a status update to the committee within 60 days of adoption of this report;
- ii. the Governor ensures that the Accounting Officer maintains an up-to-date asset register in the format prescribed by the Public Sector Accounting Standards Board (PSASB) and carries out a valuation of all assets to be submitted to the Auditor-General within 60 days from the adoption of this report;
- iii. the Governor engages the Intergovernmental Relations Technical Committee (IGTRC) to ensure that the process of transfer of all assets and liabilities is completed in a timely manner;
- iv. and the Auditor-General to undertake physical verification of all assets of the hospital and provide a status report to the Committee within 60 days from the adoption of this report.

2. Doubtful Provision for Depreciation

The statement of financial performance and as disclosed in Note 16 to the financial statements reflect Kshs. 1,983,879 in respect to depreciation and amortization expense. However, management did not have a depreciation policy in place to guide on the depreciation rates.

In the circumstances, the accuracy and completeness of the general expenses balance of Kshs. 1,983,879 could not be confirmed.

Management Response

The Hospital applied the depreciation rates prescribed by the National Assets and Liability Management guidelines and Public Sector Accounting Standards Board (PSASB) guidelines as adopted by the County Government. The policy guidelines govern, standardizes and improves the management of public assets across Kenya's

National and County Governments. The County Government is in the process of finalizing the County Assets policy which is aligned to the national framework.

Nonetheless, the hospital management will liaise with the County Government to develop a depreciation policy that provides specific guidance on depreciation rates, methods, and asset useful lives tailored to the Hospital operational context. This policy will be aligned with PSASB and the County Government asset policy framework to ensure consistency and compliance going forward.

Committee Observation

The Committee observed that the hospital did not have a depreciation policy in place.

Committee Recommendation

The Committee recommends that the Governor through the Accounting Officer ensures that the process of development of a depreciation policy is completed in accordance to the PSASB requirements within sixty (60) days of the adoption of this report and submit the same to the Senate within 60 days of the adoption of this report.

3. Long Outstanding Trade and other Payables

As previously reported, the statement of financial position and as disclosed in Note 34 to the financial statements reflect trade and other payables balance totaling Kshs. 26,495,491. Included in the balance is Kshs. 8,090,055 that has remained outstanding for a period exceeding two (2). Further review of records revealed that the payables were not supported by vendor statements, invoices or delivery notes. In addition, no measures have been put in place to settle the long-outstanding liabilities.

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

Management Response

The outstanding trade and other payables amounting to Kshs. 8,090,055 has been attributed to shortfall of revenue collection. In addition, the outstanding reimbursements of Social Health Authority (SHA) led to accumulation of trade payables. See attached outstanding NHIF and SHIF claims amounting to Kshs. 35,941,535 as at 31st December 2025 in Appendix 3a. The hospital anticipates to significantly reduce the outstanding payables upon recovery of long outstanding receivables from the defunct National Hospital Insurance Fund (NHIF) and Social Health Authority (SHA).

The management has put in place measures to reduce long outstanding payables by devising own-source revenue strategies aimed at increasing revenue. The strategies are as follows;

- a) Ensuring patients are enrolled in the SHA or Social Health Insurance Fund (SHIF) and that claims are submitted promptly. This has led to 178% increase in reimbursements from kshs. 2,637,534 for the period July 2024 to January 2025 to kshs 7,337,591.45 during the same period in the current Financial Year.
- b) Automation of billing and receipting system through Afya Makueni. This has led to 1.78% increase in revenue from Ksh. 10,980,875 for the period July 2024 to January 2025 to kshs 11,176,243.45 during the same period in the current Financial Year.
- c) Follow up on outstanding NHIF claims by the facility.
- d) Strengthening Billing and Collection Processes: The hospital has taken steps to streamline billing procedures by eliminating cash transactions at all service points. Receipts are now processed exclusively through a Paybill number 4086145.

Committee Observation

The Committee observed that the hospital paid only Ksh 3 million and is yet to pay the remainder.

Committee Recommendation

The Committee recommends that-

- i. within sixty (60) days of the adoption of this report, the Accounting Officer engages the relevant entities to formulate a repayment plan for the payables and file a report on the same with the Auditor-General for verification. The Auditor-General to provide a status update on the matter in the subsequent audit cycle;
- ii. the Governor 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.

4. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on a comparable basis of Kshs. 56,435,920 and Kshs. 49,097,474 respectively resulting to under-funding of 7,338,446 or approximately 13% of the budget. The underfunding affected the planned activities and may have impacted negatively on the service delivery to the stakeholders.

Management Response

During the year under review, the hospital experienced a shortfall of 13% of its revenue collection. This was largely due to receivables that were not settled by the closure of the 2024/2025 financial year. Part of the receivables were from the defunct NHIF and SHA which totaled Kshs 34,802,474. Attached are the schedules of outstanding NHIF/SHA claims as at 30th June 2025. In this regard, the hospital has put the following measures to increase revenue;

- a) Employment of designated SHA clerk to carry out all the activities regarding offering of services via SHA/SHIF as the mode of payment.
- b) Rapid Result Initiatives (RRI) for SHIF/SHA registration.
- c) Makueni County has a high poverty level of 39% and therefore some of the patients are unable to pay for SHIF resulting to waivers. To mitigate on growth of waivers, and hence secure the hospital revenue, the county government has launched a Makueni UHC program in which the county will pay SHIF for an estimated 11,000 indigents in FY 2025/26.

Committee Observation

The Committee observed that the hospital had under-funding of 7,338,446 or approximately 13% of the budget.

Committee Recommendation

The Committee recommends that –

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

1. Deficiencies in implementation of Universal Health Coverage

As previously reported, review of hospital records and interviews on verification of services offered, equipment used and medical specialists in the hospital as at the time of the audit in September 2025 revealed that the hospital did not meet the requirements of Kenya Quality Model for Health Policy Guidelines due to staff deficits by fifty-five (55) staff requirements or 54% of the authorized staff establishment as shown in Table 1 below:

Table 1 Deficiencies in staff requirements

Staff Requirements	Level Standard	Number in Hospital	Variance	Percentage %
Medical officers	16	2	14	88
Anesthesiologists	2	0	2	100
General Surgeons	2	0	2	100
Gynaecologists	2	0	2	100
paediatrics	2	1	1	50
Radiologists	2	0	2	100
Kenya Registered Community/Health Nurses	75	43	32	74
Total	101	46	55	54

In addition, the Hospital lacked necessary equipment and machines outlined in the Health Policy Guidelines as detailed in Table 2 below:

Table 2: Deficiencies in Equipment

Service	Level Standard	Actual in the Hospital	Variance	Percentage %
Beds	150	66	84	56
Resuscitaire (1 in labor & 1 in theatre)	3	2	1	33
New born Unit Incubators	5	3	2	40
New Born Unit Cots	5	2	3	60
Functional ICU beds	6	0	6	100

Service	Level 4 Standard	Actual in the Hospital	Variance	Percentage %
High Dependency Unit(HDU) Beds	6	0	6	100
Renal Unit with at least 5 dialysis machines	5	0	5	100
Two functional operational theatres (Maternity & General)	2	1	1	50

This indicates that the classification of the hospital as a level 4 hospital may not have met all the minimum requirements as stipulated under The First Schedule of Health Act, 2017 which sets out the technical classification of levels of health care. Further, it contravenes the right to the highest attainable standard of health, including reproductive health care as envisaged in Article 43(1) of the constitution of Kenya 2010. In the circumstances, the hospital will not be able to deliver on its mandate.

Management Response

The County Government of Makueni faces financial constraints that have limited its capacity to fully address the existing human resource deficits. They include the following;

- a) The PFM requirement that the County wage bill should not exceed 35% of the County budget is an impediment in hiring more personnel to meet the threshold set by the Kenya Quality Model for Health Policy Guidelines.
- b) The PFM Act further sets an irreducible minimum ratio of the development budget vis a vis recurrent budget to 30:70 thereby tightening the fiscal space to allocate more resources on recurrent operations such as the wage bill, hospital supplies and equipment.
- c) The budgetary provision for the health department stands at 38% of the total county budget and further increase is expected to affect the operation efficiency of the other departments.

Despite these challenges, the growing enrolment under the Social Health Insurance Fund (SHIF) presents a promising opportunity to bridge these gaps. Further, the County Government has invested in Proximie technology in Mbooni Subcounty hospital which allows specialists at Makueni County Referral Hospital and other hospitals to provide surgical services to patients. The facility through National Equipment Service Project (NESP) acquired an Ultra sound machine. Additionally, two (2) phototherapy machine, three (3) baby cots, two (2) Kangaroo Mother Care beds were donated by The Rotary Club - Muthaiga. Through Safaricom Foundation, the hospital received one (1) delivery

couch and Two (2) baby cots. The facility purchased a bio chemistry analyzer and one (1) phototherapy machine. These equipments have enhanced the provision of healthcare services in the facility. Further, the County Government is finalizing the construction of a 120 bed Emergency and Family Hospital. The project is at 95% completion.

Committee Observation

The Committee observed that the hospital was not offering key services required and the staffing requirements did not meet a number of key specifications as prescribed by the Kenya Quality Model for health policy guidelines.

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 undertakes the valuation of all assets of the hospital and submits the valuation report to the Auditor- General for verification during the subsequent audit cycle;**
- iii. upon completion of the transfer and valuation, the Accounting Officer should prepare an updated asset register within 60 days of the adoption of this report and submit to the Auditor-General for verification; 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.**

2. Irregular Engagement of casuals and contractual workers

The statement of financial performance and as disclosed in Note 14 to the financial statement reflect employee costs totaling Kshs. 16,108,541 which relate to casual and contractual staff. However, the following anomalies were noted;

- I. Management engaged casual workers for a period exceeding three months, contrary to the provisions of Section 37 of the Employment Act 2007, which stipulates that casual employment should not exceed three months and should convert to permanent term employment if the engagement continues.

- II. There was no evidence of approval from the county Public Service Board (CPSB) for the engagement of casual and contracted employees, contrary to the requirements of the County Government Act 2012 and the county Human Resource Policies.

In the circumstances, management was in breach of law.

Management Response

While the Hospital acknowledges the recommendation regarding the engagement of casual staff, management has committed to ensuring that no casuals are engaged continuously for more than three months. Advertisement for recruitment of new casuals stipulating a contract period of three (3) months has been floated. The hospital Management wrote to the County Public Service Board (CPSB) requesting for approval to employ casuals and contracted employees.

Committee Observation

The Committee Observed that the hospital engaged casual workers for a period exceeding three months, contrary to the provisions of Section 37 of the Employment Act 2007.

Committee Recommendation

The Committee recommends that the Governor ensures the hospital complies to of Section 37 of the Employment Act 2007.

3. Failure to conduct safety and Health Audit

Review of the hospital's compliance with the Safety and Health Audit revealed that the hospital did not conduct the audit as there was no document provided for audit review. This is contrary to Section 11(1) and (2) of the Occupation and Safety Health Act 2007 which requires a safety and health audit to be carried out at least once in every period of twelve months by a Health and safety advisor.

Management Response

The Hospital has in place an active Infection Prevention and Control (IPC) Committee, which is responsible for identifying, assessing, and managing occupational health and safety risks within the facility. The committee conducts regular inspections, staff sensitizations, and implements corrective actions to mitigate occupational hazards. Management recognizes the need to complement these internal efforts with an expert-led Safety and Health Audit to ensure full compliance with statutory requirements. Plans are underway to engage a registered Occupational Safety and Health (OSH) expert to conduct a comprehensive safety and health audit of the facility.

Committee Observation

The Committee observed that the hospital did not conduct safety and Health Audit.

Committee Recommendation

The Committee recommends that the hospital continuously conduct Safety and Health Audit and the Auditor General to keep this matter in view in the subsequent audit cycle.

3.5. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR SULTAN HAMUD SUBCOUNTY LEVEL 4 HOSPITAL FOR THE FINANCIAL YEAR 2024/2025

The Governor of Makueni County, Hon. Mutula Kilonzo Jnr, CBS appeared before the Committee on Tuesday, 3rd March 2026, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Sultan Hamud Sub County Level 4 Hospital for the financial year 2024/2025. The Governor was accompanied by:

- | | |
|----------------------|-------------------------|
| 1. Ms. Joyce M Mutua | -CECM Health |
| 2. Ms. Damaris Kavoi | -CECM Finance |
| 3. Dr. Stephen Kioko | -Medical superintendent |

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified opinion** on the Financial Statements of the Sultan Hamud Sub County Level 4 Hospital for the period under review on the following basis-

1. Inaccuracies in the Statement of Cash Flows

The statement of cash flows reflects Kshs. 3,070,885 in respect to net cash flows from operating activities which, as disclosed in Note 43 to the financial statements include an adjustment for increase in receivables of Kshs. 18,656,410. However, recalculation revealed an increase of Kshs. 19,529,649 resulting in unexplained variance of Kshs. 873,239.

In the circumstances, the accuracy of the net cash flow from operating activities of Kshs 3,070,885 could not be confirmed.

Management Response

Management stated that;

The variance of Kshs 873,239 was as a result of overstatement in the amount receivable from the defunct NHIF. The outstanding receivables as at 30th June 2025 were Kshs 19,525,438 but were erroneously stated as Kshs 20,398,677 in the financial statement. A schedule of the receivables is attached as Appendix 1. The misstatement will be corrected as a prior year adjustment in the financial statements of 2025/26 financial year.

Committee Observation

The Committee observed that there was unexplained variance of Kshs. 873,239.

Committee Recommendation

The Committee recommends the Governor to ensure that-

- i. the Accounting Officer should undertake prior year adjustments to reconcile the variances in the statement of cashflows in the subsequent audit cycle FY 2025/2026. The Auditor-General to keep this in view in the subsequent audit cycle;**
- ii. the Accounting Officer to take appropriate administrative action on responsible officers within the Accounts and Finance department who fail to keep complete financial records in accordance with section 156(1) of the Public Finance Management Act, Cap.412A and in line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- iii. the Accounting Officer 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;**
- iv. the National Treasury enhances awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties; and**
- v. the Accounting Officer enhance the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.**

Emphasis of Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs. 78,778,750 and Kshs. 66,662,781 respectively resulting to under-funding of Kshs. 12,115,969 or approximately 15% of the budget. The under-funding affected the planned activities and may have impacted negatively on service delivery to the public.

Management Response

During the year under review, the hospital experienced a shortfall of 15% of its revenue collection. This was largely due to receivables that were not settled by the closure of the 2024/2025 financial year. Part of the receivables were from the defunct NHIF/SHA

which totaled ksh. 31,554,665. In this regard, the hospital has put the following measures to increase revenue.

- a) Employment of designated SHA clerk to carry out all the activities regarding offering of services via SHA/SHIF as the mode of payment.
- b) Rapid Result Initiatives (RRI) for SHIF/SHA registration.
- c) Engaging insurers on payment of outstanding claims of Kshs. 36,323,530.
- d) To avoid any possible leakage of revenues, management has automated billing and receipting system through TibERbu and Funsoft.
- e) Ensured optimization of revenue collection through proper billing and eliminating cash transactions. Pay bill numbers are used to process receipts.⁴

Committee Observation

The Committee observed that the hospital had under-funding of Kshs. 12,115,969 or approximately 15% of the budget.

Committee Recommendation

The Committee recommends that –

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

Key Audit Matters

Unresolved Prior Year Audit Matters

In the prior years' audit report several issues were raised under the Report on Financial Statements, Lawfulness and Effectiveness in Use of Public Resources, and Effectiveness of Internal Controls, Risk Management and Governance, respectively. Review of the status during audit of Sultan Hamud Sub County Level 4 Hospital in 2024/2025 revealed that the following matters remained unresolved:

1. 2023/2024: Long Outstanding Receivables from Exchange Transactions
2. 2023/2024: Irregular Engagement of Casuals

Management Response

Financial Year	Audit Issue	Response
2023/2024	Long Outstanding Receivables from Exchange Transactions	The hospital has taken initiative in follow up of the long outstanding receivables from the insurance companies. See attached communication in Appendix 2b
2023/2024	Irregular Engagement of Casuals	The hospital Management wrote to the County Public Service Board (CPSB) requesting for approval to employ casuals and contracted employees as per the attached letter in Appendix 3a.

Committee Observation

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

Committee Recommendation

The Committee recommends that—

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

REPORT ON THE LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

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

1. Non-Compliance with Law on Ethnic Composition

During the year under review, the total number of employees of the Hospital was thirty-three (33) out of which thirty-one (31) or approximately 94% of the total number were members of the dominant ethnic community in the County. This is contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that all public offices shall seek to represent the diversity of the people of Kenya in the employment of staff and that no public Institution shall have more than one-third of its staff establishment from the same ethnic community. In the circumstances, Management was in breach of the law.

Management Response

The County undertakes open and competitive recruitment by advertising vacancies publicly and shortlisting of candidates based on merit and responsiveness to the job requirements. All qualified applicants, irrespective of ethnic background, are eligible to apply and be considered for engagement on contract terms. In the last job advertisement for contractual employees, the hospital received five (5) applicants who were not from the dominant ethnic community, three (3) of whom were employed.

Committee Observation

The Committee observed that 94% of employees were from the dominant community.

Committee Observation

The Committee recommends that—

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

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

Review of the Hospital's records and interviews revealed that the Hospital did not meet the requirements of Kenya Quality Model for Health Policy Guidelines due to staff deficits by forty-one (41) staff or approximately 41% of the authorized establishment excluding nurses and general surgeons.

Staff Requirements	Level 4 Standard	Hospital	Variance	Percentage Variance %
Medical officers	16	4	12	75
Anesthesiologists	2	0	2	100
General Surgeons	2	0	2	100
Gynecologists	2	1	1	50
Pediatrics	2	1	1	50
Kenya Registered Community Health Nurses	75	52	23	31
Total	99	56	41	41

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

Service	Level 4 Hospital Standard	Actuals in the Hospital	Variance	Percentage Variance %
Beds	150	65	85	56.667
New Born Unit Incubators	5	5	0	0
New Born Unit Cots	5	0	5	100

Service	Level 4 Hospital Standard	Actuals in the Hospital	Variance	Percentage Variance %
Functional ICU Beds	6	0	6	100
High Dependency Unit (HDU) Beds	6	0	6	100
Renal Unit with at least 5 dialysis machines	5		5	100
Two Functional operational theatres-Maternity & General	2	1	1	50

Management Response

The management acknowledges the requirements of the Kenya Quality Model for Health Policy Guidelines. The County Government of Makueni faces certain constraints such as the PFM Act requirement not to exceed 35% and the 30:70 development to recurrent expenditure ratio. Management remains committed to optimizing available resources. Towards this end, the County has invested in Proximie technology to allow surgical consultation services. Regarding infrastructure, the County partnered with the MPESA Foundation to construct and equip a 50-bed family care unit with an operating theatre at a cost of Kshs. 60M (Appendix 5a). The project is operational, and the hospital now has two functional theaters.

Committee Observation

The Committee observed that the hospital was not offering key services required and the staffing requirements did not meet a number of key specifications as prescribed by the Kenya Quality Model for health policy guidelines.

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.**

CHAPTER FOUR: FUNDS

1.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR MAKUENI 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 Makueni 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. Makueni County Emergency Fund
2. Makueni County Executive
3. Makueni County Climate Change Fund
4. Makueni County Youth, Men, Persons with Disabilities and Table-banking Groups 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 Makueni 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.

CHAPTER FIVE: COUNTY CORPORATIONS

1.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR MAKUENI COUNTY CORPORATION 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 corporations in Makueni 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. Makueni County Fruit Development & Marketing Authority
2. Makueni County Sand Conservation and Utilization Authority.

Committee Observations

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

Committee Recommendation

The Committee recommends that-

- iii. 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 Makueni Corporations 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
- the Auditor-General to keep the matter in view in the subsequent audit

PAPERS LAID	
DATE	26/3/2026
TABLED BY	Sen Cherankey
COMMITTEE	CPI & SF
CLERK AT THE TABLE	Belinda

ANNEXTURES

Minutes

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



13TH PARLIAMENT 5TH SESSION

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

PRESENT

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

ABSENT WITH APOLOGY

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

SECRETARIAT

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

A. OFFICE OF THE AUDITOR GENERAL

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

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

PRAYER

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

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

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

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

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

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

1. Embu Report

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

2. Kirinyaga Report

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

3. Lamu

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

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

4. Mandera Report

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

5. Mombasa Report

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

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

6. Murang'a Report

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

7. Nyamira Report

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

8. Tana River Report

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

9. Tharaka Nithi Report

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

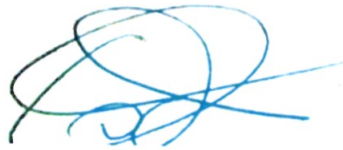
4. Iten County Referral Hospital
5. Tambach Sub-County Hospital
6. Elgeyo Marakwet County Assembly Catering Services Revolving Fund
7. Elgeyo Marakwet Alcoholic Drinks and Control Fund-Executive
8. Elgeyo Marakwet Car and Mortgage Revolving Fund-Executive
9. Elgeyo Marakwet County Climate Change Fund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

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

There was no any other business.

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

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



SIGNED: DATE: 24/3/2026

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