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REPUBLIC OF KENYA



THE SENATE

THIRTEENTH PARLIAMENT – FIFTH SESSION

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

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REPORT OF THE SELECT COMMITTEE ON COUNTY PUBLIC INVESTMENTS AND SPECIAL FUNDS ON THE CONSIDERATION OF THE AUDIT REPORTS OF TURKANA COUNTY WATER COMPANY, MUNICIPALITIES, HOSPITALS AND FUNDS FOR THE FINANCIAL YEAR 2024/25 (1st JULY, 2024 TO 30th JUNE, 2025):

SECTOR	NO.	ENTITY
WATER COMPANY	1	LODWAR WATER AND SANIATION COMPANY LIMITED
MUNICIPALITIES	2	KAKUMA MUNICIPALITY LODWAR MUNICIPALITY
HOSPITALS	3	LODWAR COUNTY REFERRAL HOSPITAL LOKIATUNG SUB-COUNTY LEVEL 4 HOSPITAL LOPIDING SUB-COUNTY LEVEL 4 HOSPITAL
FUNDS	5	TURKANA COUNTY EXECUTIVE CAR LOAN AND MORTGAGE FUND TURKANA COUNTY CLIMATE CHANGE FUND TURKANA COUNTY CO-OPERATIVE DEVELOPMENT ENTTERPRISE FUND TURKANA COUNTY EDUCATION FUND TURKANA COUNTY EMERGENCY FUND

MARCH 2026

PAPERS LAID	
DATE	31/03/2026
TABLED BY	SEN. OSOTISI
COMMITTEE	
CLERK AT THE TABLE	WILLIAM



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4.5. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR TURKANA COUNTY EMERGENCY FUND FOR THE FINANCIAL YEAR 2024/25130

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
LOWASCO	Lodwar Water and Sanitation Company
NHIF	National Health Insurance Fund
NRW	Non-Revenue Water
NSSF	National Social Security Fund
OAG	Office of the Auditor-General
PAA	Public Audit Act
PFM	Public Finance Management
PSASB	Public Sector Accounting Standards Board
RWWDA	Regional Water Works Development Agency
SHA	Social Health Authority
SO	Standing Orders
TNT	The National Treasury
UHC	Universal Health Coverage

WASREB Water Services Regulatory Board
WRA Water Resources Authority
WSP Water Service Provider

DEFINITION OF TERMS

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

PREFACE

Parliamentary Committees are a creation of the Constitution through Article 124(1) of the Constitution, which empowers each House of Parliament to establish Committees and make Standing Orders (SO) for the orderly conduct of its proceedings, including the proceedings of its committees., to exercise oversight over national revenue allocated to the county governments. 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 Siaya County water company, municipalities, and hospitals for the Financial Year 2024/2025. The entities covered are one water company- Lodwar Water and Sanitation Company (LOWASCO); two municipalities namely; Kakuma Municipality and Lodwar Municipality; three hospitals ;- Lodwar County Referral Hospital, Lokitaung Sub-county Level 4 Hospital, and Lopiding Sub-County Level 4 Hospital; and five funds- Turkana County Executive Car Loan and Mortgage Fund, Turkana County Climate Fund, Turkana County Cooperative Development Fund, Turkana County Education Fund, and Turkana County Emergency Fund.

The Governor of Turkana 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 | - Research Officer III |
| 11. Ms. Janice Lekuton | - Research Officer III |
| 12. Ms. Hamun Abdille | - Research Officer III |
| 13. Mr. David Munene | - Research Officer III |
| 14. Mr. Josphat Ng'enh | - Media Relations officer. |
| 15. Mr. Victor Kimani | - Audio officer |
| 16. Mr. Fredick Okola | - Serjent-at-arms |

EXECUTIVE SUMMARY

In the execution of its mandate, the Committee relied on the reports of the Auditor-General on audited Accounts of Lodwar Water and Sewerage Company, Municipalities, Hospitals and Funds for the Financial year 2024/25 (1st July, 2024 to 30th June 2025) as the primary documents for the investigations. The Committee invited the Governor of Turkana as the Chief Executive Officer pursuant to Article 179(4), as witnesses to respond to the audit queries raised in the reports under consideration.

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

This report presents the findings and recommendations of the Select Committee on County Public Investments and Special Funds following its consideration of the Auditor-General's reports on Eleven (11) entities in Turkana County for the Financial Year 2024/25. The entities covered are: one (1) Water company –Lodwar Water and Sewerage Company, two (2) Municipalities – Kakuma Municipality and Lodwar Municipality; three (3) hospitals- Lodwar County Referral Hospital, Lokitaung Sub-County Level 4 Hospital, Lopinding Sub-County Level 4 Hospital, and five (5) Funds - Turkana County Executive Car Loan and Mortgage Fund, Turkana County Climate Fund, Turkana County Cooperative Development Fund, Turkana County Education Fund, and Turkana County Emergency Fund.

Two out of the nine entities received Qualified Opinion, whereas seven entities received an Unqualified Opinion from the Auditor-General. The key issues identified across the entities include: going concern uncertainties arising from accumulated losses and negative working capital; non-revenue water at levels exceeding regulatory benchmarks; operation without valid WASREB licenses; irregular engagement of casual employees; non-remittance of statutory deductions; unresolved prior year audit matters; budgetary control issues; over-reliance on County Government transfers; non-compliance with procurement regulations; failure to retain Facilities Improvement Funds (FIF) at the hospitals; Non-compliance with the Kenya Quality Model for Health Policy Guidelines and weaknesses in internal controls and governance.

On the Municipalities, the key issues were lack of independence; and poor budgetary control and performance resulting from underfunding and underutilization of the budgets.

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 Lodwar Water and Sewerage Company 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 the Municipalities in Turkana County 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 Turkana County hospitals for the Financial Year 2024/25 and observations and recommendations of the Committee on each audit query.

CHAPTER FOUR is a record of the audit queries raised in the report of the Auditor-General for Turkana County Funds for the Financial Year 2024/25 and observations and recommendations of the Committee on each audit query.

GENERAL OBSERVATIONS FOR WATER

1. **Financial Insolvency & Going Concern:** The company is technically insolvent, with a negative working capital of Ksh 49,480,617. Its survival is entirely dependent on the Turkana County Government.
2. **Systemic Accountability Lapses:** There is a profound lack of supporting documentation for liabilities (Ksh 72M outstanding for over 3 years) and a failure to value core assets (land, vehicles, and pipelines), leaving the balance sheet inaccurate.
3. **Massive Resource Wastage:** A 50% Non-Revenue Water (NRW) rate indicates that half of the water produced is lost to leaks or theft. This is exacerbated by the fact that all 23 borehole meters were non-functional, forcing the company to "estimate" production.
4. **Regulatory Non-Compliance:** The company has operated on an expired tariff since 2007 and failed to remit statutory procurement levies, indicating a detachment from national regulatory standards (WASREB and PPRA).
5. **Budgetary Failure:** A 53% underfunding gap exists because the company failed to secure expected donor funding and could not collect revenue from its own customers.

GENERAL RECOMMENDATIONS WATER

The Committee's recommendations focus on restoration of fiscal discipline and operational modernization.

1. **Financial Recovery & Oversight-** The Accounting Officer must engage creditors within **60** days to create a repayment plan. The Governor must ensure the FY 2026/2027 budget specifically allocates funds to clear these long-term debts. To prevent future insolvency, the company must submit quarterly financial reports to the County Treasury, with strict penalties under the PFM Act for failure to comply.
2. **Asset & Tariff Regularization -Asset Valuation:** Management must complete a full valuation of all estimated assets before the end of FY 2025/2026 and update the Asset Register to reflect true market value. The Accounting Officer must fast-track the license application and submit a new tariff proposal to WASREB by April 2026 to ensure the company charges sustainable rates.
3. **Technical & Integrity Reforms -NRW Mitigation:** The Governor must oversee the installation of "Smart Meters" and "Bulk Meters" to move away from estimated production data. **EACC Intervention:** Due to the high rate of water loss (50%), the Ethics and Anti-Corruption Commission (EACC) is tasked to investigate potential staff collusion, commercial theft, and illegal connections, with a report due in 90 days.

4. **Governance & Performance Monitoring:** The CECM for Water must continuously monitor financial performance and report directly to the County Executive Committee to ensure the company remains commercially viable. Management must immediately comply with the Public Procurement Capacity Building Levy Order (2023) to avoid legal penalties.

GENERAL OBSERVATIONS FOR MUNICIPALITIES

1. **Failure in Financial Reporting Standards-** Both municipalities struggled with IPSAS (International Public Sector Accounting Standards) compliance. Both entities had inconsistencies between the face of the financial statements and the explanatory notes (e.g., Note 5 vs. Note 6 errors). The Municipalities also had presentation lapses, for instance, Lodwar Municipality failed to use the "Direct Method" for cash flows, while Kakuma failed to support receivables with non-financial evidence.
2. **Budgetary Under-Performance (The KUSP II Factor)-** A massive variance between budgeted and actual revenue was noted in both municipalities, specifically tied to the Kenya Urban Support Program (KUSP II). Both entities budgeted for World Bank/KUSP II funds that were either not realized or not remitted during the financial year. The resulting underfunding (up to 92% in Kakuma) directly hindered planned activities and public service delivery.
3. **Lack of Operational and Financial Autonomy-** Despite having Municipal Charters (Lodwar since 2018; Kakuma since 2023), both remain "appendages" of the County Executive. The County Executive continues to collect rates, fees, and licenses that should legally be managed by the Municipalities. Key functions like urban road maintenance and infrastructure design have not been fully devolved from the County Departments to the Municipal Boards.
4. **Weak Internal Control Environments-** There is a consistent lack of proactive risk management and oversight. Both entities initially also lacked functional internal audit units, relying on "seconded" staff or late-stage engagements with the County Executive. A shared absence of formal Data Protection Policies, ICT Policies, and Disaster Recovery Plans was noted.

GENERAL RECOMMENDATIONS FOR MUNICIPALITIES

1. **Immediate Compliance with PFM Act & PSASB-** The Committee recommends that the Governor ensures all Accounting Officers strictly adhere to Section 149 of the PFM Act: Regarding the accurate and timely presentation of financial statements; IPSAS 24: For the standard presentation of budget information. Failure to comply should trigger sanctions under Section 199 of the PFM Act.
2. **Full Operationalization of Municipalities-**To move beyond "paper autonomy," the Committee recommends functional devolutions in that the County Executive must transfer all gazetted functions (revenue collection, infrastructure, and planning) to the Municipal Boards by the start of FY 2026/2027 and ensure adequate and direct funding in accordance with Section 172 of the PFM Act.
3. **Capacity Building and Technical Investment-** Training: The County Treasury must enhance the capacity of officers in charge of financial reporting to eliminate

"casting errors" and referencing inconsistencies. Municipalities need to investment in automated financial systems is required to improve the accuracy of records and ensure data protection.

4. **Resolution of Audit Queries**-Accounting Officers must submit comprehensive status reports to the Senate and the Auditor-General within 90 days, detailing mitigation measures for all unresolved prior-year matters. The CECM-Finance must provide evidence that internal control systems (including internal audit functions) are active and guided by the Public Sector Accounting Standards Board.

GENERAL OBSERVATIONS FOR HOSPITALS

- 1. Financial Reporting & Asset Management-** There is a recurring failure to disclose non-pharmaceutical inventories and maintain updated stock control cards. Most facilities lack comprehensive asset registers that include title deeds, serial numbers, and valuation. This breaches Regulation 136 of the PFM (County Government) Regulations. Financial statements frequently omit mandatory notes or professional certification (ICPAK numbers), failing to meet the Public Sector Accounting Standards Board template.
- 2. Human Resource & Payroll Gaps-** There are significant deficits in medical officers, specialists (Radiologists), and nurses compared to WHO norms and Health Act 2017 requirements for Level 4 facilities. Over-reliance on the County Executive for payroll processing limits the hospitals' autonomy and oversight over their own staff establishment and personnel costs.
- 3. Revenue & Budgetary Performance-** Constant variances between budgeted and actual receipts, often driven by delayed Exchequer remittances and shortfalls in Own Source Revenue (OSR). Reliance on manual systems in some areas has historically led to revenue leakages, though digital transformation (HMIS) is being progressively adopted.
- 4. Legal & Regulatory Breaches-** Failure to deduct and remit specialized levies, such as the Public Procurement Capacity Building Levy (0.03%). There was also lack of integration of climate change action plans into hospital strategies as required by the Climate Change Act, 2016.

GENERAL RECOMMENDATIONS FOR HOSPITALS

- 1. Legal Compliance & Governance-** The Accounting Officers must strictly comply with Section 149 of the PFM Act regarding the preparation of financial records. Failure to do so should trigger administrative action and penalties under Section 199. The Governor must ensure that all prior-year audit queries are resolved within the current cycle. A status report on mitigation measures must be submitted to the Senate/Committee.
- 2. Operational & Technical Enhancements-** All hospitals must undertake a formal valuation of all land, buildings, and equipment and update their registers within 60 to 90 days of the adoption of this report. Management must fully operationalize Hospital Management Information Systems (HMIS) modules for inventory and billing to ensure real-time reporting and eliminate manual leakages.
- 3. Human Resource Strategy-** The County Executive must submit a comprehensive plan outlining short-term and long-term solutions to bridge the gap between current staffing levels and WHO/Ministry of Health standards. The National Treasury and

County Government should provide continuous training for finance officers on evolving accounting standards and the Data Protection Act.

4. **Financial Sustainability-** Hospitals must develop and implement Receivables Management Policies to track and recover long-standing claims from the Social Health Authority (SHA) and other insurance providers. Accounting Officers must ensure that procurement proceedings only commence when there is a reasonable expectation of funds, avoiding the accumulation of pending bills (Trade Payables).

GENERAL OBSERVATIONS FOR THE FUNDS

- 1. Breach of Financial Statutes:** There were persistent violation of Section 142 of the PFM Act, 2012, specifically regarding the unauthorized borrowing of funds by the County Executive and the failure to repay such debts within the stipulated one-year period.
- 2. Weak Internal Control Frameworks:** A systemic absence of dedicated risk management policies, ICT policies, and disaster recovery plans. Many funds rely on centralized County Executive audit functions, which lack the granular, fund-specific oversight required for effective governance.
- 3. Delayed Compliance and Regulatory Voids:** The Funds are frequently stalled by "ongoing reviews" of regulations, which serves as a justification for under-utilization of funds and failure to achieve mandate objectives.
- 4. Documentation Deficiencies:** There are recurring failure to provide documentary evidence (e.g., debtors' ageing schedules, biennial review reports) to the Auditor-General during the audit process, hindering the verification of accountability.
- 5. Budgetary Non-Performance:** Significant variances between budgeted and actual figures, driven by poor revenue collection and delays in the disbursement of mandated development funds (e.g., the 2% allocation for the Climate Change Fund).

GENERAL RECOMMENDATIONS FOR THE FUNDS.

To restore fiscal discipline and ensure institutional accountability, the Committee recommends the following:

- 1. Enforcement of Statutory Penalties:** The Governor must ensure strict compliance with Section 149(2)(h) and (i) of the PFM Act. Failure to comply with budgetary controls or IPSAS 24 standards should trigger the application of Section 199 of the PFM Act regarding penalties for offences.
- 2. Mandatory Debt Liquidation:** All internal borrowings by the County Executive must be treated as a "first charge" against the County Treasury. The Accounting Officer must prioritize the refund of these monies to the respective Funds to restore their liquidity and operational capacity.
- 3. Governance & Policy Finalization:** Within 60 days of the adoption of these reports, all Funds must finalize, approve, and submit to the Senate and Auditor-General; -Comprehensive Risk Management Policies, ICT and Disaster Recovery Plans, and Updated Debt Management Policies.
- 4. Strengthening Internal Audit:** The County Executive Committee Member (CECM) – Finance must ensure that each Fund implements a robust internal control system, including dedicated internal audit functions as provided under Section 155(5) of the PFM Act, 2012.

ACKNOWLEDGEMENTS

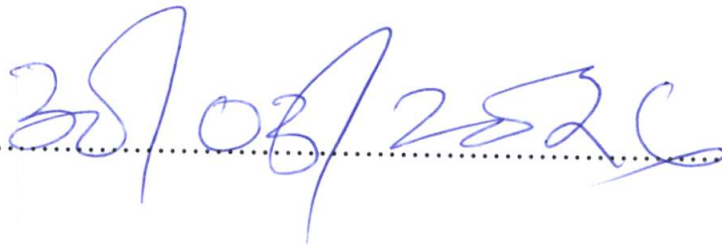
The Committee wishes to acknowledge the support it received from the Office of the Speaker and the Clerk of the Senate in the execution of its mandate. I also take this opportunity to thank the Members of the Committee for their due diligence and commitment in considering the audit reports. The Committee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

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

SIGNED:.....
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DATE:.....
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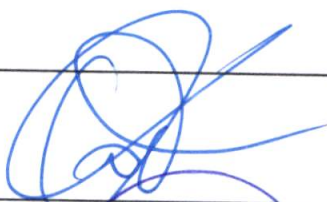

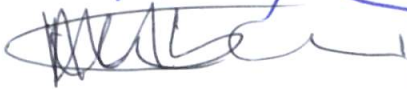
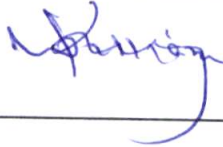
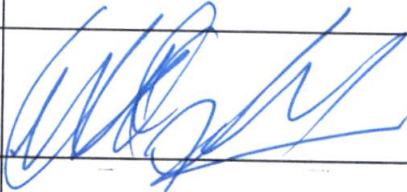
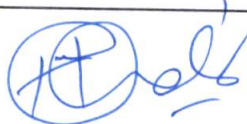


**HON. SEN. GODFREY ATIENO OSOTSI, CBS, MP
CHAIRPERSON**

ADOPTION OF THE REPORT OF THE SENATE SELECT COMMITTEE ON COUNTY PUBLIC INVESTMENTS AND SPECIAL FUNDS ON THE CONSIDERATION OF THE AUDIT REPORTS OF ELEVEN COUNTY ENTITIES FOR TURKANA FOR THE FINANCIAL YEAR 2024/25

SECTOR	NO.	ENTITY
WATER COMPANY	1	LODWAR WATER AND SANIATION COMPANY LIMITED
MUNICIPALITIES	2	KAKUMA MUNICIPALITY
		LODWAR MUNICIPALITY
HOSPITALS	3	LODWAR COUNTY REFERRAL HOSPITAL
		LOKIATUNG SUB-COUNTY LEVEL 4 HOSPITAL
		LOPIDING SUB-COUNTY LEVEL 4 HOSPITAL
FUNDS	5	TURKANA COUNTY EXECUTIVE CAR LOAN AND MORTGAGE FUND
		TURKANA COUNTY CLIMATE CHANGE FUND
		TURKANA COUNTY CO-OPERATIVE DEVELOPMENT ENTTERPRISE FUND
		TURKANA COUNTY EDUCATION FUND
		TURKANA COUNTY EMERGENCY FUND

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

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

CHAPTER ONE: WATER COMPANY

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

The Committee received written management responses to the following queries raised in the report of the Auditor-General on financial statements of Lodwar Water and Sewerage Company Limited for the Financial Year 2024/2025 –

REPORT ON THE FINANCIAL STATEMENTS

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

1. Unsupported Trade and Other Payables

The Statement of financial position reflects trade and other payables balance of Kshs.82,059,921 as disclosed in note 22 to the financial statements. However, the balance includes other payables totaling to Kshs.1,588,957 which were not supported by contract agreement, a ward letters, purchase orders, inspection and other acceptance reports and completion certificates.

Further the balance includes trade and other payables totaling Kshs.72,032,176 which have been outstanding for more than three (3) years no explanation was given for failure to clear the payables.

In the circumstances, the accuracy and completeness of the trade and other payables balance of Kshs.82,059,921 could not be confirmed.

Management Response

The amount of Kshs.1,588,957 in note 22 on trade and other payables were not procured items and could not be supported by contract agreement, award letter, purchase order, inspection, acceptance report and completion certificates. The amount was for staff contribution to LOWASCO welfare group. Copies of the Schedule of staff contribution to the welfare group were availed for the Committee verification.

Committee Observation

The Committee observed that the management failed to provide documentary evidence o support the trade payables amount of Kshs.72,032,176 176 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.**

2. Undisclosed Assets Owned by the company

The statement of financial position reflects property, plant and equipment balance of kshs.48,831,669 as disclosed in note 13 to the financial statements.

However, review of the asset's registers revealed assets which included motor vehicles, motor cycles, pipeline extensions, water collection points and building structures of undetermined value which were not disclosed in financial statements.

In the circumstances, the accuracy and completeness of the property, plant and equipment balances of Kshs.48,831,669 could not be confirmed.

Management Response

Assets valuation exercise will be undertaken before the end of financial year 2025/2026 to review all company assets whose values are estimated. Once the exercise is complete the financial statements shall be adjusted accordingly. Copies of the updated Assets Register was provided for the Committee verification.

Committee Observation

The Committee observed that the water company was in the process of valuing its assets and updating its assets register.

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. Material Uncertainty Related to Going Concern

The statement of profit or loss and other comprehensive income reflects loss before taxation of Kshs.9,039,097. Further, the statement of financial position reflects total current assets of Kshs.45,458,263 against total current liabilities of Kshs.94,938,880 resulting in a negative working capital of Kshs.49,480,617.

In addition, the company is in the process of winding-up and being taken over by Turkana County Urban Water and Sewerage Company Limited. In the circumstances, the company is technically insolvent and may not be able to meet its current obligation as and when they fall due and its continued operation as a going concern is dependent on the support of County Government of Turkana and its creditors.

Management Responses

TUWASCO has taken over LOWASCO and it has identified risks that threaten its ability to operate as a going concern. The identified risks include high non-revenue water and old infrastructure. Some of the measures adopted by the company include: introducing meters for each zone to limit non-revenue water to acceptable level of 25%; installation of functional master meters in all our boreholes, investing in infrastructure rehabilitation (high quality pipes); formulation of the necessary policies that support general operations.

The company is also investing in continuous staff capacity building and reorganization where appropriate in line with the approved Human Resource policy to enhance productivity. Copies of the Evidence of purchase of smart meters were provided for the Committee verification.

Committee Observation

The Committee observed that the company is implementing mitigating measures to improve on its revenue collection, including reducing its non-revenue water and installation of functional master meters and rehabilitation of its infrastructure and formulation of necessary policies to support general operations, in order to meet its current obligations when they fall due.

Committee Recommendation

The Committee recommends that-

- i. the Governor should take keen interest in the management and operations of the water company in line with Article 179 (4) of the Constitution;**
- ii. the Accounting Officer should prepare and submit quarterly reports to the County Treasury in regard to the financial and non-financial status of the water company in line with section 166 of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap. 412A on penalties for offences shall apply;**
- iii. the County Executive Committee Member in charge of water should take full responsibility for monitoring the financial performance of the county corporation in line with section 184 of the Public Finance Management Act, 2012 and regularly report to the Governor through the County Executive Committee in line with Article 179 (6) of the Constitution;**

- iv. **the County Treasury should undertake annual reporting on County Corporation, including an assessment of the commercial viability of the company in line with the standards set by the Water Services Regulatory Board under section 77(2) of the Water Act, 2016; and**
- v. **the Accounting Officer should, within 60 days of the adoption of this report, put in place strategic and innovative measures for recovery and to boost the financial health of the water company for self-sustainability. Additionally, the management reviews and regularizes the company's existing assets and have updated assets register that reflect the current financial position. Further, management to determine and ascertain their commercial viability as required by the Public Sector Accounting Standards Board (PSASB).**

4. Budgetary Control and Performance

The statement of comparison of budget and actual amount reflects final receipt budget and actual on comparable basis of Kshs.48,000,000 and Kshs.22,335,848 respectively resulting to underfunding of Kshs.25,664,152 or approximately 53% of the budget. Similarly, the company expended Kshs.19,391,916 against actual receipt of Kshs.22,335,848 resulting to under-absorption of Kshs.2,943,933 or approximately 13% of actual receipts.

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

Management Response

The company acknowledges operating under a budget deficit of Kshs.25,664,152. The deficit resulted because the company never received Kshs.20,000,000 which was expected from resource mobilization organization such as Stawi, UNICEF, CRS while Kshs.5,664,152 were invoices which were not paid by the customers.

However, the company has identified revenue collection mechanism such as signing debt payment plans as well as sending frequent reminders about payments to our clients. Further, there was under absorption of Kshs.2,943,933 in the budget.

This resulted because on the date of reporting of the financial statement, there was expected salary payments amounting Kshs.3,374,016 which management intended to pay but it exceeded the available cash balance of Kshs.2,943,933 resulting to under absorption. Copies of the Budget and staff payroll for June,2025 were provided for verification.

Committee Observation

The committee observed that the management suffered an underfunding of Kshs.25,664,152 or approximately 53% of the budget, and an under-absorption of

Kshs.2,943,933 or approximately 13% of actual receipts due to expected salary payments amounting Kshs.3,374,016 which management intended to pay but it exceeded the available cash balance.

Committee Recommendation

The Committee recommends that—

- i. the Accounting Officer ensures timely submission of complete and accurate documents during audit processes, including evidence of resubmission and follow-up of rejected or partially approved SHA claims, in compliance with section 9(1)(e) of the Public Audit Act, Cap. 412B, failure to which the provisions of section 62(2) of the Public Audit Act, Cap. 412B shall apply;**
- ii. the 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;**
- iii. the Accounting Officer should ensure strict compliance with section 149(2)(h) and (i) of the Public Finance Management Act, Cap. 412A and the standards prescribed by the Public Sector Accounting Standard Board under IPSAS 24 on the presentation of budget information in the financial statements for an entity that prepares financial statements under the accrual basis of financial reporting, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply;**
- iv. the Accounting Officer should comply with regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures, failure to which the provisions of section 199 of the Public Finance.**

REPORT OF LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

1.Non – Renewal of Expired Water Tariff

During the year under review, the Company carried out water production and billed the customers using expired water tariff gazette in the year 2007. Since then, the tariff has not been renewed or adjusted.

This was contrary to section 33 (2) of the water services regulatory rules of 2012 which provide that all licenses shall contain the period in which such tariffs may be adjusted at least once in every three 3 years. In the circumstances, management was in breach of the law. Management Response LOWASCO used expired tariff as the only available option.

However, Turkana County Urban Water and Sewerage Services PLC had applied for license which will help in the review of the tariff. The license is at the review stage and its completion is expected in April 2026. LOWASCO License application evidence was provided for the Committee verification.

Committee Observation

The Committee observed that the management had applied for license which will help in the review of the tariff. The license is at the review stage and its completion is expected in April 2026.

Committee Recommendation

The Committee recommends that-

- i. the Accounting Officer should undertake tariff adjustments as required by Water Services Regulatory Board (WASREB) Tariff Guideline, 2023;**
- ii. the Accounting Officer formally submit all proposed tariffs to WASREB for approval, accompanied by comprehensive justification and supporting documentation, in accordance with the application requirements stipulated in the Tariff Guideline, 2023, to facilitate timely review and authorization prior to implementation.; and**
- iii. in line with the WASREB Tariff Guideline, 2023, WASREB should ensure total compliance with guideline 4.0 on the Tariff Adjustment Process which provides that the process shall take a maximum of six months from the receipt of a complete application.**

2. Non- Revenue Water

Review of water sales and production records revealed that the company produced 969,016 cubic meters (m³) of water, out of which 488,341 cubic meter (M³) was billed to the customers, while the balance of 480,675 cubic meters (M³) or approximately 50% of the production represent Non – Revenue water NRW.

This contravened the Water Service Regulatory guidelines which require water service providers to ensure that commercial losses in respect of water produced do not exceed 25% of total production. In the circumstances, management was in breach of the law.

Management Response.

The Company recognizes the high NRW levels caused by aging infrastructure, illegal connections, and malfunctioning meters. A Non-Revenue Water Reduction Strategy has been identified, including active leakage control, meter replacement, pipeline mapping, introducing meters for each zone to limit non-revenue water to acceptable level of 25%; installation of functional master meters in all our boreholes, investing in infrastructure rehabilitation (high quality pipes). Evidence of purchase of smart meters was provided for the Committee verification.

Committee Observation

The Committee observed that the high Non-revenue water levels of up to 50% was caused by aging infrastructure, illegal connections, and malfunctioning meters. A Non-Revenue Water Reduction Strategy has been identified, including active leakage control, meter replacement, pipeline mapping, introducing meters for each zone to limit non-revenue water to acceptable level of 25%

Committee Recommendation

The committee recommends that-

- i. The Governor should ensure that the Accounting Officer monitors and oversees the implementation of measures to mitigate Non-Revenue Water (NRW), addressing both physical and commercial losses, and reports progress to the Auditor-General for review 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 should investigate the causes of high NRW, including potential commercial theft, illegal connections, staff collusion, or administrative lapses, and provide a status update to the Senate within 90 days of adoption of this report.**

3. Un - Metered Water at the production zones.

Review of documents revealed that the total water production volume was 969,016 cubic meters (M3). The data was obtained from the calculations of the pump running hours from

23 yielding boreholes located on the Upper zone and Lower zone instead of the bulk meter readings.

Further, it was noted that all the installed meters on the 23 yielding boreholes were not function. As a result, it was difficult to establish the actual volume of water production in meter cubic (M3).

This was contrary to clause 5.2.7 of the non – revenue water management standard – Guidelines of water service regulatory board WASREB 2022 which provide that those bulk meters required for measuring all the production are read on monthly basis without failure to accurately calculate monthly total production.

In circumstances, management was in breach of the law.

Management Response

The Company working with other partners (JICA, STAWI, CRS) has started installing functional bulk meters across all production boreholes and tanks to assist in zoning of Water supply zones and install District Metered Areas (DMA) meters. Evidence of procured smart meters was provided for the Committee verification.

Committee Observation

The Committee observed that it all the installed meters on the 23 yielding boreholes were not function. It was thus difficult to establish the actual volume of water production in meter cubic (M3), contrary to clause 5.2.7 of the non – revenue water management standard – Guidelines of water service regulatory board WASREB 2022 which provide that those bulk meters required for measuring all the production are read on monthly basis without failure.

Committee Recommendation

The committee recommends that-

- i. The Governor should ensure that the Accounting Officer monitors and oversees the implementation of measures to mitigate Non-Revenue Water (NRW), addressing both physical and commercial losses, and reports progress to the Auditor-General for review 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 should investigate the causes of high NRW, including potential commercial theft, illegal connections, staff collusion, or administrative lapses, and provide a status update to the Senate within 90 days of adoption of this report.**

4. Non – Remittance of Public Procurement capacity building levy

Review of documents revealed that management did not deduct and remit the public procurement capacity building levy. This was contrary to paragraph 3 of 1 of legal notice 206 of levy order, 2023, which provide that there shall be paid a levy by a supplier on all procurement contracts signed between the supplier and a procuring entity, at the rate of (0.03%) of the value of the signed contract, exclusive of applicable taxes. In the circumstances, management was in breach of the law.

Management Response

The omission was due to lack of sensitization on the 2023 Legal Notice and the Company has begun deducting and remitting the levy as required by law. Evidence of deduction from suppliers was provided for the Committee verification.

Committee Observation

The Committee observed that the management failed to deduct and remit the requisite capacity building levy of 0.03% to the Public Procurement Regulatory Authority (PPRA), contrary to Paragraphs 5 and 6 of the PPRA Circular No. 01/2024; however, the hospital has since commenced the recovery and remitting of the levy under the current financial year 2025/2026.

Committee Recommendation

The Committee recommends that Management should comply with the Public Procurement Capacity Building Levy Order, 2023, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply.

CHAPTER TWO: MUNICIPALITIES

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

The Committee received written management responses to the following queries raised in the report of the Auditor-General on financial statements of Kakuma Municipality for the Financial Year 2024/2025 –

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered an **Unqualified Opinion** on the financial statements of the Kakuma Municipality on the following basis;-

1.Unsupported Receivables from Non-Exchange Transactions

The statement of financial position reflects receivables from non-exchange transactions balance of Kshs.224,133,646 which as disclosed in Note 21 to the financial statements relates to expected transfer from KUSP II fund.

However, other than the budget, there was no evidence to confirm that the Municipality can enforce a claim for non-remittance of the funds.

In addition, the amount is reported as a development grant in the statement of changes in net assets although no benefit has been derived from the grant.

Further, in Note 6(a) to the financial statements the balance is classified into deferred income of Kshs.224,133,646.

In the circumstances, the accuracy, completeness and validity of the receivables from non-exchange transactions balance of Kshs.224,133,646 could not be confirmed.

Management Responses

The revenue receivable of Kshs.224,133,646 are funds from World Bank KUSP II program (Urban Development Grants) which was approved by parliament for the year 2024-2025 under County Government additional allocation Act no 3. of 2025 and the funds in question were not received during the period. Copies of the County Government additional allocation no.3 of 2025, Kakuma Municipality budget Kshs.224,133,646 was provided for the Committee verification.

Committee Observation

The Committee observed that the management failed to provide documents to support the revenue receivable of Kshs.224,133,646 are funds from World Bank KUSP II program (Urban Development Grants) which was approved by parliament for the year 2024-2025 during the audit process.

Committee Recommendation

The Committee recommends that the Accounting Officer should ensure timely submission of documents during the audit process in line with section 47 of the Public Audit Act as read together with section 149(2)(k) of the Public Finance Management Act failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act in the subsequent audit cycle.

Emphasis of Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts shows total budgeted revenue of Kshs.240,974,982 against total actual receipts of Kshs.20,187,567 resulting to underfunding of the budget by Kshs.220,787,415 or 92% of the budget.

Similarly, the statement shows actual receipts of Kshs.20,187,567 against actual expenditure amount of Kshs.18,495,916. resulting to under-utilization of Kshs.1,691,651 or 8% of the receipts.

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

Management Responses

a) Under-funding of Kshs 220,787,415

The underfunding of kshs.220,837,230 is attributed to UDG KUSP II funds that were expected to be received and they were not realized during the financial year 2024-2025.

b) Under-utilization of Kshs. Kshs.1,691,651

However, the underutilized amount of Kshs.1,691,651 refer to funds meant to pay supplies and catering services which were not possible by the end of June, 2025 due to procurement process.

S/NO	Item Description	Purchase Order(P. O No.)	Business Name Of Contractor/Supplier	Contract Price/Value (Ksh)
1	Provision of catering services for citizen fora	84	Silga Lodge Ltd	248,000
2	Provision of catering services for Board Members Meeting.	85	Silga Lodge Ltd	88,000
3	Supply and delivery of fuel for office operations.	86	Lucky Petrol Station Limited	350,000
4	Provision of catering services for Board Members Meeting.	87	Stevelyne Inn	60,000
5	Provision of catering services for Board Members Meeting.	88	Silga Lodge Ltd	80,000
6	Provision of catering services for Board Members Meeting.	89	Silga Lodge Ltd	80,000
7	Motor vehicle repair and maintenance Reg. No:23CG042A	90	Lobur General Co. Limited	119,480
			Total	1,025,480
			Balances	666,171

Committee Observation

The Committee observed that the underfunding of Kshs.220,837,230 is attributed to UDG KUSP II funds that were expected to be received and they were not realized during the financial year 2024-2025; and the underutilized amount of Kshs.1,691,651 refer to funds meant to pay supplies and catering services which were not possible by the end of June, due to late disbursement of funds from the County Treasury.

Committee Recommendation

The Committee recommends that-

- i. The Governor ensures that the Accounting Officer ensures strict compliance with section 149(2) (h) and (i) of the Public Finance Management Act, Cap. 412A and the standards prescribed by the Public Sector Accounting Standards Board under IPSAS 24 on the presentation of

- budget information in the financial statements for an entity that prepares their financial statements under the accrual basis of accounting, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply; and**
- ii. **The Governor ensures that the Accounting Officer complies with regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply.**

2. Lack of Financial and Operational Autonomy,

Review of documents provided for audit revealed that Kakuma Municipality was awarded Municipal Charter in March, 2023. The Charter was supposed to grant the Municipality operational independence from the County Government of Turkana. However, review of the Municipality's operations revealed lack of autonomy since most of the functions were still being done by the County Executive ranging from collection of rates, taxes, levies, fees and duties.

In addition, the Municipality is supposed to design, construct and maintain urban roads and associated infrastructure within the Municipality. However, these functions have not been transferred to the Municipality from the County Executive.

Management Responses

The municipality has operational autonomy in running daily operations with activities being approved by the Municipality Board. The executive appropriates budget and transfers the resources to the Municipality for operations. The municipality board and management is engaging the County executive in regards to the revenue collection function and other functions.

Committee Observation

The Committee observed that the query remains unresolved as the County Government of Turkana is yet to fully operationalize the autonomy of the Kakuma Municipality, as required by the 20(1)(c) of the Urban Areas and cities Act, Cap.275.

Committee Recommendation

The Committee recommends that-

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

Other Matter

Unresolved Prior Year Audit Matters

In the prior year’s 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 the Fund in 2024/2025 revealed that the following matters remained unresolved; -

Variances in Statement of Comparison of Budget and Actual Amounts

The statement of comparison of budget and actual amounts and the approved budget provided for audit review revealed variances as detailed below;

	<i>Amounts as per the statement of comparison of budget and actual amounts Final Budget (Ksh.)</i>	<i>Final Budget (Ksh.) Amount as per the approved budget</i>	<i>Variance (Ksh.)</i>
EXPENSES			

<i>Use of goods and services</i>	<i>17,000,000</i>	<i>16,500,000</i>	<i>-500,000</i>
<i>Board expenses</i>	<i>2,000,000</i>	<i>2,500,000</i>	<i>500,000</i>

In the circumstances, the accuracy of the budget figures in the statement of comparison of budget and actual amounts could not be confirmed

Management Response

The statement of comparison of budget and actual amounts template as issued by the Public Sector Accounting Standards Board (PSASB) required classification of expenditures into use of goods and board expenses. The approved budget classification complied with PSASB template hence the variance between what is in the budget and the statement of comparison of Budget and Actuals. We wish to report that the budget remains 19,000,000 as reported in the Statement of actuals.(Refer to annex : KKM Approved Budget for FY 2023/24.)

2.Variance in Cash and Cash Equivalents

The statement of financial position and Note 10 to the financial statements reflects cash and cash equivalents balance of Kshs.3,317,300. However, the cash book balance as at June 2024 was Kshs.3,362,114 resulting to unreconciled variance of Kshs.44,814. In the circumstances, the accuracy of cash and cash equivalent of Kshs.3,317,300 could not be confirmed.

Management Response

The correct cash and cash equivalent amount is Ksh. 3,317,300 as reported in the statement of financial position and Note 10 to the financial statements however there was a casting error of Kshs.44,814 in the cashbook which has been rectified in the opening cashbook balance as at 1st July, 2024. (Refer to annex: Cashbook extract for May, June, July and Reconciliation for June, 2024)

3.Unsupported Fuel, Oil and Lubricants Expenditure

The statement of financial performance reflects use of goods and services amount of Kshs.15,682,700 as shown in Note 9 to the financial statements. This includes fuel, oil and lubricants amount of Kshs.1,099,000. A review of cashbook and payment schedules provided for audit verification in support of the expenditure reveal that the payment was made to a supplier on 31 May, 2024 vide payment voucher number 17.

However, the expenditure has not been supported by detail orders, supplier statements, and fuel registers. In the circumstances, the accuracy and validity fuel, oil and lubricants expenditure of Kshs.1,099,000 could not be confirmed.

Management Response

The amount of Kshs.1,099,000 relates to an expense on fuel, oil and lubricants reported under use of goods and services. The expense on fuel, oil and lubricants is supported by detail orders, supplier statements, and fuel registers. (Refer to annex: detail orders, supplier statements, and fuel registers FY 2023-2024).

4. Unsupported Contracted professional services

The statement of financial performance reflects use of goods and services amount as Kshs.15,682,700 which include contracted professional services amount of Kshs.1,600,000 as shown in Note 9 to the financial statements. A review of the cashbook revealed that the amount was paid a firm on 31 May, 2024 vide payment voucher number 18.

However, there was no contract between the firm and the Municipality to support the payment. In addition, there were no procurement records to show how the services were procured. In the circumstances, the accuracy and validity of contracted professional services expenditure of Kshs.1,600,000 could not be confirmed.

Management Response

The amount of Kshs.15,682,700 for use of goods and services in the statement of financial performance includes Kshs.1,600,000 for contracted professional services. The professional service was sourced using request for quotation method of procurement and supported by procurement and accounting documents. (Refer to annex 1(b): Approved requisition, Procurement plan, invitation letter, RFQ documents, Letters of appointment of opening committee, Evaluation report, Committee attendance register, Professional opinion, Tender award, Notification letters, Letter of acceptance y successful bidder, LPO/LSO, Contract documents, Invoice, Payment voucher.

Emphasis of Matter

The statement of comparison of budget and actual amounts reflects the actual receipts of Kshs.19,000,000 against the actual expenditure of Kshs.15,682,700 resulting to underutilization of Kshs.3,317,300 or 17% of the budget. The underutilization of the budget affected the planned activities, and service delivery to the public may have been impacted negatively.

Management Response

The under-utilization of the budget was due to late exchequer release of funds in the period ended 30th June, 2024. Thus municipality received the funds on 9th of February, 2024. (Refer to annex : KKM Bank Statement of Feb, 2024).

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

5. Non-compliance with Public Sector Accounting Board requirements.

Management Response

The management takes note of the inconsistencies in referencing financial statements to the notes and commits to ensure there is consistency in the subsequent financial statements by ensuring that a review of financial statements by the county treasury is done before submission to the office of the Auditor-General. The financial statements present fairly in all material respects the financial position of Kakuma-Kalobeyei Municipality as at 30th June, 2024.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

6. Lack of Risk Assessment Policy and Disaster Recovery Plan

Review of the internal controls of the entity revealed that Kakuma Municipality had not developed a risk management policy contrary to Regulation 158(1) of the Public Finance Management (County Governments) Regulations, 2015 which requires each County Government entity to develop risk management strategies, which include fraud prevention mechanism.

In addition, the Municipality did not have a disaster recovery plan or business continuity plan to ensure that the entity recovers its functionality in case of an unplanned incident or disaster.

Management Response

The Municipality acknowledges the requirements for internal controls as provided for under Regulation 158(1) of the Public Finance Management (County Governments) Regulations, 2015. The Municipality has budgeted for the formulation of risk management policy and disaster recovery plan in the financial year 2025/26. (Refer to annex: KKM Proposed Budget estimates for FY 2025/26).

7. Lack of Information Technology, And Data Protection Policies

A review of the Municipality's policies and documents provided for audit review revealed that the Municipality had no approved data protection policy contrary to Regulation 23.(1) of the Data Protection (General) Regulations, 2021 that requires a data controller or data processor to develop, publish, and regularly update a policy reflecting their personal data handling practices.

In addition, the Municipality did not have information technology policy to guide them on matters relating to information and data handling. In the circumstances the Municipality's safeguard and handling of its data and information is not guaranteed.

Management Response

The Municipality acknowledges the requirements of the data Protection (General) Regulations, 2021 and has budgeted for the formulation and thereafter approval of the policy in the budget for financial year 2025/26. (Refer to annex: KKM Proposed Budget estimates for FY 2025/26).

8. Lack of Internal Audit Function

Review of the internal controls of the entity revealed that Kakuma Municipality had no internal audit function. In addition, the Municipality did not seek the services of the internal auditor from the County Executive as there was no internal audit reports provided for audit review.

This is contrary to Section 155(1)(a) of Public Finance Management Act 2012 that requires the entity to ensure that it complies with this Act and has appropriate arrangements for conducting internal audit according to the guidelines issued by the Accounting Standards Board.

Management Response

The county government audit directorate has seconded an auditor to Kakuma Municipality to support the audit function as per the attached letter from internal Audit Directorate and acknowledgment letter from the Municipality Manager. In the long term, the municipal Board will recruit an auditor to be in charge of internal audit function at the municipality.

Committee Observation

The Committee observed that the management of the Municipality is progressively addressing the prior year matters.

Committee Recommendation

The Committee recommends that —

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

1. Lack of internal Audit Function

Review of the internal controls of the entity revealed that the Municipality had no internal audit function. In addition, the Municipality did not seek the services of the Internal Auditor from the County Executive as there was no Internal Audit Reports provided for review.

This was contrary to Section 155(1) of the Public Finance Management Act, 2012 which states that a county government entity shall ensure that it complies with this Act and— (a) has appropriate arrangements for conducting internal audit according to the guidelines issued by the Accounting Standards Board.

Management Response

The Management commits to ensuring that the internal audit function performs regular reviews to ensure increased assurance and reduce risks. The Entity has already entered into an engagement with the internal Audit department at the county executive to perform the audit review this financial year.

Committee Observation

The Committee observed that the management entered into an engagement with the internal Audit department at the county executive to perform the audit review this financial year.

Committee Recommendation

The Committee recommends that the County Executive Committee Member (CECM) – Finance ensures that 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. Non-Remittance of Public Procurement Capacity Building Levy

During the financial year under review, the Municipality made payments for goods, services and certified works amounting to Kshs.18,275,916. However, the Municipal board did not deduct and remit the public procurement capacity building levy. This was contrary to Paragraph 3(1) of Legal Notice number 206 of the Levy Order 2023 which states that there shall be paid a levy by a supplier on all procurement contracts signed between the supplier and a procuring entity, at the rate of zero point zero three per centum (0.03%) of the value of the signed contract, exclusive of applicable taxes.

Management Response

The National Treasury under IFMIS department by the time had not mapped the new tax group levy into the system making the deduction of the levy impossible. The municipality management has implemented the legal notice.

Committee Observation

The Committee observed that the management has implemented procedures to comply with the requirement of Paragraph 3(1) of Legal Notice number 206 of the Levy Order 2023

Committee Recommendation

The Committee recommends that Management should comply with the Public Procurement Capacity Building Levy Order, 2023, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

1. Lack of Risk Management Policy

Review of the internal operating environment of the Municipality revealed that the Management did not have a risk management strategy. This is contrary to Regulation 158 (a) of the Public Finance Management (County Governments) Regulations, 2015 which states that the Accounting Officer shall ensure that the county government Entity develops risk management strategies, which includes fraud prevention mechanism; and (b) the

county government Entity develops a system of risk management and internal control that builds robust business operations.

Management Responses

The Kakuma Municipality Board has approved the risk management policy as guided by Regulation 158 (1) of the Public Finance Management (County Governments) Regulations, 2015. Copies of the Board minutes and the Risk Management Policy were attached for the committee verification.

Committee Observation

The Committee observed that the board of management of Kakuma Municipality has approved the Risk Management Policy as required by Regulation 158 (1) of the Public Finance Management (County Governments) Regulations, 2015.

Committee Recommendation

The Committee recommends that the Governor ensures the Accounting Officer develops and implements a Risk Management Policy, ICT Policy and Disaster Recovery Plan at the facility level and submits the finalized documents to the Senate and Auditor-General within 60 days of adoption of this report, failure to which the provisions of Section 199 of the Public Finance Management Act Cap 412A on penalties for offences shall apply.

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

The Committee received written management responses to the following queries raised in the report of the Auditor-General on financial statements of Lodwar Municipality for the Financial Year 2024/2025 –

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered an **Unqualified Opinion** on the financial statements of the Lodwar Municipality on the following basis;-

1. Inaccuracies in the statements of cash flows

The statement of cash flow reflects net cash flows from financing activities of Kshs.102,884,498 which includes increase in receivables balance of Kshs.3,178,200. However, the public sector accounting standards Board has prescribed the direct method of cash flow presentation which excludes the movement in receivables.

In addition, the comparative prior year cash and cash equivalent as at end of the year of Kshs.131,413,199 was omitted from the statement of Cash flows.

In the circumstances, the accuracy and completeness of cash flow from financing activities of Kshs.102,884,498 could not be confirmed.

Management response

The net cash and cash equivalents as at 30th June, 2025 was Kshs.1,949,411. The management acknowledges that the correct net cash and cash equivalents as at 30th June, 2024 was Kshs.131,413,199 and not zero(0) as indicated in the comparative figure in the statement of cash flow.

The management will ensure that the direct method of cash flow is used to prepare subsequent financial statements. Copies of Cash flow statement as at 30th June, 2025 and as at 30th June,2024 were attached for verification.

Committee Observation

The Committee observed that the management submitted documentary evidence to support its commitment to comply to the public sector accounting standards Board by ensuring that it abides by the direct method of cash flow in its subsequential financial reporting.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

2. Errors and omissions in the financial statements

The statements of comparison of budget and actual amounts shows material variances between the final budgeted amount and actual amounts on comparative basis. However, the management has not provided notes to explain the reasons for material variances.

The statement of financial performance reflects transfers from County Government of Ksh 39,282,616 referenced to note 6 to financial statements. However, the detailed disclosure of transfers from Turkana County Government is presented in Note 5 to the financial statements. The inconsistency between the body of the statements of financial performance and the and the Notes has not been explained.

In the circumstances, the financial statements as presented do not conform to international public sector Accounting standards disclosure requirements and the prescribed template issued by the Public Sector Accounting Standards Board.

Management response

- i. The material variance of kshs.45,733,196 relates to KUSP II UDG Funds that had been budgeted for but were not received during the Financial year under review.
- ii. The correct reference to the notes from the statement of performance should have been note 5 instead on note 6. The management will ensure accuracy in the subsequent financial statements.

Committee Observation

The Committee observed that the management failed to submit its financial statements in conformity with the International Public Sector Accounting Standards.

Committee Recommendation

The Committee recommends that 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.

Emphasis of matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts shows total budgeted receipts of Kshs.322,491,709 against total actual receipts of Kshs.276,758,513 indicating that the Municipality was underfunded by Kshs.45,733,196 or 14% of the budget. Similarly, the statement shows actual receipts of Kshs.276,758,513 against actual expenditure amount of Kshs.274,809,102 resulting to under-utilization of Kshs.1,949,411 or 7% of the receipts.

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

Management Response

The underfunding of Kshs.45,733,196 was caused by KUSP II UDG Funds that had been budgeted for but were not received during the Financial year under review. The amount of Kshs.1,949,411 is cash balances from the various payments made within the financial year and constitute cash and cash equivalent as at 30th June, 2025 which have been carried forward in the budget for FY 2025/26 as per the Cashbook balance. Copies of the FY 2024/2025 Cashbook extract, bank statement and June 2025 bank reconciliation were provided for verification.

Committee Observation

The Committee observed that the Municipality was underfunded by Kshs.45,733,196 or 14% of the budget and due to late disbursement of resources, the Municipality failed to utilize Kshs.1,949,411 or 7% of its receipts.

Committee Recommendation

The Committee recommended that

- i. the Governor ensures compliance with section 149(2) (h) and (i) of the Public Finance Management Act, Cap. 412A and the standards prescribed by the Public Sector Accounting Standards Board under IPSAS 24 on the presentation of budget information in the financial statements for an entity that prepares their financial statements under the accrual basis of accounting, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply; and**
- ii. The Governor ensures that the Accounting Officer complies with regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures, failure to which**

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

2. Lack of Municipal Autonomy from the County Executive

Lodwar Municipality was awarded a Municipal Charter on December 5, 2018, which was intended to grant it operational independence from the County Government of Turkana. However, the audit review revealed that this autonomy has not been effectively realized. The gazettement of the transfer of functions to the Municipality only occurred on December 16, 2024. In addition, although the Municipality is mandated to collect rates, taxes, levies, duties, fees, and surcharges, these revenue streams have not been disclosed in the financial statements.

Further, despite the Charter, the design, construction, and maintenance of urban roads and infrastructure remain under the County Executive's Department of Roads. In the circumstances, the County Executive continued to perform municipal functions undermining the Municipality's autonomy.

Management response

The municipality has operational autonomy in running daily operations with activities being approved by the Municipality Board. The executive appropriates budget and transfers the resources to the Municipality for operations. The municipality board and management are engaging the County executive in regards to the revenue collection function and other functions. Copies of the Approved budget for FY 2024 25 were submitted for the Committee verification.

Committee Observation

The Committee observed that the Municipality prepares its budget appropriations and submits to the County Executive for consideration and approval by the County Assembly. The municipality board and management are also engaging the County executive in regards to the revenue collection function and other functions.

Committee Recommendation

The Committee recommends that-

- i. within sixty (60) days of the adoption of this report, the Board of the Municipality ensures the Integrated Development and Economic Plan and the Integrated Strategic Urban Development Plan (ISUDP) for the**

Municipality is put in place in line with section 20(1)(c) of the Urban Areas and cities Act, Cap.275;

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

3. Unresolved Prior Year Audit Matters

In the prior year’s audit report, several issues were raised under the report on Financial Statements, Lawfulness and Effectiveness in the use of public resources, effectiveness of Internal Controls, Risk Management and Governance respectively. Review of the status during audit of the Municipality in 2024/2025 revealed the following matters remained unresolved.

No	Year	Unresolved prior year audit matters	Management Comment
1	2023/2024	Budgetary Control and Performance	The expenditure of 45,035,033 in the statement of comparison of budget and actual amounts includes an expenditure of 10,450,813 paid using development vote but were not capital in nature and therefore could not be credited to capital fund.
2	2023/2024	Lack of Data Protection Policy	The Municipality acknowledges the requirements of the data Protection (General) Regulations, 2021 and has budgeted for the formulation and thereafter

			approval of the policy in the budget for financial year 2025/26. (Refer to annex 4: Budget estimates for FY 2025/26)
3	2023/2024	Lack of Strategic Plan	The municipality formulated the strategic plan and got it approved in November, 2024. The strategic plan covers the period from 2024 to 2028. (Refer to annex 5: Lodwar Municipality Integrated Development Plan and Board minutes).

Committee Observation

The Committee observed that the management is progressively addressing the prior year issues.

Committee Recommendation

The Committee recommends that —

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Failure to stagger Board Appointments

Review of the Municipal Board documentation revealed that nine (9) new Municipality board members were appointed on 6 December, 2024 and gazette on 29 April, 2024. Four (4) months later, that is, from 15 September, 2025 to 19 September, 2025 the board members were inducted as per the Mwongozo, 2015 guidelines.

However, the appointment of the board members is not staggered as per the Mwongozo, 2015 provision and hence the organization may lose continuity and experience when the current Board's term expires.

In addition, there was no board charter at the time of audit. In the circumstances, new board members may take time to understand organization policies and culture disrupting decision making.

Management response

To ensure phased transition (succession planning) in accordance with part 1.14 (1) of the Mwongozo code of regulation. The management commits to ensuring that in future, the appointment of the Lodwar Municipality Board members will be well staggered. The Municipality Board has developed and approved the Municipality Board Charter as provided in Mwongozo code of regulation chapter 1.11(1&2). Copies of the Board Minutes and the approved Board Charter were submitted for verification.

Committee Observation

The Committee observed that the Municipality Board has developed and approved the Municipality Board Charter as provided in Mwongozo code of regulation chapter 1.11(1&2).

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

CHAPTER THREE: HOSPITALS

3.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR LODWAR COUNTY REFERRAL HOSPITAL FOR THE FINANCIAL YEAR 2024/2025

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

REPORT ON THE FINANCIAL STATEMENTS

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

Undisclosed Inventories

The statement of financial position reflects inventories balance of Kshs.20,482,295 as disclosed in Note 20 to the financial statements. The balance is made up of pharmaceutical supplies and food items only. However, review of stock control cards and physical verification revealed that there were non-pharmaceutical stocks of undetermined value as at 30 June, 2025 which were not disclosed in the financial statements.

Further, no evidence was provided to confirm that annual stock take for non-pharmaceutical items was carried out at the end of the financial year. In the circumstances, the accuracy and completeness of inventories balance of Kshs.20,482,295 could not be confirmed.

Management Responses

The amount of Kshs.20,482,295 in the statement of financial position comprises pharmaceutical supplies and food items. The omission of non-pharmaceutical inventory was attributed to lack of enough staff with capacity to do proper accounting in the Non pharmaceutical supplies store.

The hospital management has deployed enough qualified staff and upgraded the HMIS system to include the modules for management of inventory at the non-pharmaceutical stores.

The reports can now be printed timely and management will ensure that all inventories are reported in the Financial Statements in line with IPSAS 12. Copies of the HMIS reports on inventory at non-pharmaceutical store and list of officers assigned to the Non-Pharms Store, Non-pharmaceutical stock take report and bin cards were submitted for verification.

Committee Observation

The Committee observed that the hospital failed to disclose non-pharmaceutical stocks of undetermined value. However, the hospital management has deployed enough qualified staff and upgraded the HMIS system to include the modules for management of inventory at the non-pharmaceutical stores.

Committee Recommendation

- i. 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;**
- ii. The Governor, through the Accounting Officer, should strengthen internal audit controls and ensure proper record keeping;**
- iii. 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**
- iv. 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.**

Emphasis of Matter

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.365,370,060 and Kshs.317,960,238 respectively, resulting to an under-funding of Kshs.47,409,423 or 13% of the budget. However, the Hospital spent an amount of Kshs.310,953,368 against actual receipts of Kshs.317,960,238, resulting to an under-utilization of Kshs.7,006,870 or 2% of actual receipts.

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

Management Responses

The reported under-funding of Kshs.47,409,423 (13%) was driven by Kshs.19,992,986 delay in Exchequer remittances and a Kshs.26,417,437 shortfall in Own Source Revenue (OSR). Notably, the Exchequer deficit was fully received after the close of Financial Year in July 2025. To resolve the OSR gap, Management has implemented a fully automated Hospital Management Information System (HMIS). This digital transformation eliminates manual leakages through real-time billing, enforces a strict cashless payment policy, and provides a transparent audit trail for all service points, significantly increasing revenue throughput.

The under-utilized funds amounting to Kshs.6,502,269 were strategically preserved as a vital liquidity buffer to ensure the continuity of life-saving medical services during the transition into the new financial year cycle.

Committee Observation

The Committee observed that the Hospital suffered an under-funding of Kshs.47,409,423 or 13% of the budget and an under-utilization of Kshs.7,006,870 or 2% of actual receipts mainly due to delayed exchequer releases, and shortfalls in Own Source Revenue.

Committee Recommendation

The Committee recommends that-

- i. The Governor ensures that the Accounting Officer ensures strict compliance with section 149(2) (h) and (i) of the Public Finance Management Act, Cap. 412A and the standards prescribed by the Public Sector Accounting Standards Board under IPSAS 24 on the presentation of budget information in the financial statements for an entity that prepares their financial statements under the accrual basis of accounting, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply; and**
- ii. The Governor ensures that the Accounting Officer complies with regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply.**

Other Matter

Unresolved Prior Year Matters

In the prior year's 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 the Lodwar County Referral Hospital in 2024/2025 revealed that the following matters remained unresolved;-

	Financial Year	Audit Issue	Management Response
1	2023/2024	Inaccuracies in the financial statements	The difference in the two statements was reconciled in the amended financial statements in compliance with the reporting template requirements.
2	2023/2024	Inaccuracy of Employee Costs	The correct in-kind contribution from County executive for salaries and wages cost is Kshs.618,967,204
3	2023/2024	Unsupported Transfers from NHIF	The hospital made claims to National Hospital Insurance Fund amounting to Kshs.79,506,285. National Hospital Insurance Fund had paid claims amounting to Kshs.64,286,133 as at 30th June, 2024.
4	2023/2024	Long Outstanding Trade and Other Payables	The hospital has since paid Kshs.14,911,519 of the Kshs.24,792,320 owed. The management is committed to ensuring that payment of the outstanding balance of Kshs.9,880,802 is prioritized

5	2023/2024	Unutilized Managed Medical Equipment	Given the expiry of MES contract, the Hospital engaged and worked closely with the health department to immediately engage a relevant service provider to ensure timely servicing and functional status of critical medical equipment such as the CT scan machine. Currently the CT scan has been serviced and is working
6	2023/2024	Grounded, Obsolete and Unserviceable Items	The hospital is working on developing an asset disposal policy to ensure consistent handling of items that have reached the end of their useful life. We expect to complete the process within the financial year 2025-2026. Finalization of these key processes will enable the hospital to onboard the assets in the subsequent financial statements.
7	2023/2024	Lack of Authorized Staff Establishment	The Hospital has an approved staff establishment and organogram.

8	2023/2024	Failure to Meet Level 4 Requirements	<p>The hospital has made significant strides in meeting the requisite standards as per the Health Act, 2017 and WHO standards. The Hospital commits to progressively address staffing and equipment gaps to guarantee the highest attainable standard of Health as per Article 43(1) of the Constitution of Kenya, 2010.</p> <p>The Hospital's pending request for staff is under consideration by the County Department of Health</p>
9	2023/2024	Lack of internal audit	<p>In the year ended 30 June 2024, the Hospital received audit support from the county government's internal audit department. The county government internal audit directorate continues to offer support to LCRH. The directorate has seconded an auditor to LCRH. In the long term, the Hospital Board will recruit an auditor(s) to be in charge of the audit function at the hospital level.</p>

Committee Observation

The Committee observed that the management did not resolve some of the issues raised by the Auditor General in the previous financial year.

Committee Recommendation

The Committee recommends that-

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

1. Failure to Charge and Remit the Public Procurement Capacity Building Levy

The statement of financial performance reflects total payments of Kshs.997,281,365 out of which, medical/clinical costs, repairs and maintenance and general expense costs amounted to Kshs.347,627,453. However, Management did not deduct and remit the public procurement capacity building levy on procurement contracts signed and paid. This was contrary to Paragraph 3(1) of the Public Procurement Capacity Building Levy Order, 2023 which states that there shall be paid a levy by a supplier on all procurement contracts signed between the supplier and a procuring entity, at the rate of zero point zero three per cent (0.03%) of the value of the signed contract, exclusive of applicable taxes.

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

Management Responses

The omission was due to lack of sensitization on the 2023 Legal Notice and the Hospital has begun deducting and remitting the levy as required by law. Evidence of deduction from suppliers were submitted for the committee verification.

Committee Observation

The Committee observed that the Hospital failed to deduct and remit the requisite capacity building levy of 0.03% on these payments to the Public Procurement Regulatory Authority (PPRA), contrary to Paragraphs 5 and 6 of the PPRA Circular No. 01/2024. The Committee acknowledges management's commitment to comply with the levy requirements and notes that the Hospital commenced recovery and remittance of the levy in the current financial year 2025/2026. However, this corrective action does not absolve the Hospital of its obligation to have complied during the period under review.

Committee Recommendation

The Committee recommends that Management should comply with the Public Procurement Capacity Building Levy Order, 2023, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply.

2. Incomplete Non-Current Assets Register

The Hospital's assets registers provided for verification did not contain ownership details including title deed number, certificate, or allotment letter and if the property's ownership was freehold or leasehold. In addition, the register lacked building names/description, acquisition mode/source of funding, whether the building was permanent or temporary, designated use, floor count and plinth area. Further, the assets register does not indicate the identification tag numbers, date of delivery, serial numbers, location, purchase amount, depreciation rate, annual depreciation, accumulated depreciation and net book value of the assets.

This was contrary to Regulation 136(1), (2) and (3) of the Public Finance Management County Government) Regulations, 2015 which requires that the Accounting Officer shall be responsible for maintaining a register of assets under his or her control or possession and that the register of land and buildings shall record each parcel of land and each building and the terms on which it is held, with reference to the conveyance, address, area, dates of acquisition, disposal or major change in use, capital expenditure, lease hold terms, maintenance contracts and other pertinent Management details.

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

Management Responses

The Asset Inventory is fully updated; the Asset Register remains available but is currently undergoing a comprehensive update. The Hospital is progressively capturing specific data gaps. Copies of the updated Inventory Register, Asset Register, Confirmation Letter and Part Development Plan were attached.

Committee Observation

The Committee observed that the query remained unresolved as asset register updating was ongoing and will be finalized by the end of financial year 2025/2026.

Committee Recommendation

The Committee recommends that-

- i. 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;
- ii. upon completion of 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
- iii. the Governor, through the Accounting Officer ensures that the hospital maintains an up-to-date asset register in accordance with section 149(2)(o) of the Public Finance Management Act Cap 412A and in the format prescribed by the Public Sector Accounting Standards Board (PSASB), failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply.

3. Non-Compliance with Climate Change Regulations

There was no evidence provided to confirm that the Hospital Management budgeted for environmental activities during the year under review. In addition, there were no policies, reports or supporting programs of trainings conducted on the community regarding conservation of indigenous trees and resilience in arid and semi-arid lands, and work plans formulated to address environmental activities in compliance with the existing environmental laws and regulations. Further, evidence of public awareness and public consultations on climate change were not provided for verification.

This was contrary to Section 15(5)(a) of the Climate Change Act, 2016 which states that each state or public entity shall integrate the climate change action plans into sectoral strategies, action plans, and other implementation projections for the assigned legislative and policy functions.

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

Management Responses

The Hospital is currently drafting a Climate Change Policy that once approved by the Board will enable budgeting for environmental activities specifically targeting indigenous tree conservation and community resilience programs, which will be approved and adopted in the coming Financial Year 2026/27.

Committee Observation

The Committee observed that the Hospital has a draft Climate Change Policy that is awaiting approval by the Board to enable budgeting for environmental activities.

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**

4. Delay in Settlement of Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.41,744,430 as disclosed in Note 22 to the financial statements. Failure to settle the accounts payables during the year to which they relate to was contrary to Section 53(8) of the Public Procurement and Asset Disposal Act,2015 which states that an Accounting Officer shall not commence any procurement proceedings until satisfied that sufficient funds to meet the obligations of the resulting contract(s) are reflected in approved budget estimates.

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

Management Responses

Management acknowledges the trade and other payables balance of Kshs.41,744,430 at year-end. These procurement proceedings were initiated against Approved Budget Estimates; however, unforeseen delays in Exchequer remittances and shortfall in own source revenue (OSR) led to the temporary carry- over of these liabilities. We wish to confirm that these pending bills have since been successfully settled in full during the 2025/2026 Financial Year Copies of the Fully settled payables list was attached for the Committee verification.

Committee Observation

The Committee observed that, Kshs.41,744,430 has been outstanding for three years.

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.

1. Failure to Meet Level 4 Hospital Requirements

Physical verification of medical equipment available at the facility revealed the following shortfalls against what was required as per the Kenya Quality Model for Health of a level 4 facility;

Item	Level 4 standard requirements	Number in hospital	Shortage
Medical staff			
Medical Officers	16	18	+2
Radiologists	2	1	-1
Kenya Registered Community Health Nurse	75	80	+5
Medical Equipment			
Baby Cots	5	4	-1
ICU Beds	6	4	-2
HDU Beds	6	3	-3

Further, review of records revealed that, the Hospital has four hundred and thirty- six (436) employees consisting of three hundred and seventy-two (372) health workers and sixty-four (64) support staff. However, this number was below the World Health Organization (WHO) recommended number of employees for a referral health facility of minimum 1,286 employees resulting in a deficit of eight hundred and fifty (850) employees in the Hospital as tabulated below;

	Lodwar County Referral Hospital	World Health Organization	Deficit
		(WHO) Norms	
Total Number of Health Workers	372	1286	850
Total Number of Support services	64		
	436		

The deficiencies on the medical equipment and employees contravenes 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. Where there are excess staff, the Management should consider redeployment to other county hospitals with deficit in medical staff.

In the circumstances, the Hospital may not deliver on its mandate.

Management Responses

The hospital has made significant strides in meeting the requisite standards as per the Health Act, 2017 and WHO standards. The Hospital commits to progressively address staffing and equipment gaps to guarantee the highest attainable standard of Health as per Article 43(1) of the Constitution of Kenya, 2010.

Committee Observation

The Committee observed that the hospital had shortages in staffing and equipment levels, that could not guarantee the highest attainable standard of Health as per Article 43(1) of the Constitution of Kenya, 2010. The management is however progressively working towards meeting the requisite standards.

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.

1. Failure to Comply with the Public Sector Accounting Standards Board Reporting Template

The annual report and financial statements' table of contents does not include Notes to the financial statements and the respective page. Further, pages 1 and 2 of the financial statements do not bear the ICPAK membership number of the head of finance.

In the circumstances, the annual reports and financial statements as presented do not fully comply with the reporting template as issued by PSASB.

Management Responses

The management has noted the editing inaccuracies in the report and will put in place internal control measures to ensure quality review before final printing. The hospital accountant is currently pursuing the professional certification.

Committee Observation

The Committee observed that the financial statements were amended and presented in the format recommended by the Public Sector Accounting Standards Board (PSASB).

Committee Recommendation

The Committee recommends that-

- i. 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 accordance with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- ii. the 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 and 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 Accounting Officer enhance the capacity of in-post officers preparing financial statements to comply with the requirements of the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.**

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

Basis for Conclusion

1. Long Outstanding Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transactions balance of Kshs.47,851,396 as disclosed in Note 18 to the financial statements. Included in the balance are receivables amounting to Ksh. 20,434,959 which had been outstanding for more than one (1) year. In addition, the receivables balance of Kshs.47,851,396 includes claims from NHIF for financial year 2023/2024 and Social Health Fund (SHA) for 2024/2025 amounting to Kshs.20,415,288 and Kshs.21,751,751 respectively which had not been settled or confirmed as owing by SHA as at the time of audit in October, 2025. Management has not provided evidence of a policy in place to address the likely impairment of long outstanding receivables casting doubt on the fair statement and full recoverability of the accounts receivable.

In the circumstances, the effectiveness of Management strategies to ensure full and timely recovery of the long outstanding receivables could not be confirmed.

Management Responses

Management acknowledges the observation regarding receivables amounting to Kshs.47,851,396. Of this balance, Kshs.20,434,959 relates to claims that had been outstanding for more than one year mainly due to delays in verification and reconciliation with the respective payers. Out of this amount, Kshs.19,671 was settled resulting to a balance of Kshs.20,415,288. The SHA claims for the FY 2024/2025 of Kshs.21,751,751, have since been settled in the FY 2025/2026.

Further, Management has developed a Receivables Management Policy which will be presented for approval to the board during the Quarter 4 Board sitting . Copies of the Draft Receivables Management Policy were attached for verification.

Committee Observation

The Committee Observed that the SHA claims for the FY 2024/2025 of Kshs.21,751,751, have since been settled, and the management has developed a Receivables Management Policy which will be presented for approval to the board during the Quarter 4 Board sitting.

The Committee recommends that-

- i. the Accounting Officer ensures timely submission of complete and accurate documents during audit processes, including evidence of resubmission and follow-up of rejected or partially approved SHA claims, in compliance with section 9(1)(e) of the Public Audit Act, Cap. 412B, failure to which the provisions of section 62(2) of the Public Audit Act, Cap. 412B shall apply;**
- ii. the Governor ensures the Accounting Officer should, within 60 days of the adoption of this report, put in place recovery measures for the outstanding amount with clear timelines. The Auditor-General should review the implementation of the measures put in place provide a status update on the matter in the subsequent audit cycle; and**
- iii. the Governor ensures the Accounting Officer to undertake a detailed analysis of its long outstanding trade receivables and with the Board's approval, write off the irrecoverable debts in line with the Section 130 (2) (d) of the Public Finance Management (County Governments) Regulations, 2015 and the Auditor-General to provide a status update on the same during the subsequent audit cycle.**

2. Lack of a Stand-alone Payroll

The statement of financial performance reflects Kshs.639,328,976 in respect of employee cost as disclosed in Note 12 to the financial statements. However, the Hospital does not have a stand-alone payroll system of its own as it wholly relies on the centralized county executive payroll system for its payroll operations. A stand-alone payroll system increases transparency, efficiency, and accountability. While the county executive may retain strategic oversight, empowering the Hospital with its own payroll operations enhances service delivery and staff morale critical for a public health facility. Therefore, the Hospital lacks control over its payroll processes, making it dependent on county executive structures. This limits the Hospital's ability to make timely human resource and financial decisions.

In the circumstances, effectiveness of internal controls on human resource and payroll management could not be confirmed.

Management Responses

The Hospital operates within the County Government's approved human resource and payroll framework, where payroll processing and payments are managed centrally to ensure consistency, compliance, and oversight across all county entities. Therefore, the Hospital does not have a standalone payroll system, and payroll transactions are carried out according to approved establishment and payroll instructions, as well as authorizations issued by the County Executive.

Despite the centralized arrangement, Management conducts oversight through periodic payroll verification, staff establishment controls, and reconciliation of payroll schedules against approved staffing levels and budgetary provisions.

Committee Observation

The Committee observed that the Hospital does not have a standalone payroll system, and payroll transactions are carried out according to approved establishment and payroll instructions, as well as authorizations issued by the County Executive.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

3. Lack of Internal Audit Function and Audit Committee

During the year under review, the Hospital did not provide evidence that an internal audit function was in place with a substantive internal auditor. This is contrary to Section 155(1)

of the Public Finance Management Act, 2012 that states that a county government entity shall ensure that it complies with this Act and has appropriate arrangements for conducting internal audit according to the guidelines issued by the Accounting Standards Board.

In addition, Management did not provide evidence that an audit Committee was in place to monitor the Hospital's governance process, accountability and control and offer advice on issues concerning risk, control, regulatory requirement and governance. Further, the Hospital's approved organogram was not updated to include functional reporting of the Internal audit unit to the Audit Committee through the Head of the Internal Audit Function and administratively to the Accounting Officer.

In the circumstances, the Hospital did not benefit from the oversight role and advice from the audit committee and the internal audit function.

Management Responses

The Hospital received audit support from the county government's internal audit department. The county government internal audit directorate continues to offer support to LCRH. The directorate has seconded an auditor to LCRH. Copies of Letter from internal Audit Directorate, acknowledgment letter from LCRH, internal audit work plan were submitted for verification. . In the long term, the Hospital Board will recruit an auditor(s) to be in charge of the audit function at the hospital level

At the apex of the LCRH organogram is the Hospital Board of Management, which executes its mandate through sub-committees. The Board, through the finance and audit sub-committee reviews internal audit reports as part of Board oversight. Copies of the lists of Finance and Audit Sub Committee members were attached for verification.

Committee Observation

The Committee observed that the management submitted a Letter from Internal Audit Directorate, acknowledgment letter from LCRH, and internal audit work plan as evidence of existence of an internal audit function.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

4. Lack of a Board Charter and Board Work Plan

Management did not present for audit an approved Board Charter. In addition, no evidence was provided to show that annual approved Board ALMANAC was prepared and submitted to the State Corporations Advisory Committee (SCAC) detailing the Hospital's Board annual work plan, statutory obligations of the Board and available budget. Further, the Board did not carry out an annual evaluation of its performance, resulting in an evaluation report with recommendations for implementation.

In the circumstances, the effectiveness of the Board of governance of the Hospital could not be confirmed.

Management Responses

Management is currently finalizing the Annual Board ALMANAC, which integrates the Board's annual work plan, statutory obligations, and the corresponding budget. The draft Annual Board ALMANAC will be presented to the Board for approval in the upcoming board meeting in quarter 4, after which it will be formally submitted to the State Corporations Advisory Committee (SCAC) for compliance.

The management is currently putting measures in place to facilitate an annual evaluation either self-assessment or externally facilitated as per SCAC requirements. Currently the board has an approved board charter. Copies of the Approved LCRH's Board Charter were attached for verification.

Committee Observation

The Committee Observed that currently, the Board has an approved board charter. The management committed to subject the board members to self-assessment reviews.

Committee Recommendation

The Committee recommends that the Auditor- General keeps the matter on check and report to the Senate in the subsequent Financial Year audit process.

1. Weak Information Technology Internal Control Environment

Review of the Hospital Information Technology Internal Controls revealed the following;

- i. The Hospital did not have an ICT Policy, had not developed an IT continuity and disaster recovery plan which is important in ensuring that the Hospital recovers its functionality in case of an unplanned incident or disaster.
- ii. The Hospital did not have an approved IT strategic committee and strategic plan which is important in performing the oversight function and formulation of

- policies to ensure that the IT department functions properly to assist in achievement of Hospital's objectives in an economic, efficient and effective way.
- iii. Although there was evidence of use of the health management systems in the main pharmacy, the system could not generate daily, monthly, quarterly and annual real time inventory reports for reconciliation with bin cards and physical stock levels.
 - iv. The system in use does not record the expiry dates of drugs or non-pharmaceutical items. The system could not generate a complete report of expired stock at any given time. Physical inspection of the pharmaceutical and non-pharmaceutical stores revealed that a number of drugs and other items had already expired. Identifying these expired items required a manual search of the inventory.
 - v. The Hospital's health management system currently only processes outpatient services and does not support inpatient care.
 - vi. The system is solely managed by the developer without clearly defined Terms of Reference (TOR) for services, maintenance and training.
 - vii. The system was not being used in the Laboratory.

In the circumstances, the effectiveness of internal controls on management of ICT environment and Enterprise Resource Planning (ERP) system could not be confirmed.

Management Responses

- i. The hospital has developed a draft ICT Policy which will be approved by the Hospital Board on 20th March 2026 during the board meeting. Copies of the Draft ICT Policy were submitted for verification.
- ii. The management has developed the LCRH ICT Strategic Committee which will lead the development of an ICT strategic plan aligned with the hospital's objectives and also provide strategic direction, oversight and coordination for all ICT programs, projects and initiatives within the facility/hospital.
- iii. Copies of the TOR for LCRH ICT Strategic Committee and Letters of appointment to the committee were submitted for verification.
- iv. The management has ensured that the user departments have undergone routine on-the-job training to enable the production of real-time daily, monthly, quarterly and annual inventory reports. Copies of the Monthly commodity stock take report were attached for verification.

- v. The system can generate commodity details, including expiry dates. Copies of the List of system-generated pharmaceuticals with expiry dates were submitted for verification.
- vi. The Management has automated the inpatient department. Copies of the Inpatient Report were submitted for verification.
- vii. The head of the ICT department at LCRH holds super administrator rights and serves as the systems super user. The system developer only intervenes on technical matters upon formal requests from the facility/hospital management.
- viii. The system is operational in the laboratory. Copies of the Lab Tests Results were submitted for verification.

Committee Observation

The Committee observed that the Hospital has developed a draft ICT Policy which is awaiting approval by the Hospital Board; the LCRH ICT Strategic Committee is in place, and has automated the inpatient department.

Committee Recommendation

The Committee recommends that the Auditor- General keeps the matter on check and report to the Senae in the subsequent Financial Year audit process.

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

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

REPORT ON THE FINANCIAL STATEMENTS

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

1. Unsupported Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transactions balance of Kshs.659,800 as disclosed in Note 29 to the financial statements. However, the supporting schedules, detailed ageing analysis, customer statements and respective invoices issued were not provided for review.

In the circumstances, the accuracy, completeness and existence of receivables from exchange transactions amount of Ksh. 659,800 could not be confirmed.

Management Response

The amount of Kshs.659,000 in Note 29 and statement of Financial Position are receivables that were accrued in the financial year 2023-24 and reflected in the audited financial statements for Fy 2024-24. The Hospital has not received payment yet from the Defunct NHIF. The supporting schedules were shared with the auditors in the Financial Year 2023-24. Copies of the schedule were provided for verification.

Committee Observation

The Committee observed that the management failed to provide the supporting schedules, detailed ageing analysis, customer statements and respective invoices receivables from exchange transactions balance of Kshs.659,800 during the audit process.

Committee Recommendation

The Committee recommends that-

- i. the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9 (1) (e) of the Public Audit Act, 2015, failure to which the Committee shall recommend for their investigation and prosecution in line with section 62 (2) of the Public Audit Act, 2015;**

- ii. **the Governor ensures the Accounting Officer should, within 60 days of the adoption of this report, put in place recovery measures for the outstanding amount with clear timelines. The Auditor-General should review the implementation of the measures put in place provide a status update on the matter in the subsequent audit cycle.**

2. Outstanding trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.1,930,000 which was disclosed in Note 36 to the financial statements relates to casual employees' dues. In addition, a ledger or schedule to support the account balance was not provided. In addition, the same a balance was reported as outstanding in the previous year 2023/2024. Management did not provide satisfactory explanation on why the balance was not paid as a first charge in the year under review.

In the circumstances, the accuracy, completeness and existence of trade and other payables balance of Kshs.1,930,000 could not be confirmed.

Management Response.

Schedules for unpaid casuals of Ksh 1,930,000 as from February 2022 to May 2024 provided. Copies of the schedule of casual wages arrears were provided verification. The entity still has unsustainable financing with low resource pool and competing universal health care and health system building block priorities, recurrent costs and other day to day functions, payment will be made once sustainable resources are available as addressed in the board of management meetings. The county government has since on boarded the said staffs to formal employment since June 2024.

Committee Observation

The Committee observed that the Hospital has unsustainable financing with low resource pool and competing universal health care and health system building block priorities, recurrent costs and other day to day functions. The management however committed to do the payment once sustainable resources are available.

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.**

3. Undisclosed Property, Plant and Equipment

The statement of financial position reflects Nil balance in respect of property, plant and equipment as disclosed in Note 32 to the financial statements.

However, review of records and physical verification revealed that the Hospital is in possession of various assets including land, buildings, furniture, motor vehicles, computers and equipment of undetermined value. In addition, ownership documents of the land occupied by the Hospital were not provided for verification.

In the circumstances, the accuracy, existence, valuation and completeness of the Nil balance of property, plant and equipment in the financial statements could not be confirmed.

Management Response

The management has asset inventories for the specific categories of assets. however, they are accrual assets and the Board is looking for resources for valuation and subsequent reporting in the Financial Statements in compliance with the IPSAS Accrual standards. Copies of the asset inventories list for FY 2025/2026 were provided for verification. Turkana County is in the process of regularizing land ownership within the county. This process will pave way for registration and documentation of land under community, private and public land tenure systems.

Committee Observation

The Committee observed that the Hospital Board is mobilizing resources to undertake valuation and subsequent reporting in the Financial Statements in compliance with the IPSAS Accrual standards.

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.

4. Undisclosed Inventories

The statement of financial position reflects inventories balance of Ksh. 1,404,642 as disclosed in Note 31 to the financial statements. However, the management did not provide a stock take report as at the close of the financial year to support the balance in the financial statements. In addition, there were no evidence that a board of survey was conducted to undertake the end of year stock take.

In the circumstances, the accuracy and completeness of the inventories balance of Ksh. 1,404,642 could not be confirmed.

Management Response

The facility undertakes quarterly Stock takes and the reports are available for reviews. The management as well has initiated periodic/ monthly stock takes. Copies of **September 2025** quarterly stock take and **November 2025** stock take report were provided for verification. Turkana county Executives carried out board of survey exercise at the end of FY 2024/2025 which covers all County entities including Lokitaung Sub County Hospital. Copies of the Board of survey report were provided for verification.

Committee Observation

The Committee observed that Management has instituted proper mechanisms to ensure that inventory and stock records are accurately updated to reflect actual stock movement during the year.

Committee Recommendation

The Committee recommends that-

- i. The Governor, through the Accounting Officer, should ensure compliance to Regulation 104(1) of the Public Finance Management (County Government) Regulations which states that the accounting officer of a procuring entity to set up an inventory management system which shall be managed by the head of the procurement function, for the purpose of control and managing its inventory, stores; and
- ii. the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9(1)(e) of the Public Audit Act, Cap.412B failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act in the subsequent audit cycle.

5. Unsupported Cash and Cash Equivalents Balance

The statement of financial position reflects cash and cash equivalents balance of Kshs.120,421 as disclosed in Note 27 to the financial statements. However, the balance was not supported by bank reconciliation statements and bank confirmation certificate.

In the circumstances, the accuracy, completeness and existence of cash and cash equivalents balance of Kshs120,421 could not be confirmed.

Management Response

Certificate of bank balance provided to support a balance of Kshs.120,421 in respect of cash and cash equivalents as at 30 June, 2025. Copies of the bank reconciliation statement and certificate of bank balance were provided for verification.

Committee Observation

The Committee observed that the management submitted the Certificate of bank balance and bank reconciliation statement for verification.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

6. Unresolved Prior Year Matters

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

	Financial Year	Audit Issue	Management Response
1	2023/2024	Undisclosed inventories	The hospital has an updated asset inventory list for the specific categories of assets.
2	2023/2024	Undisclosed property, plant equipment	The hospital has an updated inventory. We initially lacked services of accountant and procurement professionals in guiding on the functions and request has been made for deployment
3	2023/2024	Unsupported Cash and Cash equivalents	The hospital is carrying out monthly bank reconciliation.
4	2023/2024	Lack of an approved budget	Facility now operating with annual budget approved by the board.
5	2023/2024	Deficiencies in implementation of universal health coverage (UHC)	Additional staffing to the facility done with 10 new staffs, expansion of services with now surgical theatre services, mortuary and dental services.
6	2023/2024	Lack of internal audit function	The board now has Audit and governance subcommittees.
7	2023/2024	Inadequate board meetings	The year 2024/2025 the facility had 4 board meetings and the current year 2025/2026 has had 2 meetings in the first two quarters.

Committee Observation

The Committee observed that the Hospital management had unresolved prior year matters, demonstrating the management's lack of action to implement corrective measures.

Committee Recommendation

The Committee recommends that—

- i. the Accounting Officer should resolve 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

1. Lack of Annual Procurement Plan

The statement of financial performance reflects payments totaling to Kshs.4,601,379 in respect to medical clinical costs, repairs and maintenance and general expenses. However, Management did not provide an approved annual procurement plan as proof that items procured had been planned and budgeted for.

This was contrary to Regulation 40 of the Public Procurement and Asset Disposal Regulations, 2020 which states that a procuring entity shall prepare a procurement plan for each financial year as part of the annual budget preparation process.

In the circumstances, Management was in breach of the law

Management Response

The management has been locally purchasing small scale goods/services upon approval of the board of management. Major procurements are done at the ministry level with support of medical services procurement officer.

Committee Observation

The Committee observed that the management did not provide an approved annual procurement plan as m major procurements are done at the ministry level with support of medical services procurement officer.

Committee Recommendation

The Committee recommends that the Governor ensures that the Accounting Officer adheres to the Regulation 40 of the Public Procurement and Asset Disposal Regulations, 2020, in conducting procurement processes in for the hospital.

1. Failure to Charge and Remit the Public Procurement Capacity Building Levy

The statement of financial performance reflects total payments of Ksh. 39,259,141 out of which Kshs.4,601,379 was incurred in respect of medical clinical costs, repairs and maintenance and general expenses. However, there was no evidence of a capacity building levy charged on procurement contracts signed. This was contrary to paragraph 2 (1) of the Public Procurement Capacity Building Levy order, 2023 which requires that there shall be paid a Levy by a supplier on all procurement contracts signed between the supplier and a procuring entity, at the rate of zero point zero three per centum (0.03%) of the value of the signed contract, exclusive of applicable taxes.

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

Management Response

The Hospital management will deduct and remit capacity building levy charged on all procurement contracts signed to PPRA in compliance with the Public Procurement Capacity Building Levy order, 2023.

Committee Observation

The Committee observed that the management failed to deduct the capacity building levy charged on procurement contracts signed amounting to (0.03%) of the value of the signed contract, as required by paragraph 2 (1) of the Public Procurement Capacity Building Levy order, 2023.

Committee Recommendation

The Committee recommends that Management should comply with the Public Procurement Capacity Building Levy Order, 2023, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply.

3. Lack of Occupational Safety and Health Policy

Review of the Hospital's internal controls revealed that the Hospital did not prepare and approve an occupational safety and health policy and did not have an occupational safety and health committee at the workplace. This is contrary to Section 9 of the Occupational Safety and Health Act, 2007 that provides that every occupier shall establish occupational health and safety committee at the work place and ensure occupational health and safety audits are done.

In the absence of occupational safety and health policy, committee and audits, the Hospital was in breach of the law.

Management Response

The Hospital will budget for formulation of an occupational safety and health policy in the next financial year to comply with requirement of the Occupational Safety and Health Act, 2007.

Committee Observation

The Committee observed that the management did not prepare and approve an occupational safety and health policy and did not have an occupational safety and health committee at the workplace. However, the management committed to comply with requirement of the Occupational Safety and Health Act, 2007 in the next financial year.

Committee Recommendation

The Committee recommends that the Auditor General keeps the matter on check during the subsequent financial year, and report to the Senate, on the progress of the matter.

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

Review of Hospital records and physical verification of services offered, equipment used and medical specialists in the Hospital at the time of audit in October, 2025 revealed that the Hospital did not meet the requirements of Kenya Quality Model for Health Policy Guidelines as detailed below:

Staffing Requirement	Number as per Level 4 Standard	Actual Number in Hospital	Variance	Percentage Variance (%)
Medical Officers	16	1	15	94
Anaesthesiologists	2	0	2	100

General Surgeons	2	0	2	100
Gynaecologists	2	0	2	100
Paediatricians	2	0	2	100
Radiologists	2	0	2	100
Registered Community Health Nurses	75	4	71	95

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

Service	Number as per Level 4 Hospital Standard	Actual Number in the Hospital	Variance	Percentage Variance (%)
Resuscitaire in Labour Ward	2	1	1	50
New Born Unit Incubators	5	0	5	100
New Born Unit Cots	5	3	2	40
Functional ICU Beds	6	0	6	100
High Dependency Unit (HDU) Beds	6	0	6	100
Renal Units with at least 5 Dialysis Machines	5	0	5	100
Two Functional Operational Theatres-Maternity and General	2	1	1	50

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

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

Management Responses

- 1).The current recruitment and redeployment has placed 10 more staffs to the facility; 3 nurses, 2 clinical officers and 1 community oral health officer,1 HRIO, 2 farewell home assistants, and 1 perioperative theatre technologist. Budget projection has been submitted to the ministry depicting the staffing needs for the hospital to recruit more staffs on the road to achieving the WHO standards.
- 2). The facility is offering theatre services (caesarean sections), inpatient and outpatient services, HIV and TB management, physiotherapy. The board of management is mandated to resource mobilize in bid of improving the quality of services and standards of the hospital to meet all the UHC requirements.
- 3).The hospital has progressively upgraded its equipment as it has transitioned to level 4 status. The county is also proactively partnering with the Department of Health to fill the current gaps in medical equipment in hospitals within the county.

Committee Observation

The Committee observed that the management had some gaps on staff and equipment deficiencies contrary to First Schedule of Health Act, 2017 and imply that accessing the highest attainable standard of health which includes the right to health care services as required by Article 43(1) of the Constitution of Kenya, 2010

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.**

5. Non-Compliance with the Public Sector Accounting Standards Board Reporting Template

The statement of financial position has reference to Note 28 in respect of receivables from exchange transactions, Note 30 in respect of inventories, Note 31 for property, plant and equipment and Note 34 for trade and other payables. However, the reference does not match with supporting Notes of 29,31,32 and 36 respectively.

In the circumstances, the annual report and financial statements as prepared and presented did not comply with the requirements of the reporting template as prescribed and issued by the Public Sector Accounting Standards Board.

Management Response

The management noted the editing errors and the management committed to comply with the requirements of the reporting template as prescribed and issued by the Public Sector Accounting standards board.

Committee Observation

The Committee observed that the financial statements were amended and presented in the format recommended by the Public Sector Accounting Standards Board (PSASB).

Committee Recommendation

The Committee recommends that-

- i. **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 accordance with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- ii. **the 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 and 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 Accounting Officer enhance the capacity of in-post officers preparing financial statements to comply with the requirements of the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

1. Incomplete Fixed Asset Register

Verification of available records revealed that details in the register are not complete with required information such as the location of assets, computers or electronics serial numbers, assets conditions, models/make, acquisition costs for some items, opening balances at the start of the year, disposals and the closing balances at the end of the year.

In addition, ownership documents for the land the Hospital occupies has not been submitted for audit. Further, the assets have not been tagged for identification purposes.

In the circumstances, the ownership, valuation and internal controls over fixed assets could not be confirmed.

Management Responses

The management has updated inventories for the specific categories of assets and the Board is looking for resources for valuation and subsequent reporting in the Financial Statements in compliance with the IPSAS Accrual standards.

The management initially lacked the services of accountant and procurement professionals to spearhead computation and filling in of the hospital asset register. Procurement officer has been posted currently to support in the functions.

Committee Observation

The Committee observed that the management has provided a fixed assets register and is in the process of tagging the assets and valuation to dispose the unserviceable assets.

Committee Observation

The Committee observed that-

- i. the Governor ensures that the management of the water company conducts the valuation of all assets of the Hospital is fast-tracked and submits the valuation report to the Auditor- General for verification during the subsequent audit cycle;
- ii. 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;
- iii. the Governor ensures that the accounting officer prepares and submits a comprehensive annual disposal plan for all unserviceable, obsolete and surplus assets to the Auditor-General within sixty days of the adoption of this report; and
- iv. 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.

2. Weakness in Inventory Management System

Review of the Hospital operations revealed that there is no inventory management system in place to generate daily, monthly, quarterly and annual real time inventory reports for reconciliation with bin cards and physical stock levels. Further, there is no system in place to record the expiry dates of drugs or non-pharmaceutical items hence the Hospital's Management may not be able to obtain reports of expired stock at any given time. Identifying these expired items requires a manual search of the inventory.

In the circumstances, the effectiveness of internal controls over stores management could not be confirmed.

Management Response

The hospital management has been using physical stock cards to manage inventory and will ensure that proper internal controls are put in place to ensure there are checks and balances and proper reporting quarterly. With the adoption of Taifacare the management will be able to manage the drug inventory digitally and in real-time.

Committee Observation

The Committee observed that Management has instituted proper mechanisms to ensure that inventory and stock records are accurately updated to reflect actual stock movement during the year.

Committee Recommendation

The Committee recommends that-

- i. **The Governor, through the Accounting Officer, should ensure compliance to Regulation 104(1) of the Public Finance Management (County Government) Regulations which states that the accounting officer of a procuring entity to set up an inventory management system which shall be managed by the head of the procurement function, for the purpose of control and managing its inventory, stores; and**
- ii. **the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9(1)(e) of the Public Audit Act, Cap.412B failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act in the subsequent audit cycle.**

3. Lack of Human Resource Policies and Procedures Guideline

Review of the records and inquiries from Management revealed the Hospital did not have an approved human resource and policies and procedures and salary structure. Hence there was no proper guidance on remuneration of the staff, the recruitment process and training and continuous development of employees. This is contrary to paragraph B.1 of the Public Service Human Resources Policies Manual for the Public service dated May, 2016 which provides for the rules governing recruitment, appointment, confirmation in appointment and promotion of public officers.

In the circumstances, the efficiency and effectiveness of human resource management practices in the Hospital could not be confirmed.

Management Response

The hospital adopts the county's directorate of human resource policies and guidelines. The management has stipulated organogram with job descriptions for staffs. The major human resource management organ is at the ministry headquarters with human resource policies in place. The payroll management as well is seated at the county level human resource directorate.

Committee Observation

The Committee observed that the management relies on the major human resource management organ is at the ministry headquarters with human resource policies in place.

Committee Recommendation

The Committee recommends that ;-

- i. the Governor ensures that the Accounting Officer initiates the process of having a separate approved human resource and policies and procedures and salary structure for the hospital, to guide the hospital management on remuneration of the staff, the recruitment process and training and continuous development of employees.**
- ii. The Auditor-General keeps this matter on check and report to the Senate on the progress of the matter, in the subsequent audit cycle.**

4. Lack of an Internal Audit Committee

During the year under review no evidence was provided by way of appointment letters or gazette notice to support existence of an audit committee that plays an oversight role in the Hospitals' financial and operational activities. This was contrary to Regulation 167 of the Public Finance Management (County Government) Regulations, 2015 which requires that each county government entity shall establish an audit committee.

In the circumstances, the efficiency of risk management, fraud prevention mechanisms and internal controls in the Hospital could not be confirmed.

Management Response

The hospital has established an Audit a sub-committee which is mandated to review and implement audit recommendation from internal and external auditors.

Committee Observation

The Committee observed that the management currently has a functional audit committee mandated to review and implement audit recommendation from internal and external auditors.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

5. Lack of Internal Audit Function

The Management of the Hospital has not established an internal audit department contrary to Regulation 153(1) of the Public Finance Management (County Government) Regulations, 2015 which states that internal auditors shall:(a) review and evaluate budgetary performance, financial management, transparency and accountability mechanisms and processes and give reasonable assurance through the audit committee on the state of risk management, control and governance within the organization; and review the effectiveness of the financial and non-financial performance management systems of the entities.

In the circumstances, the efficiency of risk management, fraud prevention mechanisms and internal controls in the Hospital could not be confirmed.

Management Responses

There exists a county level Audit Committee. This committee is fully and properly constituted. The management will be continuously engaging the committee to conduct risk-based; value-for-money and systems audits aimed at strengthening internal control mechanisms. Regular internal audits have been integrated to continuously support and inform project implementation on regular basis. Copies of the Audit engagement letter were provided for verification.

Committee Observation

The Committee observed that the management entered into an engagement with the internal Audit department at the county executive to perform the audit review this financial year.

Committee Recommendation

The Committee recommends that the County Executive Committee Member (CECM) – Finance ensures that 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.

3.3. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR LOPIDING LEVEL 4 HOSPITAL FOR THE FINANCIAL YEAR 2024/25

The Committee received written management responses to the following queries raised in the report of the Auditor-General on financial statements of Lopiding Level 4 Hospital, for the Financial Year 2024/2025 –

REPORT ON THE FINANCIAL STATEMENTS

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

1. Unsupported Inventories

The statement of financial position reflects inventories balance of Kshs.1,464,565 as disclosed in Note 31 to the financial statements. However, Management did not conduct a stock take to verify the actual quantities and value of the inventory items in stock on 30 June, 2025. In addition, the Hospital lacked a proper inventory management system with goods procured not being taken on charge and not recorded in the S3 card.

It was therefore not possible to ascertain whether the procured items were properly accounted for and put to proper use. Further, an undetermined value of drugs and non-pharmaceutical items had long expired as far as the year 2022/2023 and was not disclosed in the financial statements.

No satisfactory explanation was provided by Management on the expired drugs and non-pharmaceuticals and strategies put in place to dispose the expired drugs and avoid reoccurrence. In the circumstances, the accuracy and completeness of the inventories amount of Kshs.1,464,565 could not be confirmed.

Management Response

The hospital annual stock takes for the Financial year 2024-2025 was done and the store departments are now doing monthly stock take for its goods. Therefore, the hospital will report the inventories in the subsequent financial statements. Sample inventory for the Lopiding Level 4 Hospital was provided for verification.

Furthermore, Lopiding Sub-County Hospital is now digitized with Taifa Care and hence the inventory management process is now in place and this issue will not recur moving forward. In addition, following the recommendation of the Auditor-General during the audit process of FY 2024/2025, the management already informed the Sub-County Public Health Officer about the quarantined expired drugs in the store and the disposal process

already initiated. This will now be a continuous process moving forward. Samples of the letter to the disposal of expired drugs were provided for verification.

Committee Observation

The Committee observed that Management has instituted proper mechanisms to ensure that inventory and stock records are accurately updated to reflect actual stock movement during the year.

Committee Recommendation

The Committee recommends that-

- i. The Governor, through the Accounting Officer, should ensure compliance to Regulation 104(1) of the Public Finance Management (County Government) Regulations which states that the accounting officer of a procuring entity to set up an inventory management system which shall be managed by the head of the procurement function, for the purpose of control and managing its inventory, stores; and**
- ii. the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9(1)(e) of the Public Audit Act, Cap.412B failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act in the subsequent audit cycle.**

2. Undisclosed Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.49,947,461 as disclosed in Note 32 to the financial statements. Review of available records revealed that the balance relates to one (1) building donated by Safaricom Foundation. However, there is no evidence that depreciation was charged on the building and applicable rate was not disclosed in the financial statements.

In addition, physical verification of the Hospital's compound and offices revealed that the Hospital had various assets of undetermined value which include land, other buildings, furniture, medical machines and equipment, computers and office equipment which were not disclosed in the financial statements. Further, ownership documents such as title deed for land the Hospital is built on were not provided for audit.

In the circumstances, the accuracy, ownership and completeness of the balance of Kshs.49,446,780 in respect of property, plant and equipment could not be confirmed.

Management Response

At the time of the audit, the hospital did not have a complete asset register and valuation of the assets had not been done. The Management has begun the process of developing an asset register and we expect to complete the process by Jul, 2026 thereafter budget for valuation in the next financial year 2026-2027.

Finalization of these key processes will enable the hospital to onboard the assets in the subsequent financial statements. The Public Sector Accounting Standards Board have issued guidelines for reporting assets and liabilities within a transition period of 3 years. Copies of the Draft Asset Register and inventory list were provided for verification.

Committee Observation

The Committee observed that the Hospital Board is has begun the process of developing an asset register.

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.**

Other Matter

Unresolved Prior Year Matters

In the prior year's 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 the Fund in 2024/2025 revealed that the following matters remained unresolved;-

Management Responses

No	Year	Unresolved Audit Matters	Management Response
1	2023/2024	Undisclosed Inventory	In progress to be complete after valuation in 2026/2027 Financial Year
2	2023/2024	Undisclosed Equipment Property, plant and	Asset Register almost complete and will await Valuation in the Financial Year 2026/2027
3	2023/2024	Lack of Approved Budget	The Hospital has a budget for the financial year 2024/2025 and for 2025/2026.
4	2023/2024	Deficiencies in Implementation of Universal Health Coverage (UHC)	This matter is still substantive in this audit period
5	2023/2024	Lack of Internal Audit Function	The hospital utilizes the services of the internal audit directorate who carries audits and report to audit subcommittee of Hospital board of management

Committee Observation

The Committee observed that the management is progressively working towards implementing the recommendations of the auditor general on the queries raised in the previous year audit process.

Committee Recommendation

The Committee recommends that —

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

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

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1. Under Banking of Revenue Collected

The statement of financial performance reflects rendering of services amount of Kshs.10,162,030 as disclosed in Note 11 to the financial statements. The amount includes Kshs.7,290,160 reimbursement from Social Health insurance Fund (SHIF) and Kshs.2,871,870 own generated revenue from services rendered in the Hospital.

However, review of the revenue collections recorded in the receipt books and amounts banked revealed that out of total collections of Kshs.2,871,870, only Kshs.1,864,790 was deposited into the bank accounts resulting to an under banking of Kshs.1,007,080 which is an indication of direct expenditure of revenue at source.

This is contrary to Section 20(1) of the Facilities Improvement Financing Act, 2023 states that there shall be opened and operated a bank account for every entity into which all monies received by and on behalf of the entities for the facility improvement financing shall be paid into. In the circumstances, the Management was in breach of law.

Management Response

Lopiding Level 4 Hospital is 220 kilometers away from Lodwar Town and doesn't have a bank and because of logistical challenges the hospital used the funds to address the emergency expenses such emergency referrals, patient food and rations, purchase of fuel and other patients' needs. These interventions were intended to save lives and secure the right of the people to access the highest attainable standard of healthcare in line with Article 43(1) of the Constitution of Kenya, 2010.

Previously, the process of withdrawal of money involved the County Chief Officer (Medical Services), Medical Superintendent (facility In-Charge) and the Department's Accountant which was a long process, and affected by change of office bearers and keeping in mind the distance of travel from Lokichoggio to Lodwar looking for the services. In the

current financial year following the Auditor-General's recommendations, the hospital has fully implemented the FIF act which has made access of finances flawless in case of arising emergencies.

Furthermore, the facility Administrator does weekly audit of receipts and M-Pesa payments to ensure 100% banking and recovery process initiated in case of any discrepancies. The hospital management is also in the process of ensuring cashless transactions to strengthen the banking process. Furthermore, the adoption of Taifa Care digital superhighway will improve revenue collection and the banking process.

Committee Observation

The Committee observed that the Hospital does not have a bank account, but does weekly audit of receipts and M-Pesa payments to ensure 100% banking and recovery process initiated in case of any discrepancies.

Committee Recommendation

- i. 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;**
- ii. The Governor, through the Accounting Officer, should strengthen internal audit controls and ensure proper record keeping;**
- iii. 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**
- iv. 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.**

2. Failure to Charge and Remit the Public Procurement Capacity Building Levy

The statement of financial performance reflects total payments of Kshs.67,775,715 out of which Kshs.10,735,164 was incurred in respect of medical clinical costs and general

expenses. However, there was no evidence of a capacity building levy charged on all procurement contracts.

This is contrary to paragraph 3(1) of the Public Procurement Capacity Building Levy Order, 2023 which requires that there shall be paid a Levy by a supplier on all procurement contracts signed between the supplier and a procuring entity, at the rate of zero point zero three per centum (0.03%) of the value of the signed contract, exclusive of applicable taxes. In the circumstances, the Management was in breach of law.

Management Response

The Hospital management will deduct and remit capacity building levy charged on all procurement contracts signed to PPRA in compliance with the Public Procurement Capacity Building Levy order, 2023.

Committee Observation

The Committee observed that the management failed to deduct the capacity building levy charged on procurement contracts signed amounting to (0.03%) of the value of the signed contract, as required by paragraph 2 (1) of the Public Procurement Capacity Building Levy order, 2023.

Committee Recommendation

The Committee recommends that Management should comply with the Public Procurement Capacity Building Levy Order, 2023, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply.

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

Review of Hospital records and interviews on verification of services offered, equipment used and medical specialists in the Hospital 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 of eighty-five (85) staff equivalent to 84% of the authorized establishment.

Staffing Requirement	Number as per Level Standard	Number in Hospital	Variance	(%)Percentage Deficit
Medical Officers	16	2	14	88
Anesthesiologists	2	0	2	100
General Surgeons	2	1	1	50

Gynecologists	2	0	2	100
Pediatricians	2	0	2	100
Radiologists	2	0	2	100
Registered Community Health Nurses	75	9	66	88
Total	101	12	89	88

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

Service	Number as per Level Standard	Number in Hospital	Variance	(%)Percentage Deficit
Resuscitaire in Labour Ward	2	2	0	
New Born Unit Incubators	5	4	1	20
New Born Unit Cots	5	2	3	60
Functional ICU Beds	6	0	6	100
High Dependency Unit (HDU) Beds	6	0	6	100
Renal Units with at Least 5 Dialysis Machines	5	0	5	100
Two Functional Operational Theatres - Maternity and General	2	2	0	0

Further, review of records revealed that, the Hospital has fifty-three (53) employees consisting of twenty-five (25) health workers and twenty-eight (28) administrative and support staff. However, this number is at variance with the World Health Organization (WHO) recommended number of employees for a Level 4 health facility of a minimum of 1,286 employees resulting in a deficit of 1,233 employees in the Hospital as tabulated below;

	Lopiding Level 4 Hospital.	World 4 Organization Health (WHO) NORMS	Deficiet
Total Number of Health Workers	25	1,286	
Total Number of Administrative and Support services	28		
Total	53	1,286	1,233

These deficiencies contravene 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, Management was in breach of the law.

Management Response

Lopiding Sub-County Hospital management is committed towards provision of the highest attainable standards of health to the community of Lokichogio Sub-County and the surrounding communities. In this financial year the hospital acquired a fully equipped maternal and child health unit, additional 3 nurses, 1 clinician and supportive staff.

Furthermore, the hospital made an assessment of the gaps especially in human resources which was submitted to the County Director of Medical Services mostly informed by the departments available, workload and service delivery.

This may not match the WHO recommendations and threshold but will allow optimum service delivery ensuring access, quality and sustainability which is in line with the UHC requirements. Through the County Chief Officer for Medical Services, we await the County Public Service Board to advertise for the identified gaps and employ the officers.

Committee Observation

The Committee observed that the management had some gaps on staff and equipment deficiencies contrary to First Schedule of Health Act, 2017 and imply that accessing the highest attainable standard of health which includes the right to health care services as required by Article 43(1) of the Constitution of Kenya, 2010.

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 Public Sector Accounting Standards Board Reporting Template

The annual reports and financial statements prepared and presented for audit had the following presentation and disclosure errors and omissions;

- i. The Directors' passport-size photo, key profession/academic qualification, work experience and which committee of the Board the director chairs where applicable were omitted from page vi of the annual report.
- ii. Key profession/academic qualifications of the key management team was omitted on page.

In the circumstances, the annual report and financial statements as prepared and presented does not comply with the requirements of reporting template as prescribed and issued by the Public Sector Accounting Standards Board.

Management Response

The management acknowledges this and assures the Auditor-General that the financial reporting template will be adhered to in the subsequent reporting.

Committee Observation

The Committee observed that the management committed to amending and presenting the financial statements in the format recommended by the Public Sector Accounting Standards Board (PSASB).

Committee Recommendation

The Committee recommends that-

- i. 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 accordance with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- ii. the 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 and 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 Accounting Officer enhance the capacity of in-post officers preparing financial statements to comply with the requirements of the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.**

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

1. Failure to Allocate Budget to Complement the Limited Financial Resources for Optimal Operation of the Hospital

The Hospital was gazetted on 4 February, 2020 to operate as a level 4 Sub-County Hospital which is required to provide specialized operations among other services. Funding from the County Government to the Hospital is mainly in form of salaries for the staff seconded to the Hospital, payments of pharmaceuticals and non-pharmaceutical supplies and food and ration which are inconsistently supplied to the Hospital.

Review of the 2024/2025 budget of the County Government of Turkana revealed nil budgetary allocation to the Hospital which is in dire need for funding for it to operate optimally. The Hospital's reported own generated revenue of Kshs.2,871,870 and Social Health Authority (SHA) reimbursement of Kshs.7,290,160 stated in Note 11 to the financial statements is too low for the operations of a level 4 Hospital.

This is contrary to Section 11(n) of the Facilities Improvement Financing Act, 2023 states that the county health Management team shall, in relation to facility improvement financing ensure that health facilities are adequately resourced in terms of budgetary provisions, health products and technologies, equipment and human resource.

In the circumstances, the overall lack of funding from the County Government may have a negative effect on service delivery to the public.

Management Response

The management of the hospital will follow up with the management at the Department of Medical Services and the County Government of Turkana to ensure the hospital is allocated a budget in the next financial year.

Committee Observation

The Committee observed that the Hospitals budget was not financed during the financial year under review.

Committee Recommendation

Committee Observation

The Committee observed that the Hospital suffered an under-funding of Kshs.47,409,423 or 13% of the budget and an under-utilization of Kshs.7,006,870 or 2% of actual receipts mainly due to delayed exchequer releases, and shortfalls in Own Source Revenue.

Committee Recommendation

The Committee recommends that-

- i. The Governor ensures that the Accounting Officer ensures strict compliance with section 149(2) (h) and (i) of the Public Finance Management Act, Cap. 412A and the standards prescribed by the Public Sector Accounting Standards Board under IPSAS 24 on the presentation of budget information in the financial statements for an entity that prepares their financial statements under the accrual basis of accounting, failure to**

which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply; and

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

2. Non-Automation of Hospital Processes

Review of Lopiding Level 4 Hospital processes revealed that the Hospital had not automated its operations to cater for efficient and effective processing of crucial Hospital data and the following weaknesses were also noted;

- i. The Hospital had not developed proper measures to have manual data backup or recovery procedures in place despite the sensitivity of data handled.
- ii. The billing and drugs receipt and issuance was purely manual with use of manual receipts books and registers being prevalent.
- iii. No policies were in place regarding the accountability of revenue collection which included lack of segregation of duties in billing and drugs receipt and issuance, daily cash collections book was not kept and checked by a senior official and collections and banking of funds was done by one officer. In the circumstances, the reliability of the manual revenue collection mechanisms in place could not be ascertained.

Management Response

The hospital management has been using physical stock cards to manage inventory and will ensure that proper internal controls are put in place to ensure there are checks and balances and proper reporting quarterly. With the adoption of Taifacare the management will be able to manage the drug inventory digitally and in real-time.

Committee Observation

The Committee observed that the management is using the automated Taifacare system to manage the drug inventory digitally.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

3. Under Collection of Revenue from Insurance Claims

The statement of financial performance reflects rendering of services amount of Kshs.10,162,030 as disclosed in Note 11 to the financial statements. Included in the amount is Kshs.7,290,160 other services income. The amount relates to insurance claims received and receivable from Social Health Authority (SHA).

Review of the supporting schedules provided for audit revealed that during the period of July 2024 to June 2025, the Hospital submitted insurance claims amounting to Kshs.10,744,156 to SHA. Out of these claims amounting to Kshs.7,290,160 were verified and accepted by SHA and Kshs.3,453,996 rejected with reasons.

However, no evidence was provided to show that the Management responded to the reasons provided for rejection and whether the claims were subsequently resubmitted and accepted by SHA. In the circumstances, revenues amounting to Kshs.3,453,996 from SHA claims were not accounted for and the Hospital may have lost funds.

Management Response

During the audit period, SHA portal was not yet open for resubmission of the rejected claims. We are waiting for the SHA Turkana County Manager alongside the Quality Assurance Officer to come and verify the claims and subsequently allow for the hospital to claim its dues.

Committee Observation

The Committee observed that the management is yet to verify its SHA claims with the SHA county office, and allow the hospital to claim the dues.

Committee Recommendation

The Committee recommends that the management

- i. the Accounting Officer ensures timely submission of complete and accurate documents during audit processes, including evidence of resubmission and follow-up of rejected or partially approved SHA claims, in compliance with section 9(1)(e) of the Public Audit Act, Cap. 412B, failure to which the provisions of section 62(2) of the Public Audit Act, Cap. 412B shall apply;**
- ii. the Governor ensures the Accounting Officer should, within 60 days of the adoption of this report, put in place recovery measures for the outstanding amount with clear timelines. The Auditor-General should review the implementation of the measures put in place provide a status update on the matter in the subsequent audit cycle; and**

- iii. **the Governor ensures the Accounting Officer to undertake a detailed analysis of its long outstanding trade receivables and with the Board's approval, write off the irrecoverable debts in line with the Section 130 (2) (d) of the Public Finance Management (County Governments) Regulations, 2015 and the Auditor-General to provide a status update on the same during the subsequent audit cycle.**

4. Lack of a Board Charter

The Board of Management for Lopiding Level 4 Hospital did not have a board charter in place during the year under review contrary to Chapter 1 (1.11) of Mwongozo Code of Governance for State Corporations which requires that the Board should develop and adopt a Board Charter which among other things define the role, responsibilities and functions of the Board in the Governance of the Organization.

The Board should periodically review its board charter. In the circumstances, the board of Management for Lopiding Level 4 Hospital is in contravention of Chapter 1(1.11) of Mwongozo Code of Governance for State Corporations which requires that the Board should develop and adopt a Board Charter.

Management Response

The Board of Management of the hospital is working on having the approved board charter before the end of FY 2025/2026.

Committee Observation

The Committee Observed that currently, the hospital does not have a board charter. The management however committed to developing its board charter by the end of Financial Year 2025/2026.

Committee Recommendation

The Committee recommends that the Auditor- General keeps the matter on check and report to the Senate in the subsequent Financial Year audit process.

5. Lack of Internal Audit Function and Reports

The Management of Lopiding Level 4 Hospital has not established an internal audit department and audit committee. Further, there was no evidence that internal audit reviews were carried out during the financial year. This was contrary to section 155 (1) of the Public Finance Management Act, 2012 which requires that every county government entity shall

have appropriate arrangements for conducting internal audit according to the guidelines issued by the Accounting Standards Board.

In the circumstances, the effectiveness of internal controls, risk management and overall governance could not be confirmed.

Management Response

The county government audit directorate is currently auditing the Hospital as per the attached copies of the internal memo. Furthermore, the internal audit function is being done by the Board of Management's Internal Audit Sub-Committee (internally constituted).

The Audit Sub-Committee of the Board of Management is in place and is mandated to implement the audit recommendations in line with the PFM act, 2012 during this financial year.

Committee Observation

The Committee observed that the internal audit function is being done by the Board of Management's Internal Audit Sub-Committee which is internally constituted.

Committee Recommendation

The Committee recommends that the County Executive Committee Member (CECM) – Finance ensures that 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.

6. Lack of an Approved Budget

During the year under review, the Hospital operated without an approved budget. This was contrary to Section 149(2h) of the Public Finance Management Act, 2012, which requires the Accounting Officer of every County Government entity to prepare estimates of expenditure of the entity in conformity with the strategic plan. In the circumstances, Management was in breach of the law.

Management Response

Lopiding Sub-County Hospital has an approved operating budget for 2025/2026 Copies of the approved budget were attached for verification.

Committee Observation

The Committee observed that the hospital currently has an approved operating budget for 2025/2026

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

CHAPTER FOUR: FUNDS

4.1. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR TURKANA COUNTY EXECUTIVE CAR LOAN AND MORTGAGE FUND FOR THE FINANCIAL YEAR 2024/25

The Committee received written management responses to the following queries raised in the report of the Auditor-General on financial statements of Turkana County Executive Car Loan and Mortgage Fund for the Financial Year 2024/2025 –

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **Qualified Opinion** on the financial statements of the Turkana County Executive Car Loan and Mortgage Fund on the following basis:-

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget against actual receipts of Kshs.3,803,000 and Kshs.1,245,098 respectively resulting into an under collection of Kshs.2,557,902 or 67 % of the budget. Similarly, the Fund spent Kshs.1,065 against actual receipts of Kshs.1,245,098 resulting into an under-expenditure of Kshs.1,244,033 or 99% of the budget.

The under-collection and under-utilization affected the planned activities and may have impacted negatively on service delivery to the members.

Management Response

Under collection of Kshs.2,557,902 is attributed to non-remittance of Principal Loan Deductions to the Fund during the year under review. Further, the under-expenditure of Kshs.1,244,033 was a s a result of non-disbursement of the loan during the period due to ongoing review of fund regulations that was ongoing and yet to be concluded.

Committee Observation

The Committee noted that the Fund experienced an under-collection of Kshs.2,557,902 or 67 % of the budget and an under-expenditure of Kshs.1,244,033 or 99% of the budget.

Committee Recommendation

The Committee recommended that

- i. the Governor ensures compliance with section 149(2) (h) and (i) of the Public Finance Management Act, Cap. 412A and the standards prescribed by the Public Sector Accounting Standards Board under IPSAS 24 on the

presentation of budget information in the financial statements for an entity that prepares their financial statements under the accrual basis of accounting, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply; and

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

Other Matter

Unresolved Prior Year Matters

In the prior year’s 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 the Fund in 2024/2025 revealed that the following matters remained unresolved.

No	Year	Audi Query
1	2023/2024	Budgetary Control and performance
2	2023/2024	Delay in Refund of Borrowed Funds
3	2023/2024	Non-Performing Loans
4	2023/2024	Long Outstanding Trade and Other Payables from Exchange Transactions
5	2023/2024	Long outstanding trade and other payables from exchange transactions
6	2023/2024	Lack of Risk Management Policy

Management Response

Management acknowledges the recurrence of the above issues and notes that efforts are ongoing to address them comprehensively. Corrective measures currently underway include:

- **Budgetary Control and Performance:** Implementation of tighter expenditure controls and enhanced coordination with the County Treasury to additional funding and timely release and utilization of funds. The Car loan and Mortgage fund regulation has also been reviewed to address the challenges that were earlier experienced including the tittle deed issue.

• **Delay in Refund of Borrowed Funds:** Engagement with the County Executive to establish a clear schedule for refunding borrowed amounts and enforcing compliance with agreed timelines. • **Non-Performing Loans:** Recovery mechanisms, including follow-ups, reminders, and issuance of Demand letters have been done.

• **Long Outstanding Trade and Other Payables/Receivables:** The amount was settled in September 2025 and therefore considered resolved.

• **Risk Management Policy:** Drafting of a Risk Management Policy is in progress to enhance governance, internal control, and accountability frameworks.

Management remains committed to fully resolving these legacy issues within the next financial year and will continue to engage relevant stakeholders to ensure sustainable corrective action and improved compliance going forward.

Committee Observation

The Committee observed that the management is progressively addressing the issues raised by the auditor general in the previous year.

Committee Recommendation

The Committee recommended that

- i. **the Governor ensures compliance with section 149(2) (h) and (i) of the Public Finance Management Act, Cap. 412A and the standards prescribed by the Public Sector Accounting Standards Board under IPSAS 24 on the presentation of budget information in the financial statements for an entity that prepares their financial statements under the accrual basis of accounting, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply; and**
- ii. **The Governor ensures that the Accounting Officer complies with regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply.**

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1. Delay in Refund of Borrowed Funds by the County Executive

The statement of financial position reflects receivables from non-exchange transactions amount of Kshs.73,133,917 as disclosed in Note 11 to the financial statements. The balance includes internal borrowing by the County Executive amounting to Kshs.62,445,263 out of which Kshs.45,445,263 or 62% has remained outstanding for more than three (3) years.

This was contrary to Section 142 of the Public Finance Management Act, 2012 which stipulates that a county government entity that has any such borrowing shall ensure that the money borrowed is repaid within a year from the date on which it was borrowed.

Further, there was no evidence of County Assembly and Board of Trustees' approval of the additional borrowing reflected in the statement of cash flows of Kshs.17,000,000 contrary to Section 142 of the Public Finance Management Act, 2012 which requires County Government entities to seek the authority of the County Assembly to borrow cash on short term basis for cash management purposes only.

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

Management Response

The county executive has reported the payables in the financial statements in line with accrual reporting and has included in the debt management strategy to be funded in line with the debt management strategy paper.

Committee Observation

The Committee observed that the management authorized a borrowing from the County executive without seeking approval from the County Assembly. The management has however included the amount in the debt management strategy to be funded in line with the debt management strategy paper.

Committee Recommendation

The Committee recommends that;-

- i. the Governor ensures that the accounting officer ensures refund of the borrowed amount as first charge from the County treasury;**
- ii. The Auditor-General keeps the matter on check in the subsequent audit cycle, and report to the Senate on the progress status of the matter.**

2. Non-Performing Loans

The statement of financial position reflects long term receivables from exchange transactions amount of Kshs.86,721,029 as disclosed in Note 10 to the financial statements.

Included in the balance is Kshs.9,988,997 owed by six (6) public officers, which had remained in default for more than one (1) year without monthly repayments.

However, no evidence was provided for audit to show that the committee had declared the loan as defaulted and taken measures to sell the charged property. This was contrary to Regulation 17 of the Public Finance Management (Turkana County Executive State and Public Officers Mortgage Scheme Fund) Regulations, 2016 which provides that the Board may call in a loan and in default sell the charged property by public auction or private treaty where the borrower is in breach of the terms under the loan agreement or the covenant contained in the charge of the mortgage instrument.

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

Management Response

S/NO	Name	Balance B/F	Accrued Interest	Closing Balance June 2025	Management Response
1	Josephat Nanok Koli	72,243	2,203	74,625	The officer has since cleared the outstanding loan balance. See the attached bank slip.
2	Peter Emuria Lotethiro	1,289,746	39,229	1,328,975	Demand letter has already been issued and the matter is with the county attorney for follow up on the recovery of the outstanding balance
3	Jackson Nakusa Ekaru	4,791	146	4,937	The officer has since cleared the outstanding loan balance. See attached bank slip.
4	Gladys Akiru Arika	4,388,849	133,491	4,522,340	Demand letter has already been issued and the fund management is aware that the officer has secured employment with a UNHCR-funded organization. The fund management has written to the employer on recovery of the outstanding balance.

5	Cosmas Ekadeli Kay	3,927,756	119,466	4,047,223	Mr. Cosmas was a PnP staff member and was involved in a fatal accident. The death certificate is attached. The committee resolved this will be treated as a write-off and the matter will formally be presented to the cabinet.
6	Joseph Etengan Egiron	10,576	322	10,897	The officer has since cleared the outstanding loan balance. See attached bank slip.
	Total	9,694,140	294,857	9,988,997	

Committee Observation

The Committee observed that the management failed to provide documentary evidence for audit to show that the committee had declared the loan as defaulted and taken measures to sell the charged property, in order to either recover the loans or write them off.

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' ageing schedule to the Auditor-General for review and verification and update the Committee in the subsequent audit cycle;
- ii. the Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, submit an approved copy of the Debt Management Policy to the Auditor-General for verification. The Auditor-General to verify the policy and submit a status update on the same in the subsequent audit cycle;
- 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 the Committee on the matter in the subsequent audit cycle; and
- iv. the Governor ensures the Accounting Officer to undertake a detailed analysis of its long outstanding trade receivables and with the Board's approval, write

off the irrecoverable debts in line with the Section 130 (2) (d) of the Public Finance Management (County Governments) Regulations, 2015.

2. Non-Remittance of Principal Loan Deductions to the Fund

The statement of financial position reflects receivables from non-exchange transactions amount of Kshs.73,133,917 as disclosed under Note 11 to the financial statements. Included in the amount is deductions not remitted of Kshs.10,688,654 which relates to loan principal repayments deducted from staff salaries by the payroll department of the County Executive for seven (7) months between September, 2024 and June, 2025. This is contrary to Regulation 14 of the Turkana County Executive State and Public Officers Car Loan and Mortgage Scheme Fund Regulations, 2016 which states that the repayment of the loan granted under these Regulations shall be made through a check-off system from the member's monthly emoluments using loan checkoff forms prescribed by the Committee.

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

Management Response

The county executive has reported the payables in the financial statements in line with accrual reporting and has included in the debt management strategy to be funded in line with the debt management strategy paper.

Committee Observation

The Committee observed that the management failed to remit an amount of Kshs.10,688,654 which relates to loan principal repayments deducted from staff salaries by the payroll department of the County Executive for seven (7) months.

Committee Recommendation

The Committee recommends that the Governor ensures that the Accounting Officer, within 60 days of the adoption of this report, submit an approved copy of the Debt Management Policy to the Auditor-General for verification. The Auditor-General to verify the policy and submit a status update on the same in the subsequent audit cycle.

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

1. Lack of a Risk Management Policy

During the year under review, the Fund did not have a risk management policy, disaster recovery plan and documented formal risk assessment.

In addition, the Fund operated without strategic and operational plans. In the circumstances, the effectiveness of internal controls, risk management and governance of the Fund could not be confirmed.

Management Response

The loan management committee deliberated on the policies and directed the fund administrator to evaluate various options of formulating the risk management policy for approval in the next loan management committee.

Committee Observation

The Committee observed that the management does not have a risk management policy, disaster recovery plan and documented formal risk assessment in place.

Committee Recommendation

The Committee recommends that the Governor ensures the Accounting Officer develops and implements a Risk Management Policy, ICT Policy and Disaster Recovery Plan at the facility level and submits the finalized documents to the Senate and Auditor-General within 60 days of adoption of this report, failure to which the provisions of Section 199 of the Public Finance Management Act Cap 412A on penalties for offences shall apply.

2. Failure to Conduct Internal Audit

During the year under review the Fund had no internal audit undertaken on its operations. This was contrary to Section 155(1) of the Public Finance Management Act, 2012 which requires that every county government entity shall have appropriate arrangements for conducting internal audit according to the guidelines issued by the Accounting Standards Board. In the circumstances, the effectiveness of internal controls, risk management and governance of the Fund could not be confirmed.

Management Response

The Fund does not have a dedicated internal audit function but is covered under the Internal Audit Department of the County Executive, which carries out audits across all county entities, including the Fund. During the reporting period, no stand-alone internal audit report specific to the Fund was issued.

Management will engage the County Internal Audit Department to ensure that the Fund is included in the annual internal audit work plan and that periodic internal audit reports are prepared and shared with the Fund's Board and relevant stakeholders. This will enhance accountability and strengthen internal controls in line with the Public Finance Management framework.

Committee Observation

Internal Audit Department of the County Executive, which carries out audits across all county entities, including the Fund.

Committee Recommendation

The Committee recommends that the County Executive Committee Member (CECM) – Finance ensures that 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.

4.2. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR TURKANA COUNTY CLIMATE CHANGE FUND FOR THE FINANCIAL YEAR 2024/25

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

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a Qualified Opinion on the financial statements of the Turkana County Climate Change Fund on the following basis:-

1. Delay in Refund of internally borrowed funds

The statement of financial position reflects receivables from exchange transactions balance of Kshs.33,342,963 as disclosed in Note 11 to the financial statements includes internal borrowings of Ksh.10,462,340. The balance is an outstanding short-term loan lent out to the County Executive of Turkana which was not repaid as at 30 June, 2025. This was contrary to Section 142 of the Public Finance Management Act, 2012 which stipulates that a County Government entity that has any such borrowing shall ensure that the money borrowed is repaid within a year from the date it is borrowed. In the circumstances, Management was in breach of the law.

Management Response

The county executive has reported the payables in the financial statements in line with accrual reporting and has included in the debt management strategy to be funded in line with the debt management strategy paper.

Committee Observation

The Committee observed that the management authorized a borrowing from the County executive without seeking approval from the County Assembly. The management has however included the amount in the debt management strategy to be funded in line with the debt management strategy paper.

Committee Recommendation

The Committee recommends that;-

- i. the Governor ensures that the Accounting officer ensures refund of the borrowed amount as first charge from the County treasury;**

- ii. **The Auditor-General keeps the matter on check in the subsequent audit cycle, and report to the Senate on the progress status of the matter.**

2. Underfunding of the Turkana Climate Change Fund

The statement of financial performance reflects Nil balance in respect of transfers from the County Government. The Turkana County Executive had an annual approved development budget of Kshs.8,675,260,099 for the year under review resulting into expected funding of Kshs.173,505,202 that was not disbursed to the Fund. This was contrary to section 50 of the Turkana County Climate Change Act, 2021 which requires that The County Assembly shall appropriate not less than two percent of the County's annual appropriated development budget. In the circumstances, the county was in breach of the law.

Management Response

The fund received Kshs.120,000,000 for the FY 2024/25 on 23rd February, 2026. Copies of the Bank statement were provided for verification.

Committee Observation

The Committee observed that an expected funding of Kshs.53,505,202 to the Fund was not disbursed in line with the County Executive development budget, which was contrary to section 50 of the Turkana County Climate Change Act, 2021.

Committee Recommendation

The Committee recommended that

- i. **the Governor ensures compliance with section 149(2) (h) and (i) of the Public Finance Management Act, Cap. 412A and the standards prescribed by the Public Sector Accounting Standards Board under IPSAS 24 on the presentation of budget information in the financial statements for an entity that prepares their financial statements under the accrual basis of accounting, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply; and**
- ii. **The Governor ensures that the Accounting Officer complies with regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply.**

3. Lack of Regulations on Measurements of Emissions and Removals of Greenhouse Gases

The Management of the Turkana County Climate Change Fund did not provide evidence of a regulatory framework in place specifically designed to target greenhouse gas emissions, achieve measurable reductions in those emissions, or facilitate the removal of such gases from the atmosphere despite the Fund's lifespan nearing its end.

This was contrary to section 44 of the Turkana County Climate Change Act, 2021 which requires that the targeted greenhouse gases emissions, reductions of such emissions and removals of targeted greenhouse gases from the atmosphere shall be measured or calculated in tonnes of carbon dioxide equivalent. The County Executive Committee Member in consultation with the Steering Committee are tasked with making regulations on measurements of emissions and removals of the greenhouse gases.

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

Management Response

Carbon emission reporting is an emerging regulatory requirement as envisaged in Regulation 23(a)(b) of the Climate Change Amendment Act No.9 of 2023. In this regard, the counties, including Turkana, in close collaboration with the Council of governors and NOREB have been at the forefront in providing technical support to train and build capacity of relevant staffs to enable us to competently undertake greenhouse gas emissions monitoring and reporting.

Turkana County has since sent critical staffs for training and orientation on carbon markets and greenhouse gas emissions to equip them with the necessary knowledge and skills. The County Climate Change Unit (CCCU) has allocated budgetary resources in the FY 2025/26 to domesticate the amended Climate Change Act, 2023 and the Carbon Market Regulations 2024 which will further enhance carbon emission reporting.

Moving forward, the county will comply with requirements to maintain and submit a sector register on greenhouse gas emissions as required by law. Copies of the Approved budget and evidence of training were provided for verification.

Committee Observation

The Committee observed that;-

- i. the management failed provide evidence of a regulatory framework in place specifically designed to target greenhouse gas emissions, achieve measurable reductions in those emissions, or facilitate the removal of such gases from the atmosphere despite the Fund's lifespan nearing its end.

- ii. The County Climate Change Unit (CCCU) has allocated budgetary resources in the FY 2025/26 to domesticate the amended Climate Change Act, 2023 and the Carbon Market Regulations 2024 which will further enhance carbon emission reporting.

Committee Recommendation

The Committee recommends that the Auditor General keeps the matter on check to confirm progress status and report to the Senate during the subsequent financial year audit.

4. Lack of Biennial Review of The Implementation of the County Climate Change Action Plan

The Management of Turkana County Climate Change Fund did not provide biennial reviews of the implementation of the County Climate Change Action Plan and evidence that the report was submitted to the Steering Committee contrary to section 34 of the Turkana County Climate Change Act, 2021 which requires that The County Planning Committee shall undertake a biennial review of the implementation of the County Climate Change Action Plan and report to the Steering Committee.

In the circumstances, the Management is in breach of the law Management Response The management has been conducting continuous reviews on the implementation of the County Climate Change Action Plan. Such reviews are shared annually with the steering committee. Clear roles of the various committees exist and undertaken accordingly. Automated tracking is enforced through an online kobo tool by the internal monitoring and evaluation focal person. Copies of the Implementation reports and the steering committee minutes were provided for verification.

Management Responses

The management has been conducting continuous reviews on the implementation of the County Climate Change Action Plan. Such reviews are shared annually with the steering committee. Clear roles of the various committees exist and undertaken accordingly. Automated tracking is enforced through an online kobo tool by the internal monitoring and evaluation focal person. Copies of the Implementation reports and the steering committee minutes were provided for verification.

Committee Observation

The Committee observed that the management failed to submit biennial reviews of the implementation of the County Climate Change Action Plan and evidence that the report was submitted to the Steering Committee during the audit cycle.

Committee Recommendation

The Committee recommends that the Accounting Officer should ensure timely submission of documents during the audit process in line with section 47 of the Public Audit Act as read together with section 149(2)(k) of the Public Finance Management Act failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act in the subsequent audit cycle.

5. Failure to Conduct Internal Audit

During the year under review, the Fund was yet to constitute an audit committee. Further, it was noted that internal audit was not undertaken on the operations of the Fund contrary to Section 155. (1) of the Public Finance Management Act, 2012 which requires that every county government entity shall have appropriate arrangements for conducting internal audit according to the guidelines issued by the Accounting Standards Board.

In the circumstances, the Fund did not benefit from the oversight role and advice from the audit committee and the internal audit function.

Management Response

There exists a county level Audit Committee. This committee is fully and properly constituted. The Fund will be continuously engaging the committee to conduct risk-based; value-for-money and systems audits aimed at strengthening internal control mechanisms. Regular internal audits have been integrated to continuously support and inform project implementation on regular basis. Copies of the Audit engagement letter were provided for verification.

Committee Observation

The Committee observed that the management is using the Audit Committee at the County executive.

Committee Recommendation

The Committee recommends that the County Executive Committee Member (CECM) – Finance ensures that 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.

6. Lack of Risk Management Policy

Review of the internal controls of the Fund revealed that the risk Management policy was not in place. In addition, no documented formal risk assessments were provided for audit review for the period under review. This was a violation of Regulation 158(1) of the public Finance Management (County government) Regulations, 2015 which require that an entity develops risk management strategies, which include fraud prevention mechanism and a system of risk management and internal control that builds robust business operations. In the circumstances, the effectiveness of internal controls, risk management and overall governance of the Fund could not be confirmed.

Management Response

The county Executive has developed Risk Management Policy and forwarded to the office of County Attorney's for review.

Committee Observation

The Committee observed that the management has developed the Risk Management Policy and is under review at the County Attorney office.

Committee Recommendation

The Committee recommends that the Governor ensures the Accounting Officer develops and implements a Risk Management Policy, ICT Policy and Disaster Recovery Plan at the facility level and submits the finalized documents to the Senate and Auditor-General within 60 days of adoption of this report, failure to which the provisions of Section 199 of the Public Finance Management Act Cap 412A on penalties for offences shall apply.

4.3. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR TURKANA COUNTY COOPERATIVE DEVELOPMENT ENTERPRISE FUND FOR THE FINANCIAL YEAR 2024/25

The Committee received written management responses to the following queries raised in the report of the Auditor-General on financial statements of Turkana County Cooperative Development Enterprise Fund for the Financial Year 2024/2025 –

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a Qualified Opinion on the financial statements of the Turkana County Cooperative Development Enterprise Fund on the following basis;-

Unresolved Prior Year Matters

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

Management Responses

No	Year	Unresolved Audit Matter	Management Response
1	2023/2024	Budgetary Control and Performance	The fund regulations have been approved by the County Executive Committee and submitted to the county assembly for approval. (Refer to annex (a-b): Approved regulations and forwarding letter to the County Assembly).
2	2023/2024	Failure to Operationalize the Fund	The fund regulations have been approved by the County Executive Committee and submitted to the county assembly for approval. (Refer to annex (a-b): Approved regulations and forwarding letter to the County Assembly).
3	2023/2024	Delay in Refund of Borrowed Funds	The county executive has reported the payables in the financial statements in line with accrual reporting and has included in the debt management strategy to be funded in line with the debt management strategy paper

4	2023/2024	Lack of Enabling Regulations for the Funds.	The fund regulations have been approved by the County Executive Committee and submitted to the county assembly for approval. (Refer to annex (a-b): Approved regulations and forwarding letter to the County Assembly).
5	2023/2024	Lack of Risk Management Policy and Strategy	The approval of fund regulations by the County Assembly will pave way for formulation of risk management policy to mitigate against risk.

Committee Observation

The Committee observed that the management is progressively addressing the issues raised by the auditor general during the previous year audit matters.

Committee Recommendation

The Committee recommends that —

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

1. Unutilized Bank Balances

The statement of financial position reflects cash and cash equivalents balance of Kshs.93,236,388 as disclosed in Note 8 to the financial statements. The account balance has been accumulated for four (4) consecutive years. The funds have remained idle without being utilized for the intended purpose. This was contrary to the guiding principles of cash management and Regulation 83(1)(c) of the Public Finance Management (County

Governments) Regulations, 2015 which provide that county government entities should avoid accumulation of idle cash balances.

In addition, Management did not adhere to Section 6(a-j) of the Turkana County Cooperative Enterprise Development Fund (Amendment) Act, 2019, which identifies the object and functions of the Fund to finance and promote social economic welfare of the co-operative, provide affordable and accessible credit to primary co-operative, facilitating in investment of co-operatives, enrich principle of prudent financial management and administrative action in management of co-operatives, facilitate market of products and services of co-operatives and revive key primary co-operative societies and accelerate economic development.

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

Management Response

The fund management was unable to disburse the funds as budgeted due to lack of regulations to operationalize the Co-operative Enterprise Development Fund Act. The fund regulations have been approved by the County Executive Committee and submitted to the county assembly for approval. Copies of the Approved regulations and forwarding letter to the County Assembly were provided for verification.

Committee Observation

The Committee observed that the fund management was unable to disburse the funds as budgeted due to lack of regulations to operationalize the Co-operative Enterprise Development Fund Act. The fund regulations have been approved by the County Executive Committee and submitted to the county assembly for approval.

Committee Recommendation

The Committee recommends that the Auditor-General keeps the matter on check, and report to the Senate on its progress in the subsequent financial year audit.

2. Delay in Refund of Internally Borrowed Funds

The statement of financial position reflects receivables from non-exchange transactions of Kshs.3,005,500 as disclosed in Note 9 to the financial statements. The amount relates to borrowing by the County Executive of Turkana Department of Trade, Gender and Youth Affairs. The borrowing has been outstanding for more than two (2) years contrary to Section 142(3) of the Public Finance Management Act, 2012 which provides that a county government entity that has any such borrowing shall ensure that the money borrowed is repaid within a year from the date on which it was borrowed.

Further, no evidence has been provided by Management on the efforts and steps taken towards recovery of the borrowed funds. In the circumstances, the Management was in breach of the law.

Management Response

The county executive has reported the payables in the financial statements in line with accrual reporting and has included in the debt management strategy to be funded in line with the debt management strategy paper.

Committee Observation

The Committee observed that the management authorized a borrowing from the County executive without seeking approval from the County Assembly. The management has however included the amount in the debt management strategy to be funded in line with the debt management strategy paper.

Committee Recommendation

The Committee recommends that;-

- i. the Governor ensures that the accounting officer ensures refund of the borrowed amount as first charge from the County treasury;
- ii. The Auditor-General keeps the matter on check in the subsequent audit cycle, and report to the Senate on the progress status of the matter.

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

Lack of Fund Regulations

The Fund Management has not developed the supporting enabling regulations as guidelines to the implementation of the Act. This is contrary to Section 34 of the Turkana County Cooperative Enterprise Development Fund (Amendment) Act, 2019 which states that the County Executive Committee Member for the time being responsible for Cooperative Development and Marketing shall in consultation with the Board, make Regulations for better carrying out of the provisions of this Act'. In the circumstances, the effectiveness of execution of the provisions of the Act could not be confirmed.

Management Response

The fund regulations have been approved by the County Executive Committee and submitted to the county assembly for approval. Copies of the Approved regulations and forwarding letter to the County Assembly were attached for verification.

Committee Observation

The Committee observes that the regulations have been approved by the County Executive Committee and submitted to the county assembly for approval.

Committee Recommendation

The Committee recommends that the matter be marked as resolved.

4.4. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR TURKANA COUNTY EDUCATION FUND FOR THE FINANCIAL YEAR 2024/25

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

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a Qualified Opinion on the financial statements of the Turkana Education Fund on the following basis;-

1. Budgetary Control and Performance

The statement comparison of budget and actual amounts for the year ended 30 June, 2025 reflects final receipts budget and actual on comparable basis totaling to Kshs.298,564,310 and Kshs.285,564,310 respectively. This resulted to underfunding of Kshs.13,000,000 or approximately 4% of the budget. Similarly, the Fund spent Kshs.207,267,861 against actual receipts of Kshs.285,564,310 resulting to an under-utilization of Kshs.78,296,449 or 27% of actual receipts.

In the circumstances, the under-utilization affected the planned activities and may have impacted negatively on service delivery to the public.

Management response

Management takes note of the Auditor's observation regarding underfunding of Kshs.13,000,000 (4% of the budget) and under-utilization of Kshs.78,296,449 (27% of actual receipts) for the year ended 30th June 2025. The underfunding arose due to delays in release of funds from the Exchequer, which were beyond the control of the Fund. This led to a financing gap compared to the approved budget. The under-utilization of 28% of the budget is due to funds allocated for university scholarship program which was not disbursed owing to uncertainties surrounding the newly introduced and contested university funding model.

The Lack of clarity and delays in implementation framework of the new funding model impacted on disbursement of the funds to eligible needy students. The fund management is Prioritizing follow up of carry-over funds and implementation of the new funding model in the subsequent year to ensure continuity of planned activities.

Committee Observation

The Committee observed that the management experienced an underfunding of Kshs.13,000,000 or approximately 4% of the budget and an under-utilization of Kshs.78,296,449 or 27% of actual receipts.

Committee Recommendation

The Committee recommended that

- i. the Governor ensures compliance with section 149(2) (h) and (i) of the Public Finance Management Act, Cap. 412A and the standards prescribed by the Public Sector Accounting Standards Board under IPSAS 24 on the presentation of budget information in the financial statements for an entity that prepares their financial statements under the accrual basis of accounting, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply; and**
- ii. The Governor ensures that the Accounting Officer complies with regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply.**

2. Unresolved Prior Year Matters

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

No	Financial Year	Audit Issue
1	2023/2024	Delay in refund of borrowed funds
2	2023/2024	Lack of risk management policy and disaster recovery plan

Management response

The unresolved prior year matters for Financial Year 2023/2024 were recently discussed at the Senate. All the issues are partially resolved. Fund management is committed to fully addressing these matters before end of current financial year.

Committee Observation

The Committee observed that the management is progressively addressing the issues raised in the previous year audit report.

Committee Recommendation

The Committee recommends that —

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

3. Delay in refund of internally borrowed funds.

The statement of financial position reflects receivables from non-exchange transactions of Kshs.77,146,500. As disclosed in Note 14 to the financial statements. This amount relates to internal borrowing by the County Executive which had not been refunded as at the time of audit in November,2025 more than one year since the borrowing took place.

This was contrary to Section 142(3) of the Public Finance Management Act, 2012 which provides that a County Government entity that has any such borrowings shall ensure that the money borrowed is repaid within a year from the date on which it was borrowed. In the circumstances, Management was in breach of the law.

Management Response

Management acknowledges the observation. Out of the outstanding balance Kshs.77,146,500 as disclosed in Note 14 to the financial statements, Kshs.45,000,000 has since been refunded, leaving a balance of Kshs.32,146,500. The delay in full repayment was due to cash flow challenges at the County Executive.

Committee Observation

The Committee observed that the management authorized a borrowing from the County executive without seeking approval from the County Assembly. The management has however included the amount in the debt management strategy to be funded in line with the debt management strategy paper.

Committee Recommendation

The Committee recommends that;-

- i. the Governor ensures that the accounting officer ensures refund of the borrowed amount as first charge from the County treasury;**
- ii. The Auditor-General keeps the matter on check in the subsequent audit cycle, and report to the Senate on the progress status of the matter.**

4. Weak Internal Controls

The audit noted that during the year under review that the Fund did not have in place risk management strategies including fraud prevention mechanism and an Information Technology (IT) strategic plan. In addition, the Fund has not implemented effective, efficient and transparent financial management and internal control systems.

This was evidenced by lack of the following documents:-

- i. The organizational chart;
- ii. Risk management policy;
- iii. Disaster recovery plan or business continuity plan;
- iv. IT strategic committee;
- v. IT steering committee;
- vi. IT security policy

Further, The Fund did not have a robust information technology system in place during the year under review and its records of bursary disbursements for the year were maintained in Microsoft Excel spreadsheets which are prone to alterations, damage and possible manipulation of data hence the credibility of the database could not be ascertained.

This is contrary to regulation 158 (1) of the Public Finance Management (County Governments) Regulations, 2015 which provides that the Accounting Officer shall ensure that the county government entity develops risk management strategies, which include fraud prevention mechanism; and develops a system of risk management and internal control that builds robust business operations and section 117(2)(c) of the County Government Act, 2012 which states that a public entity should ensure appropriate incorporation of the use of information technology.

In the circumstances, the effectiveness of controls under the fund could not be confirmed.

Management Response

The Fund Management acknowledges the audit observation regarding the absence of key governance and control structures during the year under review, including the lack of a fraud policy, various internal control documents, and a robust IT system.

We recognize the importance of such a policy in detecting and preventing fraudulent activities. In response, the Fund Management has adopted County Government of Turkana -ICT Policy 2025 which has a robust IT internal control management policy.

The Fund has also initiated the process of developing a strategic plan for the fund has evidenced in the Board meeting minute dated 29th August ,2025

The Fund is committed to strengthening its internal control environment, enhancing governance structures, and ensuring full compliance with relevant public finance regulations. These reforms are being integrated into the Fund's strategic action plan, with periodic reviews to monitor progress and ensure sustainability. Copies of the TCG ICT Policy & Board meeting Minutes were provided for verification.

Committee Observation

The Committee observed that the Fund has initiated the process of developing a strategic plan for the fund has evidenced in the Board meeting minutes.

Committee Recommendation

The Committee recommends that the Governor ensures the Accounting Officer develops and implements a Risk Management Policy, ICT Policy and Disaster Recovery Plan at the facility level and submits the finalized documents to the Senate and Auditor-General within 60 days of adoption of this report, failure to which the provisions of Section 199 of the Public Finance Management Act Cap 412A on penalties for offences shall apply.

5. Lack of Internal Audit of the Fund

During the year under review there was no internal audit carried out on the Fund contrary to Section 155(1)(a) of the Public Finance Management Act, 2012 states that a county government entity shall ensure that it complies with this act and has appropriate arrangements for conducting internal audit according to the guidelines issued by the accounting standards board.

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

Management Response

There is absence of internal audit reviews on the Fund during the year under review. However, Management has already engaged the County Internal Audit Department to include the Fund in their annual audit work plan, and the first internal audit of the Fund is scheduled for the current financial year. In addition, arrangements are being put in place to ensure periodic risk-based internal audit reviews are carried out consistently going forward. Copies of the Internal Audit Memo were provided for verification.

Committee Observation

The Committee observed that the management has already engaged the County Internal Audit Department to include the Fund in their annual audit work plan, and the first internal audit of the Fund is scheduled for the current financial year.

Committee Recommendation

The Committee recommends that the County Executive Committee Member (CECM) – Finance ensures that 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.

4.5. REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR TURKANA COUNTY EMERGENCY FUND FOR THE FINANCIAL YEAR 2024/25

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

REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a Qualified Opinion on the financial statements of the Turkana Emergency Fund on the following basis;-

Unresolved Prior Year Matters

The following issue raised on internal borrowing by the County Executive in the previous audit report remain unresolved;

Irregular Lending of Funds to the County Executive

The statement of financial position and as disclosed at Note 13 to the financial statements reflects an amount of Kshs.60,799,134 in respect of current portion of short-term receivables from non-exchange transactions. The entire balance represents amount borrowed from the Fund by the County Executive of Turkana.

However, the amount includes borrowings totaling Kshs.20,866,940 that had remained outstanding for more than twelve (12) months contrary to Section 142(3) of the Public Finance Management Act, 2012 which provides that a county government entity that has short term borrowing shall ensure that the money borrowed is repaid within a year from the date at which it was borrowed.

In the circumstances, Management was in breach of Law.

Management response

The county executive has reported the payables in the financial statements in line with accrual reporting and has included in the debt management strategy to be funded in line with the debt management strategy paper.

Committee Observation

The Committee observed that the management is progressively acting on the auditor's recommendations of the issues raised in the previous year audit cycle.

Committee Recommendation

The Committee recommends that —

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

1. Lack of Approved Framework and Regulations for Administration of the Emergency Fund

Review the Fund's operations revealed that Management has not developed regulations, framework and criteria approved by the County Assembly as provided for in Section 6(3) of Turkana County Emergency Fund Act, 2016 which states that the County Executive Committee Member (CECM) shall administer the County Government Emergency Fund for the county government in accordance with a framework and criteria approved by County Assembly.

In addition, the CECM has not put in place regulations for operationalization of the provisions of the Act in accordance with Section 12 of Turkana County Emergency Fund Act, 2016.

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

Management Response

The Fund management has already forwarded proposed regulation to The County Assembly for approval. Copies of the Fund regulations were provided for verification.

Committee Observation

The Committee observed that the management has forwarded the proposed regulation to The County Assembly for approval.

Committee Recommendation

The Committee recommends that the Auditor General keeps the matter on check, and report to the Senate on its progress in the subsequent financial year audit cycle.

2. Delays in Refund of Funds Borrowed by the County Executive

The statement of financial position reflects current portion of short-term receivables from non-exchange transactions balance of Kshs.60,799,134 as disclosed in Note 13 to the financial statements. Examination of the receivables schedule revealed that the amount relates to borrowings by the Turkana County Executive that had remained outstanding for more than twelve months.

This is contrary to Section 142(3) of the Public Finance Management Act, 2012 which provides that the county government entity that has short term borrowing shall ensure that the money borrowed is repaid within a year from the date at which it was borrowed.

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

Management response

The county executive has reported the payables in the financial statements in line with accrual reporting and has included in the debt management strategy to be funded in line with the debt management strategy paper.

Committee Observation

The Committee observed that the management has included the amount of Kshs.60,799,134 in the debt management strategy to be funded in line with the debt management strategy paper.

Committee Recommendation

The Committee recommends that;-

- i. the Governor ensures that the Accounting officer ensures refund of the borrowed amount as first charge from the County treasury;**
- ii. The Auditor-General keeps the matter on check in the subsequent audit cycle, and report to the Senate on the progress status of the matter.**

3. Failure to Recover and Remit Public Procurement Capacity Building Levy

During the financial year under review, the Fund entered into and paid contracts amounting to Kshs.99,500,000. However, the Management did not deduct the public procurement

capacity building levy of 0.03% of the contract amount paid. This was contrary to paragraph 3(1) of Legal notice 206 of the Levy Order 2023 which states that there shall be paid a Levy by a supplier on all procurement contracts signed between the supplier and a procuring entity, at the rate of zero point zero three per centum (0.03%) of the value of the signed contract, exclusive of applicable taxes. In the circumstances, the Management was in breach of the law.

Management Response

Capacity building levy of 0.03% was introduced vide legal notice 206 of 2023. The Commencement date for the Levy order was 1st Sept, 2024 as per PPRA Circular 01/2024. The framework contract was entered into on 14th December 2023, therefore, the contract was issued before the introduction of Capacity Building Levy.

Committee Observation

The Committee observed that the management failed to deduct and remit the requisite capacity building levy of 0.03% to the Public Procurement Regulatory Authority (PPRA), contrary to Paragraphs 5 and 6 of the PPRA Circular No. 01/2024; however, the hospital has since commenced the recovery and remitting of the levy under the current financial year 2025/2026.

Committee Recommendation

The Committee recommends that Management should comply with the Public Procurement Capacity Building Levy Order, 2023, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

1. Non-Preparation of Quarterly Reports on Items Procured Through Framework Agreement

The statement of financial performance reflects use of goods and services expenditure of Kshs.99,501,725 as disclosed in Note 7 to the financial statements. The amount includes general expenses of Kshs.99,500,000 relating to the purchase of white maize through framework agreements entered into in December, 2023 for a period of two (2) years.

However, Management did not provide the quarterly reports detailing an analysis of items procured through the framework agreements. This was contrary to Section 114(6) of the Public Procurement and Disposal Act, 2015 which states that a procurement management

unit shall prepare and submit to the accounting officer with a copy to the internal auditor quarterly reports detailing an analysis of items procured through framework agreements and these reports shall include, an analysis of pattern of usage, procurement costs in relation to the prevailing market rates and any recommendations.

In the circumstances, the Management was in breach of the law Management response Fund management used framework agreements for the county executive. The county executive reports on quarterly basis to PPRA on framework agreements.

Management response

Fund management used framework agreements for the county executive. The county executive reports on quarterly basis to PPRA on framework agreements.

Committee Observation

The Committee observed that the fund operates under the county executive which reports on quarterly basis to PPRA on framework agreements.

Committee Recommendation

The Committee recommends that the Governor ensures that the Accounting Officer ensures that 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 ensure financial reporting on quarterly basis.

2.Failure to Conduct Quarterly Internal Audits

During the year under review, Management did not conduct quarterly internal audits as required by Regulation 166(1) and (2) of the Public Finance Management (County Governments) Regulations, 2015 which requires that each head of internal audit unit shall prepare a quarterly internal audit report which shall cover areas provided for in guidelines and shall be in a format issued by the Cabinet Secretary.

In the circumstances, there was weak internal controls in the Funds financial operations.

Management response

Fund management has written to the director internal audit to ensure compliance. Copies of the Letter of engagement was provided for verification.

Committee Observation

The Committee observed that the fund management failed to conduct quarterly internal audits.

Committee Recommendation

The Committee recommends that the County Executive Committee Member (CECM) – Finance ensures that the fund management 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.