



REPUBLIC OF KENYA



THE SENATE

THIRTEENTH PARLIAMENT - FOURTH SESSION

27/03/25

| PAPERS LAID        |             |
|--------------------|-------------|
| DATE               | 27/03/2025  |
| TABLED BY          | Chairperson |
| COMMITTEE          | CPIC        |
| CLERK AT THE TABLE | Ellen       |

REPORT OF THE SELECT COMMITTEE ON COUNTY PUBLIC INVESTMENTS AND SPECIAL FUNDS ON THE CONSIDERATION OF THE REPORTS OF THE AUDITOR-GENERAL FOR THE FOLLOWING COUNTY HOSPITALS, AND A FUND, FOR THE FINANCIAL YEAR 2023/2024 (1<sup>st</sup> JULY, 2023 TO 30<sup>th</sup> JUNE, 2024):

| NO. | HOSPITAL                                    | COUNTY  |
|-----|---|---------|
| 1.  | BUSIA COUNTY HEALTH SERVICES FUND           | BUSIA   |
| 2   | KAPSABET COUNTY REFERRAL HOSPITAL           | NANDI   |
| 3   | KISII COUNTY TEACHING AND REFERRAL HOSPITAL | KISII   |
| 4.  | LAMU COUNTY REFERRAL HOSPITAL               | LAMU    |
| 5.  | NYAMIRA COUNTY REFERRAL HOSPITAL            | NYAMIRA |

### VOLUME III

Clerk's Chambers

The Senate

P.O. Box 41842-00100

Nairobi

MARCH 2025

Clerk,  
Forwarded and recommended for approval  
for processing  
27/03/2025

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## **ACRONYMS/ABBREVIATION**

|       |  |
|-------|--|
| CECM  | -County Executive Committee Member               |
| EACC  | - Ethics and Anti-Corruption Commission          |
| FIF   | -Facilities Improvement Financing Act            |
| HDU   | -High Dependency Unit                            |
| ICU   | -Intensive Care Unit                             |
| IGRTC | - Intergovernmental Relation Technical Committee |
| IHMS  | -Integrated Hospital Management System           |
| IMS   | -Inventory Management System                     |
| KEMSA | -Kenya Medical Supplies Authority                |
| NHIF  | - National Health Insurance Fund                 |
| NSSF  | - National Social Security Fund                  |
| PSASB | - Public Sector Accounting Standards Board       |
| UHC   | -Universal Health Coverage                       |

## DEFINITION OF TERMS

1. **Unqualified opinion:** This refers to a clean opinion which is the most desirable in which the auditor states that the financial condition, position, and operations of an organization are fairly presented in the financial statements in accordance with Generally Accepted Accounting Principles (GAAP).
2. **Qualified opinion:** This is an opinion expressed by the auditor if the financial statements appear to contain a small deviation from Generally Accepted Accounting Principles (GAAP) but are otherwise fairly presented. It is also rendered if the management of the organization limits the scope of audit procedures.
3. **Adverse opinion:** This refers to an opinion issued when there are material exceptions to Generally Accepted Accounting Principles (GAAP) that affect the financial statements as a whole and the auditor indicates that the financial statements are not presented fairly.
4. **Disclaimer:** This is an opinion given by the auditor when there is a significant limitation in the access to audit information and documentation and inadequate cooperation by the organizational management in the audit process.
5. **Accountability** – This refers to the assurance that an individual or a group will be held responsible for their actions or inactions.

## **PREFACE**

**Hon. Speaker,**

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. 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) Pursuant to Article 96(3) of the Constitution, to exercise oversight over national revenue allocated to the county governments; and
- b) examine the reports and accounts of county public investments; and
- c) examine the reports, if any, of the Auditor-General on the county public investments; and
- d) To exercise oversight over county public investments.

## COMMITTEE MEMBERSHIP

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

## COMMITTEE SECRETARIAT

- |                            |  |
|----------------------------|--|
| 1. Mr. Njenga Njuguna, OGW | -Director, Governance and<br>Accountability and Committees     |
| 2. Ms. Emmy Chepkwony      | - Deputy Director, Governance and<br>Accountability Committees |
| 3. Mr. Yussuf Shimoy       | - Clerk Assistant I  |
| 4. Mr. Erick Njogu         | - Clerk Assistant II   |
| 5. Mr. David Khatib Omar   | - Clerk Assistant III  |
| 6. Mr. Godfrey Nyaga       | - Clerk Assistant III  |
| 7. Mr. Kennedy Owuoth      | - Fiscal Analyst   |
| 8. Mr. Jeremy Chabari      | - Legal counsel  |
| 9. Ms. Raisa Mwithi        | - Research Officer III   |
| 10. Mr. Martin Mulandi     | - Research Officer III   |
| 11. Mr. Peter Katana       | - Research Officer III   |
| 12. Mr. Josphat Ng'enh     | - Media Relations Officer                                      |
| 13. Mr. Victor Kimani      | - Audio officer.   |
| 14. Ms. Fredrick Okol      | - Serjeant-at-arms   |

## **ESTABLISHMENT OF THE COMMITTEE**

**Hon. Speaker,**

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

**Hon. Speaker,**

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

## **EXECUTIVE SUMMARY**

In the execution of its mandate, the Committee relied on the reports of the Auditor-General on audited Accounts of the hospitals for the Financial year 2023/2024 (1<sup>st</sup> July, 2023 to 30<sup>th</sup> June, 2024) as the primary documents for the investigations. The Committee invited the Governors as the Chief Executive Officers of their respective County Governments 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 evidences from the Governors in response to the various audit queries raised by the Auditor-General in the reports under consideration on various dates. The Committee considered and concluded its inquiry onto the reports of the Auditor-General on the Financial Operations of the hospitals for the Financial Year 2023/2024.

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

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

**CHAPTER ONE** is a record of the audit queries raised in the report of the Auditor-General for Busia County Health Services Fund for the Financial Year 2023/24 and observations and recommendations of the Committee on each audit query.

**CHAPTER TWO** is a record of the audit queries raised in the report of the Auditor-General for Kapsabet County Referral Hospital for the Financial Year 2023/24 and observations and recommendations of the Committee on each audit query.

**CHAPTER THREE** is a record of the audit queries raised in the report of the Auditor-General for Kisii Teaching and Referral Hospital for the Financial Year 2023/24 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 Lamu County Referral Hospital for the Financial Year 2023/24 and observations and recommendations of the Committee on each audit query.

**CHAPTER FIVE** is a record of the audit queries raised in the report of the Auditor-General for Nyamira County Referral Hospital for the Financial Year 2023/24 and observations and recommendations of the Committee on each audit query.

## INTRODUCTION

This report is a summary of the findings in the audit reports of Level 4 and Level 5 hospitals, and a Fund, for the year ended 30 June, 2024, for Busia, Nandi, Kisii, Lamu and Nyamira Counties.

The Constitution of Kenya, 2010 ensures that County governments have more authority over health services, and entrusting them with the duty of delivering high-quality subnational healthcare to the citizens. Although this has improved the nation's access to healthcare services, it has also brought about a number of challenges, particularly with regard to funding healthcare. The forty-seven (47) County Governments assumed the management of hospitals within their jurisdictions, comprising Community Facilities (Level 1), Health Dispensaries (Level 2), Health Centers (Level 3), County Hospitals (Level 4) and County Referral Hospitals (Level 5).

In addition, the Health Act, 2017 establishes a unified health system, to coordinate the inter-relationship between the National Government and County Governments health systems, and to provide for the regulation of health care services, health care service providers, health products and health technologies, and the National Government retaining oversight of health policy guidelines and the national referral hospitals.

During the financial year under review: FY 2023/2024, the Committee observed the following cross-cutting issues that require urgent attention as they have serious implications on the sustainability of service delivery in Level 4 and Level 5 hospitals. They include:

1. Failure to submit financial statements for audit
2. Budgetary performance and control
3. Financial reporting weaknesses
4. Exceptions in revenue receipts and recognition
5. Asset management weaknesses
6. Pending bills, compliance and governance
7. Internal controls weaknesses
8. Challenges in NHIF claims management
9. Inadequacies in UHC as per Kenya Quality Model for Level 4 and Level 5 hospitals in terms of staffing, services and equipment

### **1. Unsupported Property, Plant and Equipment**

- The Committee noted that the hospitals management did not maintain an updated asset register detailing the dates of acquisition, cost, supplier, location, depreciation, unique identification number, disposal and other details to control its assets.
- The Committee also noted there were no handover report and ownership documents for the reported assets including the land, buildings, motor vehicles, plant and medical equipment and other assets owned and operated by the hospitals contrary to section 104(1)(h) of the Public Finance Management Act 2012.

### **2. Non-Compliance with Requirement of Universal Health Coverage**

- The Committee observed that hospitals had deficiencies as far as the Universal Health coverage required. These deficiencies contravened the First Schedule of the Health Act, 2017 and imply that accessing the highest attainable standard of health, which includes the right to health care services, including reproductive health care as required by Article 43(1) of the Constitution of Kenya, 2010 may not be achieved.

### **3. Unremitted Housing Levy and National Industrial Training Authority Payments**

- The Committee observed that the Hospital failed to deduct and remit housing levy and National Industrial Training Authority (NITA) contributions due to the short-term, daily-wage employment model utilized for casual workers, who are not salaried employees.
- The Committee noted that the law did not have explicit provisions on how such laborers are levied on housing and training.

### **4. Long Outstanding Trade and Other payables**

- The Committee noted that the hospitals had long outstanding payables and the managements did not explain why the bills were not settled during the year when they occurred and did not provide justification for non-payment of the long outstanding pending bills which should have formed the first charge in the subsequent years' budget.
- The committee noted that non-payment of suppliers may result in suppliers withholding their services and the Hospitals may incur avoidable and unnecessary costs of interest and penalties on pending payments.

## **5. Long outstanding Trade and other receivables**

- Examination of Audit reports for the financial year 2023/24 by the Committee revealed that a number of water companies had huge amounts of receivable balances emanating from individuals, private and public institutions. The Committee noted that the trade receivables could not be supported by a detailed debtors aging analysis which would have guided on the most appropriate way of collecting debts.

## **6. Undisclosed Property, Plant and Equipment**

- The Committee noted that during the period under review hospitals, did not disclose property, plant and equipment and inventory balances in their financial statements despite owning various assets which include land and buildings, specialized and non-specialized medical equipment, furniture and fittings, motor vehicles and ICT equipment
- This is contrary to the provisions of IPSAS 17 that prescribes the recognition of property, plant and equipment so that users of the financial statements can discern information about an entity's investment in its property, plant, and equipment and the changes in such investments.

## **7. Incomplete Asset Register**

- Audit review of the fixed assets register revealed that the values of individual assets were not included in the registers. This is contrary to Regulation 136(1) of the Public Finance Management (County Government) Regulations, 20'15 which states that the Accounting Officer shall be responsible for maintaining a register of assets under his or her control or possession as prescribed by the relevant laws. In some instances, there was no evidence to show that the Hospitals had carried out valuations of assets. In the circumstances, the existence of an effective mechanism to safeguard assets could not be confirmed and Managements were in breach of the regulations

## **8. Use of Manual Accounting Systems**

- It was observed that some Hospital management relied on a manual accounting system for maintaining financial records, including payroll, cashbooks, payments, assets, and the production of ledgers and trial balances, among other functions. The manual nature of these processes necessitated manual data entry and posting, which increased the risk of human error and potential data manipulation. In the circumstance, the reliability and accuracy of the financial reports could not be confirmed.

## **9. Budgetary performance and Control**

- The Committee noted that the hospitals management were unable to meet its revenue collection budget emanating from the underutilization of the budgets. The committee observed that under realization and under absorption of the budget may impact negatively on service delivery towards achieving universal health coverage.

### **Recommendations**

#### **The committee recommends that-**

1. The County Governments should enhance the capacity of the Management of the Level 4 and Level 5 hospitals to ensure compliance with the financial reporting requirements for all the hospitals.
2. All county Governments should ensure full operationalization of the Facilities Improvement Fund, to boost the financial autonomy and ensure infrastructural developments in all hospitals.
3. There is need for Training and capacity building focusing on specific requirements of the Public Finance Management Act, 2012 including budgeting, budgetary control and performance and preparation of financial statements.
4. The Management should be trained on internal controls for revenue, cash, bank, and debtors management including how to effectively follow up on the National Health Insurance Fund (NHIF) claims, currently known as the Social Health Insurance Fund (SHIF).
5. Ownership of the Hospital Assets-The National Government and County Governments should assist hospitals to obtain ownership documents such as the title deeds for the key assets which belong to the hospitals.
6. The County Governments should appoint Boards for the hospitals under their jurisdiction and ensure that the Board members have the requisite competencies to enhance performance and efficiency in the hospitals.
7. The National Government and County Governments should fund and equip the hospitals with the required medical staff, the physical and medical equipment to enable them offer the prescribed services for both Level 4 and Level 5 hospitals.

## GENERAL OBSERVATIONS

1. **Employment and Contractual Issues:** Many UHC workers are on short-term contracts without clear renewal terms, which creates job insecurity. This instability can lead to high turnover rates, affecting the quality and continuity of healthcare services in public facilities. Additionally, the contractual terms and conditions for UHC workers often lack clarity and transparency, leading to misunderstandings and potential exploitation.
2. **Resource and Infrastructure Constraints:** healthcare workers frequently work in facilities that lack essential resources, such as medical supplies and equipment, necessary for delivering quality care. This shortage can be demoralizing for workers and limits the overall effectiveness of service delivery to patients in such hospitals.
3. **Lack of a proper billing system in hospitals;** this results in revenue losses and inefficiencies as patients are not billed properly and some are not billed as they escape from these hospitals.
4. **Stock outs, delays and expired drugs in hospitals;** KEMSA's drug supply has been associated with poor forecasting, which leads to stock outs and delays. The quality of drugs supplied by KEMSA has also been questioned, with reports of expired or substandard drugs being delivered.
5. **Bookkeeping, Preparation & Accuracy of the Financial Statements** - The Committee observed that there were inaccuracies and errors in regards to the preparation and presentation of financial statements in almost all hospitals. Further, the Accountants, and the Managing Directors faced challenges in submitting supporting documents to the auditors on time contrary to section 62 of the Public Audit Act, Cap.412B making the accountability and audit process difficult. The delays in preparation of complete financial statements indicating lack of requisite competencies and experiences in the hospitals.
6. **Compliance to Reporting Standards and Accuracy of the Financial Statements** - The Committee observed that Accountants experienced challenges in adapting to the International Public Sector Accounting Standards (IPSAS) reporting framework in preparation of financial statements. Additionally, the Committee observed that the Public Sector Accounting Standards Board (PSASB) reviews the IPSAS periodically to take into account emerging issues and conform to best accounting practices. The Committee found that some hospitals experienced challenges in the application of these standards while preparing financial statements as evidenced by the audit queries.

7. **Ethnic Inclusivity** – The Committee observed that some hospitals were non-compliant with section 7(1) and (2) of the National Cohesion and Integration Act, Cap.7N which provides, “*all public offices shall seek to represent the diversity of the people of Kenya in employment of staff and that no public institution shall have more than one third of its establishment from the same ethnic community*” and Section 65(1) (e) of County Government Act, Cap.265 which provides, “*The need to ensure that at least 30% of the vacant posts at entry level are filled by candidates who are not from the dominant ethnic community in the County*”. Some hospitals such as Migori County Level 4 Hospital had 92% of their staff originating from the same ethnic community.
8. **Non-remittance of statutory deductions** – The Committee observed that various hospitals had continuously failed to remit statutory deductions to various institutions such as National Health Insurance Fund and National Social Security Fund which is a violation of the law especially the Retirement Benefits Act, Cap.197, the Pensions Act, Cap.189 and the Income Tax Act, Cap.470 which led to continued accrual of interest and penalties.
9. **Budgetary Control and Performance** – The Committee observed that a number of hospitals had weaknesses in executing their budgets and did not adhere to the approved budget ceilings set for programs. Hospitals either over-utilized or under-utilized the appropriated funds. In some instances, funds were re-allocated to items that were not budgeted for and without prior approval by the Board of Directors. In addition, hospitals experienced high revenue shortfalls and unrealistic budgets.
10. **Non-transfer of assets** – The Committee observed that most hospitals had not fully transferred all assets from the County Executive and did not maintain a fixed-assets register as required by section 149(2)(o) of the Public Finance Management Act, 2012. In this regard, such hospitals did not reflect their correct financial position within their books of account.
11. **Breach of various provisions of the law** – The Committee observed that there was non-compliance with the provisions of the Public Finance Management Act, Cap. 412A, Public Audit Act, Public Finance Management (County Government) Regulations, 2015, the Income Tax Act (Cap. 470), 1974, the Retirement Benefits Act, 1997, the Pensions Act, the County Government Act and the Accountants Act, Cap.531.

## **GENERAL RECOMMENDATIONS**

The Committee recommends that-

1. There should be regularization of UHC workers' contracts to ensure job security, offering either permanent or long-term contracts based on performance and service needs. This can be done through county governments and the Ministry of Health. The roles of the national and county governments regarding UHC employment, funding, and healthcare delivery should be clearly defined to ensure better accountability and streamlined management of resources.
2. County Governments should invest in essential resources, such as medical supplies, protective gear, and functioning equipment. This will help health workers provide effective care and maintain their motivation to work in underserved areas.
3. Hospitals should implement an Integrated Hospital Management Information System with integrated billing capabilities that allows for seamless patient registration, billing, and discharge processes. This would minimize manual errors and ensure that each patient is billed accurately and promptly upon discharge.
4. KEMSA should have an automated Inventory Management System (IMS) that can help monitor drug stocks at every point in the supply chain. By tracking supplies in real time, KEMSA can reorder drugs before stocks run low, reducing stock outs and ensuring continuous availability of essential drugs. There should be introduction of barcoding and digital tracking systems to monitor the expiration dates of drugs throughout the supply chain. This would allow KEMSA to track stock expiration and recall drugs nearing expiry before they are dispatched to hospitals
5. The Board and the accounting officer to ensure proper record keeping and provide all the supporting documents to the Auditor-General in accordance with section 9(1)(e) of the Public Audit Act during the time of audit and adhere to the Accountants Act, failure to which the committee shall invoke section 62 of the Public Audit Act.
6. The Board of Directors in consultation with the Public Sector Accounting Standards Board conducts continuous capacity building on financial reporting standards for finance officers in the hospitals and the management, to improve the quality of reporting and enhance compliance. The board to ensure that the accountants have requisite competency and experience in financial management as is required by the Accountants Act. In addition, the accounting officer to ensure compliance with the financial reporting template of the National

Treasury. This will strengthen maintenance of books of accounts, preparation of financial statements, and timely submission of the statements and documents to the Auditor-General by the hospitals.

7. The Board and County Government to make deliberate efforts to progressively comply with section 7 (1) and (2) of the National Cohesion and Integration Act and Section 65(1) (e) of the County Governments Act on diversity, realization of the one third rule on recruitment in public institutions and ethnic inclusivity. In addition, the Board and the County Governments to establish a diversity policy with the aim of complying with the law. This will be reviewed in the subsequent audit period.
8. The County Governments, the Board and the accounting officers shall ensure timely remittance of statutory deductions to the relevant institutions to avoid the accrual of interest and penalties that will further increase the companies' liabilities. The accounting officer should comply with the provisions of the Income Tax Act, the Retirement Benefits Act, the Pensions Act. The Board should provide a plan and commitment for the repayment of the outstanding statutory deductions, failure to which the committee will recommend appropriate enforcement measures to be taken.
9. The Board and accounting officers should prepare realistic budgets and revenue projections to prevent issues of revenue shortfalls which have negative implications on the hospitals' service delivery. In the process of preparing the budget, the board should consider the previous budgetary allocation and if the current budget is to increase, it should be reasonable. In addition, the board should seek the necessary approval by forwarding the budget estimates to the County Executive Committee member for health, who shall then forward it to the County Treasury as required by the law. Further, the hospitals should automate their billing systems.
10. The Governor should ensure that the assets are transferred to the hospitals so that they reflect a true position of the hospitals in their books of account. The Board of Directors and the managing director should ensure the hospitals have updated fixed asset registers pursuant to section 136(1) of the Public Finance Management (County Government) Regulations, 2015 and in the format prescribed by the National Treasury and submit the same to the Auditor-General within 60 days from the adoption of this report.
11. The Board and accounting officers of the hospitals to strictly adhere to the relevant laws such as the Public Finance Management Act, the Public Audit Act, the Public Finance Management (County Government) Regulations, 2015, the Accountants Act, the Income Tax Act, the Employment Act, Cap.226, the

Pension Act and the Retirement Benefits Act, failure to which penalties for non-compliance will be sanctioned.

## COMMITTEE RESOLUTIONS

1. The Committee recommends that the Senate resolves that the County Public Investments and Special Funds Committee follows up on the status of implementation of resolutions of the Senate on the recommendations contained in the reports.
2. The Committee considered the reports of the Auditor-General for municipalities of the county governments tabulated in *annex 2* and observed that the reports of the county entities had—
  - (a) queries with high fiduciary risks; and
  - (b) negative implications on the sustainability of the affected county entities.
3. The Committee recommends that—
  - a) the Senate adopts the Auditor-General's reports on the municipalities of the county governments tabulated in *annex 2*; and
  - b) within ninety (90) days of the adoption of this report, the accounting officers of the municipalities of the said County Governments take necessary actions to address the audit queries and file a report to the Senate on the same.
4. Therefore, the Committee recommends to the Senate to resolve that the Committee—
  - (a) undertakes inquiries into the issues raised by the Auditor-General to ensure that all the issues raised are adequately addressed;
  - (b) conducts visits and inspect all projects highlighted by the Auditor-General in her reports to confirm the status and verify any information that may ensue; and
  - (c) follows up on the issues raised by the Auditor-General to ensure that all officers who may have taken part in the misappropriation of funds or any other breach of law are properly investigated and, where found culpable, prosecuted in a court of law.

## ACKNOWLEDGEMENTS

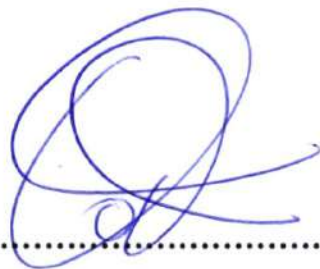
**Hon. Speaker,**

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

**Hon. Speaker,**

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

SIGNED: .....



DATE: .....

27<sup>th</sup> March 2025

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

**CHAIRPERSON**

## **COMMITTEE MEMBERSHIP**

**Hon. Speaker,**

The membership of the Committee comprises of the following Senators-

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





## **COMMITTEE SECRETARIAT**

- |                         |                            |
|-------------------------|----------------------------|
| 1. Mr. Yussuf Shimoy    | - Clerk Assistant I        |
| 2. Mr. David Angwenyi   | - Clerk Assistant I        |
| 3. Mr. Erick Njogu      | - Clerk Assistant II       |
| 4. Mr. Godfrey Nyaga    | - Clerk Assistant III      |
| 5. Mr. Kennedy Owuoth   | - Fiscal Analyst           |
| 6. Ms. Zainab Jirma     | - Legal counsel            |
| 7. Ms. Linet Aseka      | - Research Officer III     |
| 8. Ms. Raisa Mwithi     | - Research Officer III     |
| 9. Mr. Martin Mulandi   | - Research Officer III     |
| 10. Mr. Peter Katana    | - Research Officer III     |
| 11. Ms. Winfred Ocholla | - Audio officer            |
| 12. Mr. Patrick Ngenoh  | - Procurement officer      |
| 13. Mr. Josphat Ng'eno  | - Media Relations Officer. |
| 14. Ms. Julia Gachoki   | - Serjeant-at-arms         |

**ADOPTION OF THE REPORT OF THE SENATE SELECT COMMITTEE ON  
COUNTY PUBLIC INVESTMENTS AND SPECIAL FUNDS ON THE  
CONSIDERATION OF THE AUDIT REPORTS OF FIVE COUNTY HOSPITALS  
FOR THE FINANCIAL YEAR 2023/2024**

| NO. | HOSPITAL                                   | COUNTY  |
|-----|--|---------|
| 1.  | BUSIA COUNTY HEALTH SERVICES FUND          | BUSIA   |
| 2   | KAPSABET COUNTY REFERRAL HOSPITAL          | NANDI   |
|     | KISII COUNY TEACHING AND REFERRAL HOSPITAL | KISII   |
| 3.  | LAMU COUNTY REFERRAL HOSPITAL              | LAMU    |
| 4.  | NYAMIRA COUNTY REFERRAL HOSPITAL           | NYAMIRA |

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<br>( <i>Chairperson</i> ) |  |
| 2.  | Sen. Eddy Gicheru Oketch, MP ( <i>Vice – Chairperson</i> )    |   |
| 3.  | Sen. William Kipkemoi Kisang, MP.                             |   |
| 4.  | Sen. Agnes Kavindu Muthama, MP                                |   |
| 5.  | Sen. Peris Pesi Tobiko, CBS, MP                               |  |
| 6.  | Sen. Beth Kalunda Syengo, MP                                  |   |

|    |                                    |   |
|----|------------------------------------|---|
| 7. | Sen. Hamida Kibwana Ali, MP        |  |
| 8. | Sen. George Mungai Mbugua, MP      |   |
| 9. | Sen. Raphael Chimera Mwinzangu, MP |   |

## **CHAPTER ONE**

### **REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR BUSIA COUNTY HEALTH FOR THE FINANCIAL YEAR 2023/2024**

The Governor of Busia County, Hon. Dr. Paul Otuoma, EGH, appeared before the Committee on Monday, 24<sup>th</sup> March, 2025 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Busia County Health Services Fund for the Financial Year 2023/2024. The Governor was accompanied by the following officers—

1. John Oscar Juma- Ag County Secretary
2. Topistar M Wanyama- CECM, Finance and Economic Planning.
3. Dr Lusamba Willberforce- Chief Officer, Health
4. CPA Maxmilla Ayieko- Director, Internal Audit

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

The Auditor-General rendered a **Qualified Opinion** on the financial statements of the Busia County Health Services Fund for the financial year on the following basis—

#### **Unsupported Expenditure**

The statement of financial performance reflects an amount of Kshs.11,090,267 in respect of use of goods and services. However, the amounts include payment of Ksh. 5,929,521 whose details show it was a transfer of the money but details of recipient were not included while the remaining balance of Kshs.3,160,746 relate to transfers made to various dispensaries but no supporting documents were provided for audit.

#### **Management Response**

The management is in agreement with the observation of the auditor and hereby avails the supporting documents for the transfer of Kshs.5,929,521 which was made to 1 County referral hospital, 6 Sub County Hospitals, 7 Sub County Health Management Teams, 2 Dispensaries, 1 County Health Management Team and Administration costs.

The management further states that the transfers of Ksh 5,160,746 relates to the transfers made to 6 upgraded sub county hospitals, 18 Health centre and 61 Dispensaries

### **Committee Observations**

The Committee observed that whereas the supporting documents were provided and verified by the Auditor-General, the submission was done outside the timelines contemplated under the Public Audit Act, Cap.412B and constitutes an offence under section 62(2) of the Act.

### **Committee Recommendations**

**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 line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply; and**
- 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.**

### **Budgetary Control and Performance**

The statement of Comparison of budget and actual Amounts reflects budget and actual on comparable basis amounts of kshs.21,572,618 and Ksh. Nil respectively resulting to underfunding of Ksh. 21,572,618 or 100% of the budget. Similarly, the statement reflects total actual expenditure of Ksh. 11,090,267 against an approved budget of Ksh. 21,572,618 or 51% of the budget. The underfunding and under performance may have affected the planned activities and may have impacted negatively on service delivery to the public.

### **Management Response**

The management hereby states that the under-funding and under-performance of the budget was caused by the need for the County Government to align its health care funding with the National Government directive to adopt the Facilities Improvement

Financing Act 2023 passed by the National Assembly. The Busia County Health Services Fund was therefore not funded as the County was in the process of enacting the new Busia County Health Facilities Improvement Financing Act 2024 which will enable smooth operations of health facilities in the county.

#### **Committee Observations**

The Committee observed that the fund failed to absorb its budget and had an underfunding of Ksh. 21,572,618 or 100% of the budget during the financial year under review.

#### **Committee Recommendations**

**The Committee recommends that 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 Management Act on penalties for offences shall apply.**

## CHAPTER TWO

### **REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR KAPSABET COUNTY REFERRAL HOSPITAL FOR THE FINANCIAL YEAR 2023/2024.**

The Governor of Nandi County, Hon. Stephen Kipyego Sang, EGH, appeared before the Committee on Thursday, 13<sup>th</sup> March, 2025 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Kapsabet County Referral Hospital for the Financial Year 2023/2024. He was accompanied by –

1. Dr Francis Sang- County Secretary
2. Dr. Angeline Chepchirchir, CECM, Health
3. Hilary K Serem- CECM, Finance and Economic Planning
4. Fredrick Kiptum- Chief Officer, Health

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

The Auditor-General rendered an **Adverse opinion** on the financial statements of the Kapsabet County Referral Hospital for the period under review on the following basis:-

#### **1. Presentation, Accuracy and Disclosures in the Financial Statements**

Review of the financial statements revealed non-compliance with the accrual basis method of accounting under the International Public Sector Accounting Standards (IPSAS) accounting framework and the approved reporting template issued by the National Treasury as follows:

##### **1.1 Presentation of the Financial Statements**

- i) The financial statements on page (vii) contain the board of directors' profiles, however, the passport-size photo and key profession/academic qualifications of the directors were not disclosed.
- ii) The profile of the medical superintendent was inadvertently omitted from the profiles of the board of management.
- iii) The amounts in the financial statements are presented in two (2) decimal points.
- iv) There was misalignment between the note numbering in the statement of financial position and in the notes to the financial statements.
- v) The financial statements contain illustrative information at the back of the cover page and on pages 5, 7, 9, 24, 26, 27, 48, 52, 54, 55, 56 and 57.

## **Management Response**

The management has amended the financial statements to include passport size photo and key professional/academic qualifications of the board of directors and the profile of the Medical Superintendent has also been incorporated. All amounts in the financial statements have been rounded off to the nearest whole number and illustrative information at the back of the cover page and on pages 5,7,9,24,26,27,48,52,54,55,56 and 57 have been expunged.

## **Committee Observations**

The Committee noted that the financial statements of the hospital did not comply with the accrual basis method of accounting under the International Public Sector Accounting Standards (IPSAS) accounting framework and the approved reporting template issued by the National Treasury.

## **Committee Recommendations**

**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 line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- ii. the Accounting Officer should comply with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- 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 should enhance the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.**

## **1.2 Disclosures in the Financial Statements**

- i. The Report of the Medical Superintendent and the Inter-Entity Confirmation Letter were not signed.
- ii. The dates when the Chairman's statement and the progress on follow up of auditors' recommendations were signed was not been indicated.
- iii. The financial statements under consideration are for the period ended and as at 30 June 2024. However, the Statement of Board of Management's Responsibilities, Statement of Financial Performance and the Statement of Financial Position were signed on 26 April, 2024, two (2) months before the close of the financial year under consideration.
- iv. The Report of the Board of Management indicates that the results of the Hospital for the year ended 30 June, 2024 are set out on pages 1 to 5. However, the results are set out on pages 1 to 9.
- v. The report also states that the members of the board who served during the year are shown on page xxx. However, the members of the board are shown on pages vii and viii.
- vi. In the audit report of the financial year 2022-2023, there issues were raised, under the Report on the Financial Statements, the Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance, however these issues were not included in the report on the progress on follow up of auditors' recommendations.

### **Management Response**

The Amended Financial Statements has addressed the concerns raised above.

### **Committee Observations**

The Committee noted that the financial statements of the hospital did not comply with the accrual basis method of accounting under the International Public Sector Accounting Standards (IPSAS) accounting framework and the approved reporting template issued by the National Treasury.

## **Committee Recommendations**

**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 line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- ii. the Accounting Officer should comply with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- 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 should enhance the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.**

### **1.3 Misstatements in Statement of Financial Performance**

- i) The statement of financial performance reflects transfers from the County Government Nil amount and Kshs.4,235,231 in the previous year. The corresponding Note 6 to the financial statements reflects Nil amount for both years.**
- ii) The statement of financial performance reflects Nil amount depreciation and amortization expense, while Note 31 to the financial statements, property, plant and equipment and Note 43 to the financial statements, cash generated from operations, both reflect depreciation amount of Kshs.590,803,27.**

## **Management Response**

The Financial Statements have been amended to reflect the true position of Nil transfers in both Financial years as we do not receive any transfers from the county Government.

Depreciation and amortization of 590,803 have been included in the amended statement of financial performance.

### **Committee Observations**

The Committee noted that the financial statements of the hospital did not comply with the accrual basis method of accounting under the International Public Sector Accounting Standards (IPSAS) accounting framework and the approved reporting template issued by the National Treasury.

### **Committee Recommendations**

**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 line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;
- ii. the Accounting Officer should comply with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;
- 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 should enhance the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.

### **1.4 Misstatements in Statement of Financial Position**

- i) The statement of financial position reflects trade and other payables current year balance of Kshs.34,370,435 and Kshs.23,088,820 prior year balance. However,

- the corresponding Note 34 to the statement of financial position does not contain the previous year balance.
- ii) The statement of financial position is out of balance, reflecting net assets balance of Kshs.23,412,017.64 and capital and reserves balance of Ksh. (4,718,817.03).
  - iii) The statement of cash flows reflects purchase of property, plant and equipment balance of Kshs.79,837,080.97. However, the statement of financial position reflects property, plant and equipment balance of Kshs.3,321,522.88 which includes additions in the year amount of Kshs.505,500 as disclosed in Note 31 to the financial statements.

### **Management Response**

The management has amended the statement of financial position and statement of cash flows in accordance with the approved financial reporting standards as reflected in financial statements presented.

### **Committee Observations**

The Committee noted that the financial statements of the hospital did not comply with the accrual basis method of accounting under the International Public Sector Accounting Standards (IPSAS) accounting framework and the approved reporting template issued by the National Treasury.

### **Committee Recommendations**

**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 line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;
- ii. the Accounting Officer should comply with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of

- the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;
- 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 should enhance the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.

### **1.5 The Statement of Changes in Net Assets**

- i. The statement of changes in net assets includes revaluation gain amount of Ksh. (483,586.03) and capital/development grants amount of Kshs.4,235,231. However, these amounts were not supported or explained.
- ii. The statement of financial performance reflects a net surplus amount of Kshs.50,681,608 (2023: Kshs.18,349,830). However, the surplus for both years were not factored in the Statement of Changes in Net Assets in arriving at the Net Assets for the year.

### **Management Response.**

The management has amended the statement of changes in net Assets and statement of financial performance in accordance with the approved financial reporting standards as reflected in the amended financial statements presented.

### **Committee Observations**

The Committee noted that the financial statements of the hospital did not comply with the accrual basis method of accounting under the International Public Sector Accounting Standards (IPSAS) accounting framework and the approved reporting template issued by the National Treasury.

### **Committee Recommendations**

**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 line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;
- ii. the Accounting Officer should comply with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;
  - 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 should enhance the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.

#### **1.6 Misstatements in Statement of Cash Flows**

- i) The statement of cash flows reflects transfers from the County Government Nil amount and Kshs.4,235,231 in the previous year. The corresponding Note 6 to the financial statements reflects Nil amount for both years.
- ii) The statement of cash flows reflects total receipts amount of Kshs.149,737,075 and total payments amount of Kshs.605,130,252 resulting into net cash flows from operating activities amount of Ksh. (455,393,177), which is at variance with the reported net cash flows from operating activities amount of Kshs.111,815,014.73.
- iii) The statement of cash flows reflects net cash flows from financing activities amount of Kshs.79,837,080.97. However, it was not indicated how this amount was arrived at.
- iv) The statement of cash flows reflects cash and cash equivalents balance as at 30 June 2023 of Kshs.10,360,727. However, a recast of the statement of cash flows reflects cash and cash equivalents balance of Kshs.9,704,727, resulting to a variance of Kshs.656,000 which has not been explained or reconciled.

#### **Management Response**

The management has amended the statement of cash flows in accordance with the approved financial reporting standards as reflected in financial statements presented.

## **Committee Observations**

The Committee noted that—

- i. The financial statements of the hospital did not comply with the accrual basis method of accounting under the International Public Sector Accounting Standards (IPSAS) accounting framework and the approved reporting template issued by the National Treasury.
- ii. There was a variance of Kshs.111,815,014.73 in the statement of cash flows total receipts amount of Kshs.149,737,075 and total payments amount of Kshs.605,130,252.

## **Committee Recommendations**

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 line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;
- ii. the Accounting Officer should comply with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;
- 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 should enhance the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.

### **1.7 Misstatements in Statement of Comparison of Budget and Actual Amounts**

The statement of comparison of budget and actual amounts reflects rendering of services - medical service income amount of Kshs.140,383,738 which is at variance with the rendering of services - Medical Service Income amount of Kshs.149,737,075

reflected in the statement of financial performance resulting to a variance of Kshs.9,353,337 which has not been explained or reconciled.

### **Management Response.**

The management has amended the statement of comparison of budget and actual amounts in accordance with the approved financial reporting standards as reflected in financial statements presented.

### **Committee Observations**

The Committee noted that—

- i. The financial statements of the hospital did not comply with the accrual basis method of accounting under the International Public Sector Accounting Standards (IPSAS) accounting framework and the approved reporting template issued by the National Treasury.
- ii. There was a variance of Kshs.9,353,337 in the statement of comparison of budget and actual amounts reflecting rendering of services - medical service income amount of Kshs.140,383,738 and rendering of services - Medical Service Income amount of Kshs.149,737,075.

### **Committee Recommendations**

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 line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;
- ii. the Accounting Officer should comply with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;

- 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 should enhance the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.

#### **1.8 Misstatements in Prior Year Amounts and Balances**

There were discrepancies in the prior year amounts and balances between the current and prior year financial statements in the statement of financial performance, statement of financial position, statement of changes in net assets and in the statement of cash flows.

In the circumstances, the accuracy, completeness and presentation of the financial statements could not be confirmed.

#### **Management Response.**

The management has amended the statement of financial performance, statement of financial position, statement of changes in net Assets and statement of cash flows, in accordance with the approved financial reporting standards as reflected in financial statements presented.

#### **Committee Observations**

The Committee noted that the current and prior year financial statements in the statement of financial performance, statement of financial position, statement of changes in net assets and in the statement of cash flows had discrepancies in the prior year amounts.

#### **Committee Recommendations**

**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 line with their terms and conditions of appointment or employment, failure to which

- the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;
- ii. the Accounting Officer should comply with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;
  - 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 should enhance the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.

## **2. Revenue from Rent of Facilities**

The statements of financial performance and note 12 to the financial statements reflects Nil amount revenue from rent of facilities. However, the Hospital owns residential houses that have been rented/leased out to an undisclosed number of staff and medical officer interns.

Similarly, the Hospital owns a canteen and a shop operating cyber and mobile money services which are occupied by persons whose identities were not revealed. The terms of tenancy for the two facilities were undisclosed. Interview with the proprietors of the two businesses revealed that there is no formal contractual relationship between the Hospital and the proprietors and that the proprietors were exempted from paying any form of rental fees.

Further the Hospital management did not have a housing policy to guide rental house/space allocations and relationship between the organization and its tenants. In addition, supporting documents such as rental or lease agreements, invoices and rental payment receipts for all the rental houses were not provided for audit review.

In the circumstances, the regularity, accuracy and completeness of NIL revenue from rent income from facilities could not be confirmed.

### **Management Response.**

The management acknowledges existence of government houses dedicated for occupation by hospital staff. Rent is collected through a check-off system and reflected in the executive financial statements.

The canteen, a metallic structure, was located on a road reserve and is not listed as a county asset. The County Government is in the process of developing housing policy.

### **Committee Observations**

The Committee observed that whereas the evidence to support the terms of tenancy for the two facilities, rental or lease agreements, invoices and rental payment receipts for all the rental houses was provided and verified by the Auditor-General, and the query marked as addressed, the submission was done outside the timelines contemplated under the Public Audit Act, Cap.412B and constitutes an offence under section 62(2) of the Act.

### **Committee Recommendations**

**The Committee recommends that 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. Rendering of Services - Medical Service Income**

The statement of financial performance reflects income from rendering of services - medical service income amount of Ksh.149,737,075 as disclosed in Note 11 to the financial statements. However, the breakdown of the amount of Kshs.149,737,075 according to the various income streams was not provided for audit review.

Rendering of services-medical service income amount of Kshs.149,737,075 includes National Hospital Insurance Fund (NHIF) claims reimbursement amount of Kshs.93,809,543 and payments paid directly by patients amount of Kshs3,157,939.50. Recalculation of the daily revenue paid directly by patients revealed total revenue amount of Kshs.58,001,754 resulting into unexplained and unreconciled variance of Kshs.5,156,186 between the amount in the supporting schedule and the daily revenue paid directly by patients.

Further there was no breakdown of the revenue received from NHIF and the portion received directly from patients for various hospital services.

The Hospital did not provide records on the NHIF billings, the amount claimed, amount paid, outstanding balances and monthly reconciliations. Further, Management of the Hospital did not provide a contract between them and NHIF for the financial year under review.

In the circumstances, the accuracy and completeness of rendering of services-medical service income amount of Kshs.149,737,075 could not be confirmed.

**Management Response.**

The management acknowledges the revenue income, However the revenue income from NHIF cannot be traced to specific services offered since it is an accrued lumpsum paid figure. The total amount received from NHIF was Ksh. 94,797,801 while cash payment via M-pesa were Ksh. 58,001,754 totalling to Ksh. 152,736,415.

The management has adopted a more efficient system which can break revenues in accordance to service rendered.

**Committee Observations**

The Committee noted that—

- i. the breakdown of the amount of Kshs.149,737,075 according to the various income streams was not provided at the time of audit.
- ii. The unreconciled variance of Kshs.5,156,186 between the amount in the supporting schedule and the daily revenue paid directly by patients was sufficiently explained by the management and verified by the Auditor-General.

**Committee Recommendations**

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 line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;
- ii. the Accounting Officer should comply with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;
- iii. the National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties
- iv. the 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; and

- v. **the Accounting Officer should enhance the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.**

#### **4. Revenue from Non-Exchange Transactions**

The statement of financial performance reflects revenue from non-exchange transactions amount of Kshs.496,724,448 which comprises in-kind contributions from the County Government amount of Kshs.496,724,448 as disclosed in Note 7 to the financial statements. However, the amount excludes pharmaceuticals and non-pharmaceuticals revenue from Kenya Medical Supplies Authority (KEMSA) and Mission for Essential Drugs and Supplies (MEDS) of undisclosed values which was paid for by the County Government. The amount also omits free Global Fund commodities which the Hospital benefited from and direct payment of salary to twelve (12) employees employed by the Hospital under the Hospital's Universal Health Coverage). The salaries and wages of the UHC employees were also not disclosed.

In the circumstances, the accuracy and completeness of revenue from non-exchange transactions amount of kshs.496,724,448 could not be confirmed.

#### **Management Response.**

The management acknowledges the support of the County Government through purchase of medical supplies and equipment. However, the said purchase was not captured in the Hospital's Financial Statement as it is reported in the executive Financial Statement.

The free Global Fund commodities as well as the 12 UHC staff are under the National Government.

#### **Committee Observations**

The Committee observed that revenue from non-exchange transactions amount in the statement of financial performance excludes pharmaceuticals and non-pharmaceuticals revenue from Kenya Medical Supplies Authority (KEMSA) and Mission for Essential Drugs and Supplies (MEDS) of undisclosed values which was paid for by the County Government.

#### **Committee Recommendations**

**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 line with their**

- terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;
- ii. the Accounting Officer should comply with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;
  - 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 should enhance the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.

## **5. Employee Costs**

The statement of financial performance reflects employee costs amount of Kshs.497,904,448 as disclosed in Note 16 to the financial statements which includes salaries, wages and allowances (paid directly by the County Government) amount of Kshs.496,724,448 and other employee costs (contracted services) amount of Kshs.1,180,000. However, the monthly payrolls, employee's schedule, contracts of employment, muster rolls and payment schedules for all the employees of the Hospital were not provided for audit.

In the circumstances, the accuracy and completeness of employee costs amounting to Kshs.497,904,448 could not be confirmed.

## **Management Response**

The Employee cost of Kshs.496,724,448 for the hospital employees were reported and audited under executive while Employee cost amounting to Kshs.1,180,000 are fully supported and available for audit review.

## **Committee Observations**

The Committee noted that the monthly payrolls, employee's schedule, contracts of employment, muster rolls and payment schedules for all the employees of the Hospital were not provided for audit.

#### **Committee Recommendations**

The Committee recommends that 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.

#### **6. Unsupported Hospital Board of Directors Expenses**

The statement of financial performance reflects board of management expenses amount of Kshs.679,800 as disclosed in Note 17 to the financial statements. However, the payment vouchers supporting the payment of the Kshs.679,800 were not provided for audit review. This was contrary to Regulation 99(3) of the Public Finance Management (County Governments) Regulations, 2015 which states that every entry in the accounts shall be supported by a voucher or other approved document gazetted by the Cabinet Secretary containing the full details, clear narrations and particulars of the item or items to which it relates.

In the circumstances, the accuracy and completeness of the board of management expenses amount of Kshs.679,800 could not be confirmed.

#### **Management Response.**

The management notes that there was inadequate time with the auditors coupled with inadequate staff during the audit period, however the payment vouchers and all relevant supporting documents are properly maintained and available for audit review.

#### **Committee Observations**

The Committee noted that the payment vouchers supporting the payment of the Kshs.679,800 were not provided for audit.

#### **Committee Recommendations**

The Committee recommends that 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.

#### **7. Unsupported Public Health Activities Costs**

The statement of financial performance reflects medical/ clinical costs amounting to Kshs.98,621,977 which includes public health activities amounting to Kshs.123,000 as disclosed in Note 15 to the financial statements. However, the payment vouchers

relating to public health activities were not provided for audit contrary to Regulation 99(3) of the Public Finance Management (County Governments) Regulations, 2015 which states that every entry in the accounts shall be supported by a voucher or other approved document gazetted by the Cabinet Secretary containing the full details, clear narrations and particulars of the item or items to which it relates.

In the circumstances, the public health activities amount of Kshs.123,000 could not be confirmed.

### **Management Response**

The expenditure was incurred for the procurement of a desktop computer and a printer to enhance the processing of public health certificates, with the aim of improving operational efficiency. The supporting documentation for this expenditure is available for audit review.

### **Committee Observations**

The Committee noted that the payment vouchers relating to public health activities amounting to Kshs.123,000 were not provided for audit.

### **Committee Recommendations**

**The Committee recommends that 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.**

## **8. Food and Ration Expenses**

The statement of financial performance reflects medical/ clinical costs amounting to Kshs.98,621,977 which includes food and rations amount of Kshs.8,898,813 as disclosed in Note 15 to the financial Statements. However, payment vouchers amounting to Kshs.1,063,410.00 were not disclosed in the ledger provided for audit and food and ration expenses amounting to Kshs.3,255,737 were not supported by payment vouchers.

In addition, it was not possible to verify the effectiveness of the store controls for food and rations since the bin cards and the store ledgers were not provided for audit review. This was contrary to Regulation 99(3) of the Public Finance Management (County Governments) Regulations, 2015 which states that every entry in the accounts shall be supported by a voucher or other approved document gazetted by the Cabinet Secretary containing the full details, clear narrations and particulars of the item or items to which it relates.

In the circumstances, the food and rations amount of Kshs.8,898,813.00 could not be confirmed.

### **Management Response**

The management notes that there was inadequate time with the auditors coupled with inadequate staff during the audit period, however the payment vouchers and all relevant supporting documents are properly maintained and available for audit review.

### **Committee Observations**

The Committee noted that payment vouchers amounting to Kshs.1,063,410.00 were not disclosed in the ledger provided for audit and food and ration expenses amounting to Kshs.3,255,737 were not supported by payment vouchers .

### **Committee Recommendations**

**The Committee recommends that 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.**

### **9. Laboratory Chemicals and Reagents Costs**

The statement of financial performance reflects medical/ clinical cost amount of Kshs.98,621,977.00 which includes laboratory chemicals and reagents amount of Kshs.10,946,968.00 as disclosed in note 15 of the financial statements. However, payments amounting to Kshs.1,471,650.00 were not included in the ledger and an amount of Kshs.5,430,550.00 was not supported with payment vouchers.

In addition, it was not possible to verify the effectiveness of the store controls for the laboratory reagents since the bin cards and the stores ledger were not provided for audit review. This was contrary to Regulation 99(3) of the Public Finance Management (County Governments) Regulations, 2015 which states that every entry in the accounts shall be supported by a voucher or other approved document gazetted by the Cabinet Secretary containing the full details, clear narrations and particulars of the item or items to which it relates.

In the circumstances, the laboratory chemicals and reagents amount of Kshs.10,946,968.0000 could not be confirmed.

**Management Response**

The management acknowledges the audit observations. We confirm that bin cards and store ledgers are properly maintained and readily available for audit review. While there were occasional challenges in retrieving records, all entries are accurately recorded, and supporting payments documents are available and are consistent with the Regulations.

**Committee Observations**

The Committee noted that payments amounting to Kshs.1,471,650.00 were not included in the ledger and an amount of Kshs.5,430,550.00 was not supported with payment vouchers.

**Committee Recommendations**

**The Committee recommends that 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.**

**10. X-Ray/Radiology Supplies**

The statement of financial performance reflects medical/clinical costs amounting to Kshs.98,621,977 which includes x-ray/radiology supplies amount Kshs.10,334,230 as disclosed in note 15 to the financial statements. Review of the supporting schedules and ledgers provided for audit review revealed that there were a total of seven (7) suppliers, however, only one (1) procurement file was provided for audit review.

In addition, a review of the radiology department operations revealed that they receive supplies from the Hospital stores; however, the department does not keep any records, making it difficult to follow and track usage of the supplies in the department.

In the circumstances, the x-ray/radiology supplies amount of Kshs.10,334,230 could not be confirmed.

**Management Response**

The management notes that there was inadequate time with the auditors coupled with inadequate staff during the audit period, however the payment vouchers and all relevant supporting documents are properly maintained and available for audit review.

**Committee Observations**

The Committee noted that there were a total of seven (7) suppliers, however, only one (1) procurement file was provided for audit review.

#### **Committee Recommendations**

The Committee recommends that 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.

#### **11. Medical Services Contracts Gains/Losses**

The statement of financial performance reflects medical services contracts gains/losses amount of Ksh. (9,350,337) as disclosed in note 25 to the financial statements. However, the supporting schedules and breakdown of the amount was not provided for audit review. It was therefore not possible to determine the individual components and/or transactions making up the amount.

In the circumstances, the accuracy and completeness of the medical services contracts' gains/losses amount to Ksh. (9,350,337) could not be confirmed.

#### **Management Response**

The reported amount of Ksh 9,350,337 was attributed to patients who could not afford to pay for services and were not covered by the NHIF. As a result, they required waivers from the hospital's waiver committee. The management confirms that the waiver forms were available during the audit, however the information had not been compiled into softcopy summary sheets and summarized to individual patients due to the bulkiness of the waiver forms. Currently the hospital captures and posts waivers in the health management and information systems (HMIS).

#### **Committee Observations**

The Committee noted that the supporting schedules and breakdown of the amount Ksh. 9,350,337 was not provided for audit.

#### **Committee Recommendations**

The Committee recommends that 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.**

## **12. Cash and Cash Equivalents**

The statement of financial position reflects cash and cash equivalents balance of Kshs.42,338,660.76 held in three bank accounts as disclosed in Note 27(a) to the financial statements. Review of the Hospital's cash books and other records revealed the following anomalies;

- (i) The bank statements for one of the bank accounts was not provided for audit verification.
- (ii) Two (2) of the cash books were not provided for audit review.
- (iii) The bank reconciliations for two (2) of the accounts were not provided for audit review.
- (iv) One of the bank accounts had a bank balance of Kshs.5,782,462.00 as at 11 January 2024 however, this balance was transferred to another bank on 16 January 2024. No explanation or documentary evidence was provided for the transfer of funds between the two (2) banks.
- (v) The Board of Survey as at 30 June 2024 was not provided for audit.

In the circumstances, the completeness and accuracy of the cash and cash equivalents balance of Kshs.42,338,660.70 could not be confirmed.

## **Management Response.**

The management confirms that the bank statements and bank reconciliation documents are available for audit review. The cash book is also accessible and available for audit review. There were no transfers of funds from the National Bank to KCB as this was an operational technicality that occurred during the period of receivership. Additionally, there was no board of survey since the hospital utilizes cashless systems.

## **Committee Observations**

The Committee observed that whereas bank statements for one of the bank accounts, two (2) of the cash books and bank reconciliations for two (2) of the accounts were provided and verified by the Auditor-General, and the query marked as addressed, the submission was done outside the timelines contemplated under the Public Audit Act, Cap.412B and constitutes an offence under section 62(2) of the Act.

## **Committee Recommendations**

**The Committee recommends that 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.**

### **13. Receivables from Exchange Transactions**

The statement of financial position reflects receivables from exchange transactions balance of Kshs.2,633,974 as disclosed in Note 28 to the financial statements. However, the breakdown for the receivables from exchange transactions was not provided for audit review and the schedule provided for audit did not indicate the individual components and/or the transactions making up the amount.

In the circumstances, the accuracy and completeness of the receivables from exchange transactions balance of Kshs.2,633,974 could not be confirmed.

### **Management Response**

The amounts of 2,633,974 represents receivables from NHIF, however at the time of audit the NHIF system was closed thus it was not possible to retrieve the information from the then NHIF portal. The management confirms that the amount will be paid by NHIF as debt owed to the hospital and thus there was no loss of revenue.

### **Committee Observations**

The Committee noted that the breakdown for the receivables from exchange transactions was not provided for audit.

### **Committee Recommendations**

**The Committee recommends that 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.**

### **14. Inventories**

The statement of financial position reflects inventory balance of Kshs.9,488,295 which includes pharmaceuticals supplies balance of Ksh.7,488,746 as disclosed in Note 30 to the financial statements. However, physical verification of the pharmaceutical store revealed that some drugs are recorded in packets but dispensed in tablets, hence this gives an inaccurate impression on the true number of tablets issued and remaining in the store.

Casting of the store's ledger revealed some variances. In addition, some of the drugs received were not recorded in the store's ledger. This was contrary to Regulation 133 (1) of the Public Finance Management (County Governments) Regulations, 2015 which states that an accounting officer shall be responsible for the proper custody, care and use of government inventories under their control.

In the circumstances, the accuracy of the inventory balance of Kshs.9,488,295 could not be confirmed.

### **Management response**

The management acknowledges the observations made concerning the management of medical and clinical materials and has taken corrective measures to address the noted anomalies in the inventory records. Below is our response to the specific issues raised:

#### **Albendazole and Amoxicillin/Clavulanic Acid 625 MG**

The initial entries in the store's ledger were made based on packaging (packets) rather than the exact quantity of tablets received. This practice has been reviewed and corrected to ensure that all entries are now recorded based on the precise number of tablets received and issued. Proof of this correction has been provided in the system, and all future entries will adhere to this updated procedure.

#### **Discrepancies in Physical Stock During Migration**

The discrepancies observed, including the 60-packet variance for Amoxicillin/Clavulanic Acid and the omission of Anti-Snake Venom 10ml, occurred during the migration from physical stock cards to the new inventory management system. Items without stock cards were entered into the system based on physical stock verification at the time of migration. These discrepancies have since been corrected in the new system to ensure accuracy and alignment with the physical stock.

The Hospital is committed to maintaining accurate and reliable inventory records to prevent leakages and ensure the proper custody and use of medical supplies. Continuous training and monitoring of the inventory management process will be undertaken to prevent the recurrence of similar issues.

### **Committee Observations**

The Committee noted that the store's ledger had some variances and some of the drugs received were not recorded in the store's ledger.

### **Committee Recommendations**

The Committee recommends that the Accounting Officer should adhere to Regulation 133 (1) of the Public Finance Management (County Governments) Regulations, 2015, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply.

## **15. Property, Plant and Equipment**

### **15.1. Assets Register**

The statement of financial position reflects Property, Plant and Equipment balance of Kshs.3,321,522.88 as disclosed in note 31 to the financial statements. However, a comprehensive asset register detailing the assets that the Hospital owned and/or were in control of the Hospital, the rate of depreciation and the net book values was not provided for audit review.

In the absence of a proper asset register for the Hospital, the accuracy and/or completeness of the acquisition of assets balance of Kshs.3,321,522.88 could not be confirmed.

#### **Management Response.**

The management recognizes the importance of maintaining a comprehensive and accurate asset register. A countywide initiative to develop a comprehensive asset register has been initiated but has not been concluded in all the counties and departments. The Hospital has an inventory of all equipment and assets, which is being maintained as we await the valuation phase. In collaboration with the relevant national government agencies the county government of Nandi is in the process of developing comprehensive departmental asset registers.

#### **Committee Observations**

The Committee observed that valuation of assets has not been done and that the hospital does not have an updated fixed assets register.

#### **Committee Recommendations**

The Committee recommends that—

- i. The Governor of Nandi County ensure that the assets are transferred to the Kapsabet County Referral Hospital so that they reflect a true position of the hospital in their book of accounts.
- ii. Management develops an updated fixed asset register pursuant to section 136(1) of the Public Finance Management (County Government)

**Regulations, 2015 and in the format prescribed by the National Treasury and submit the same to the Auditor-General within 60 days from the adoption of this report.**

## **15.2. Valuation of Property, Plant and Equipment**

The statement of financial position and Note 31 to the financial statements reflects Property, Plant and Equipment balance of Kshs.3,321,522.88. No documentary evidence was provided to indicate the exact value of the assets since there was no valuation report from a recognized valuer. Hence, valuation in accordance with paragraph 49 of International Public Sector Accounting Standard (IPSAS) 17, Property, Plant and Equipment, of the Hospital's assets, could not be confirmed.

### **Management Response.**

The valuation process is scheduled to follow the completion of the comprehensive asset register. The Directorate of Asset Management, under the Department of Finance and Economic Planning, is spearheading this process to ensure compliance with IPSAS 17 requirements.

### **Committee Observations**

The Committee observed that the valuation of Hospital's fixed assets has not been done.

### **Committee Recommendations**

**The Committee recommends that the management does a valuation of the hospital's fixed assets within 60 days of the adoption of this report and submit the same to the Auditor-General. The Auditor-General to keep this matter in view in the subsequent audit cycle.**

## **15.3. Lack of Depreciation and Amortization Policy.**

Note 18 to the financial statements reflects depreciation and amortization expense amount of Kshs.590,803.27. However, the Hospital did not provide a policy on depreciation and amortization.

In the circumstances, the accuracy of the property, plant and equipment balance of Kshs.3,321,522.88 could not be confirmed.

### **Management Response.**

The County has a draft existing Asset Management Policy that outlines general principles for asset management, including depreciation and amortization. The Hospital is in the process of customizing and implementing a detailed policy specific to its operations to ensure consistent application and compliance with IPSAS standards.

#### **Committee Observations**

The Committee observed that the Hospital did not provide a policy on depreciation and amortization. However, it was in the process of being developed.

#### **Committee Recommendations**

**The Committee recommends that the accounting officer ensures that the hospital implements a depreciation policy within 60 days of the adoption of this report so as to ensure depreciation is done in accordance to the PSASB requirements to reflect the true financial position of the hospital and the Auditor-General should keep the matter in view and report to the Committee in the next audit cycle.**

#### **16. Trade and Other Payables**

The statement of financial position reflects trade and other payables balance of Kshs.34,370,435 as disclosed in note 34 to the financial statements. Review of the trade and other payables revealed that most of the trade and other payables were not supported with documents contrary to Regulation 99(3) of the Public Finance Management (County Governments) Regulations, 2015 which states that every entry in the accounts shall be supported by a voucher or other approved document gazetted by the Cabinet Secretary containing the full details, clear narrations and particulars of the item or items to which it relates.

In the circumstances, the accuracy of trade and other payables balance of Kshs.34,370,435 could not be confirmed.

#### **Management Response.**

The management notes that there was inadequate time with the auditors coupled with inadequate staff during the audit period, however the relevant supporting documents are properly maintained and available for audit review.

#### **Committee Observations**

The Committee observed that the trade and other payables were not supported with documents contrary to Regulation 99(3) of the Public Finance Management (County Governments) Regulations, 2015.

### **Committee Recommendations**

The Committee recommends that the Accounting Officer should adhere to Regulation 99(3) of the Public Finance Management (County Governments) Regulations, 2015, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply.

### **Emphasis of Matter**

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

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis amounts of Kshs.108,993,404 and Kshs.140,383,738 respectively resulting to an over-funding of Kshs.31,390,334 or approximately 29% of the budget. Similarly, the Hospital incurred an expenditure of Kshs.108,405,804 against actual receipts of Kshs.140,383,738 resulting to an under-absorption of Kshs.31,997,934 or approximately 23% of the actual receipts.

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

### **Committee Observations**

The Committee noted that the hospital had an over-funding of Kshs.31,390,334 or approximately 29% of the budget and under-absorption of Kshs.31,997,934 or approximately 23% of the actual receipts.

### **Committee Recommendations**

The Committee recommends that—

- i. 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; and

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

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

### **Basis for Conclusion**

#### **1. Limitation of Scope**

The Management of the Hospital did not provide payment vouchers, procurement files and other supporting documents requested for audit. This was contrary to Section 9 (1) (e) (i) of the Public Audit Act, 2015 which states that the Auditor-General, or an officer authorized for the purposes of this Act, shall have powers of unrestricted access to all books, records, returns, reports, electronic or otherwise and other documents of entities listed under Article 229 (4) of the Constitution. Management was also in contravention of Section 62 (1) (c) of the Public Audit Act, 2015 which states that a person shall not without justification, fail to provide information within reasonable time that is required under this Act. Further, eventual submission of these documents after unexplained delays may cast doubt in the integrity and credibility of the said documents.

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

### **Management Response**

During the audit period, the County Public Service Board had revoked the appointments of several county staff, primarily affecting the finance and procurement departments. This sudden loss of personnel with direct access to the relevant records created significant challenges in provision of the requested documents on short notice. The limited availability of staff, coupled with the auditors' constrained time frame to complete the exercise, resulted in unavoidable delays.

### **Committee Observations**

The Committee observed that whereas the payment vouchers, procurement files and other supporting documents were provided and verified by the Auditor-General, and the

query marked as addressed, the submission was done outside the timelines contemplated under the Public Audit Act, Cap.412B and constitutes an offence under section 62(2) of the Act.

### **Committee Recommendations**

**The Committee recommends that 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. Unsupported Employment of Staff**

During the financial year under review, seven (7) healthcare workers were employed in April, 2024. However, evidence of the competitive recruitment process including job advertisement, list of applicants, shortlisted candidates, minutes of the interviews and the officer's personal files was not provided for audit. This was contrary to Section 5(8) (c) of the Employment Act, 2007 which requires an entity to have a policy for recruitment procedures, advertising and selection criteria, appointments and the appointment process job classification and grading.

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

### **Management Response.**

The management acknowledges the observation regarding the employment of staff and provides the following clarification:

The engagement of the Medical Officers and Clinical Officer in April 2024 was necessitated by an unforeseen health workers' strike, which had severely disrupted essential health services, including maternity and emergency departments. This situation required urgent intervention to restore critical services a prevent loss of lives.

The staff who were engaged on locum basis were volunteers who had completed their internships and were engaged temporarily while awaiting the end of the industrial action.

The Hospital remains committed to adhering to the law and best human resource management practices and will ensure compliance in future recruitments to uphold transparency and accountability.

### **Committee Observations**

The Committee noted that evidence of the competitive recruitment process including job advertisement, list of applicants, shortlisted candidates, minutes of the interviews and the officer's personal files were not provided for audit. However, the Committee noted that urgent need for the recruitment of the healthcare workers.

### **Committee Recommendations**

**The Committee recommends that;-**

- i. **the management adheres to Section 5(8) (c) of the Employment Act, 2007, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply.**
- 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. Non – Compliance with Universal Health Coverage (UHC)**

Review of Hospital's operations and records during the year under review revealed that the Hospital operated below the set standards as per the Kenya Quality Model for Health Checklist designed for Level 4 hospitals. The following deficiencies in implementation of Universal Health Coverage Programme were observed:

- (i) There were no anesthesiologists and radiologists against the required two (2) for each category.
- (ii) The Hospital had two (2) new born unit incubators against the required five (5), three (3) newborn unit cots against the required five (5), three (3) functional ICU beds against the required six (6), none high dependency unit (HDU) beds against the required six (6) and a renal unit with four (4) dialysis machines against the required five (5) for a level four (4) hospital.

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

In the circumstances, the Hospital will not be able to deliver on its mandate.

### **Management Response.**

The Management acknowledges the observation regarding deficiencies in the implementation of Universal Health Coverage (UHC) and provides the following response:

The Hospital has a mix of medical personnel, with some cadres exceeding the established requirements and others experiencing a deficit. To address the staffing gaps, the county has advertised positions for health workers, and recruitment processes are underway. Despite these challenges, the Hospital remains committed to providing care to all patients, and no one has been turned away due to staffing shortages.

In terms of equipment, efforts are ongoing to purchase additional medical equipment to bridge the identified gaps and align with the Kenya Quality Model for Health Policy Guidelines. The Hospital continues to prioritize delivering high-quality healthcare services while working towards full compliance with the outlined standards. Below is the advert for your perusal.

### **Committee Observations**

The Committee noted that the hospital had deficiencies in the implementation of Universal Health Coverage Programme.

### **Committee Recommendations**

**The Committee recommends that within sixty (60) days from the adoption of this report, the Governor and the Accounting Officer submit a comprehensive plan detailing the specific measures to address the hospital's critical facility deficiencies. The measures should focus on optimizing existing resources and ensuring the hospital meets the necessary healthcare standards moving forward.**

### **4. Non – Compliance with Data Protection Laws**

The Hospital collects and processes data of patients during its day-to-day operational activities. The Hospital also handles data related to its employees and suppliers. The data collected and processed by the Hospital are personal and sensitive in nature such as patient medical history, patient current health conditions, mobile phone number details, next of kin, bank account details, patient dependents, mobile money accounts, National Hospital Insurance Fund (NHIF) membership details, date of birth, national identification/passport numbers among others. Review of the data collection, processing and storage operation activities by the Hospital revealed the following breaches of the data protection laws as at the time of audit in November 2024;

- (i) The Hospital had not registered with the data commissioner as a data controller and data processor respectively. The Hospital has unlimited access to patient personal and sensitive data despite not being registered both as a data controller and a data

processor hence breaching data confidentiality principle of the data protection act

- (ii) The Hospital had not established personal data retention schedule contrary to Regulation 19(2)(a) of the Data Protection (General) Regulations, 2021 which requires a data controller or data processor to establish personal data retention schedule with appropriate time limits for the periodic review of the need for the continued storage of personal data that is no longer necessary or where the retention period is reached.
- (iii) The Hospital had not established appropriate time limits for the periodic review of the need for the continued storage of personal data for any of the law enforcement purposes contrary to Regulation 19(5) of the Data Protection (General) Regulations, 2021 which states that a data controller or data processor shall establish appropriate time limits for the periodic review of the need for the continued storage of personal data for any of the law enforcement purposes.
- (iv) The Hospital had not developed and published a policy reflecting their personal data handling practices contrary to Regulation 23 (1) of the Data Protection (General) Regulations, 2021 which states that a data controller or data processor shall develop, publish and regularly update a policy reflecting their personal data handling practices.
- (v) Management of the Hospital had not implemented the elements necessary to safeguard the principle of storage limitation including having in place means of managing policies and procedures for information security, assessing the risks against the security of personal data and putting in place measures to counter identified risks and regularly reviewing and testing management information systems used by the institutions to uncover vulnerabilities.
- (vi) Management had not implemented the elements necessary to safeguard the principle of storage limitation including having in place a clear internal procedure for deletion and destruction of personal data of subjects, determining what data and length of storage of personal data that is necessary for the purpose and formulating internal retention statements of implementing them contrary to Regulation 35 of the Data Protection (General) Regulations, 2021 which states that the elements necessary to implement the principle of storage limitation include (a) having clear internal procedures for deletion and destruction; (b) determining what data and length of storage of personal data that is necessary for the purpose; (c) formulating internal retention statements of implementing them;
- (vii) There was no evidence that Management of the Hospital conducts data protection impact assessment prior to processing of patient data contrary to Regulation 49(2) of the Data Protection (General) Regulations, 2021 which states that a data processor or data controller shall, prior to processing data under sub-regulation (1) conduct a data protection impact assessment.

In the circumstances, Management was in breach of the law

#### **Management Response.**

The Management acknowledges the observations made concerning breaches of data protection laws and has initiated corrective measures to ensure compliance with the Data Protection Act, 2019, and the Data Protection (General) Regulations, 2021.

The Management has launched the process of registration as a data controller and processor with the Office of the Data Commissioner. Payment for registration has been planned and will be factored into the third-quarter budget for the current financial year.

While the registration process is ongoing, the management has implemented safeguards to protect personal and sensitive data. We utilize a Health Management Information System (HMIS) with restricted access rights, ensuring that only authorized individuals can access patient data.

Additionally, all users of patient data require internal approval, and patients are required to provide consent for medical procedures in accordance with the law.

We remain committed to complying with all provisions of the Data Protection Act and related regulations to uphold the integrity, confidentiality, and lawful management of personal and all sensitive data. Relevant communication towards renewal of professional licenses to health care workers in order to enhance data protection and data handling has been shared to all the departments.

#### **Committee Observations**

The Committee noted that the hospital's data collection, processing and storage operation activities breached the data protection laws.

#### **Committee Recommendations**

**The Committee recommends that the hospital submit measures taken to comply with the Data Protection Act within 90 days of the adoption of this report and submit the same to the Auditor-General. The Auditor-General to keep the matter in view in the subsequent audit cycle.**

#### **5. Failure to Prepare Budget**

The Hospital received revenues totaling to Kshs.646,461,523 and incurred expenditure amounting to Kshs.605,130,252 however, the accounting officer did not provide an approved budget. This was contrary to Section 149(2)(h) and (j) of the Public Finance Management Act, 2012 which requires the accounting officer to prepare estimates of expenditure of the entity in conformity with the entity's strategic plan and submit those

estimates to the executive committee member responsible for the entity who, after approving it, shall forward it to the County Executive Committee Member for Finance;

In the circumstances, the management was in breach of the law by operating without an approved budget.

#### **Management Response.**

The management acknowledges receipts of 649,460,863 which includes receipts from rendering medical services and in kind contributions amounting to 496,724,448.00. The amount of Ksh 496,724,448.00 are receipts and payments made to KCRH employees by the county government of Nandi as salaries which is budgeted annually and approved by the county assembly whereas 152,736,415 are incomes from rendering medical services which are approved by the hospital board mandated under the FIF act 2022. Budget estimates for expenditure are reviewed and approved by the hospital FIF board, their scope only limits them to approving budgets from revenues raised by the hospital through offering of medical services.

#### **Committee Observations**

The Committee noted that the hospital did not have an approved budget.

#### **Committee Recommendations**

**The Committee recommends that—**

- i. **The accounting officer strictly adheres to Section 149(2)(h) and (j) of the Public Finance Management Act, 2012, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply; and**
- ii. **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.**

#### **6. Irregularities in Signatories to the Hospital's Bank Accounts**

The Hospital maintains three (3) bank accounts for revenue collection in two local banks. However, the mandated signatories of the bank accounts excluded the medical superintendent, health administrative officer and hospital accountant contrary to Section

32 (3) of Nandi County Facilities Improvement Fund Act, 2022 which states that there shall be three (3) mandatory signatories to the bank accounts with respect to hospitals including referral hospitals; the medical superintendent, the Health Administrative Officer and the Hospital accountant.

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

#### **Management Response.**

The Management acknowledges the audit concern regarding the exclusion of mandatory signatories to the Hospital's revenue collection bank accounts. The two accounts are collection accounts, and funds received in this account is transferred to the FIF account. The operation account has the Medical superintendent, Health Administrative Officer, and Hospital Accountant as mandatory signatories complying with Nandi County FIF Act, 2022 in terms of signatories.

The management is committed to aligning its practices with the provisions of Section 32(3) of the Nandi County Facilities Improvement Fund Act, 2022 by including the medical superintendent, Health Administrative Officer, and Hospital accountant as mandatory signatories to all revenue collection bank accounts. This measure will enhance compliance, strengthen internal controls.

#### **Committee observations**

The Committee noted that the mandated signatories of the bank accounts excluded the medical superintendent, health administrative officer and hospital accountant contrary to Section 32 (3) of Nandi County Facilities Improvement Fund Act, 2022.

#### **Committee Recommendations**

**The Committee recommends that the hospital ensures that the medical superintendent, health administrative officer and hospital accountant are part of the signatories of the hospital's bank accounts and submit evidence of the same to the Auditor-General within 60 days of the adoption of this report.**

#### **7. Hospital Board of Directors**

The statement of financial performance reflects board of management expenses amount of Kshs.679,800 as disclosed in note 17 to the financial statements. Review of records relating to board of management expenses revealed the weaknesses;

- (i) The audit committee and the three other mandatory committees of the board of directors had not been established contrary to Section 1.7(b) of Mwongozo Code of Governance for state Corporations.

- (ii) The full board held only three meetings in the financial year under review contrary to Section 1.8(b) of Mwongozo Code of Governance for state Corporations which states that meetings should be held regularly and at least quarterly.
- (iii) The board work plan was not provided for audit which is contrary to Section 1.9 of Mwongozo Code of Governance for state Corporations which states that the Board members should ensure the development of an annual Board work plan.
- (iv) The Board Charter was not provided for audit which is contrary to Section 1.11 of the Mwongozo Code of Governance for state Corporations which states that the board should develop and adopt a Board Charter.

In the circumstances, lack of an effective board of directors will lead to ineffective policies, poor oversight of Hospital resources and operations and lack of a robust and effective internal control system.

#### **Management Response.**

The Management acknowledges the audit concerns regarding the governance of the Hospital Board of Directors. We recognize the provisions of the Mwongozo Code of Governance for State Corporations. However, the Hospital Management Board operates in accordance with the Nandi County Facility Improvement Fund (FIF) Act, 2022, Section 19.

Under the FIF Act, the Board has been regularly meeting to deliberate on matters critical to the Hospital's operations and service delivery. The Board has also constituted the relevant committees to ensure the full implementation of the FIF Act and to enhance service delivery in line with its mandate.

#### **Committee Observations**

The Committee noted that the hospital did not have an audit committee in place and the three other mandatory committees of the board of directors and the Board Charter was not provided for audit.

#### **Committee Recommendations**

**The Committee recommends that**

- i. the Board of Management ensures that the Hospital puts in place all internal control systems such as the Internal Audit Committee as provided under section 155(5) of the Public Finance Management Act, 2012, among others to guide the internal operations of the Hospital. Further, the management to submit evidence of the same to the Auditor-General for verification.

- 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.**

#### **8. Failure to Maintain Accounting Records for Revenue Collection Accounts**

The Hospital maintains two (2) bank accounts for revenue collection, one (1) bank account was for payments made directly by patients and the other bank account was for reimbursement of claims made by National Hospital Insurance Fund (NHIF). However, Management did not maintain bank reconciliations with details on daily billings and collections (amount paid), transfers to the Fund Account and withdrawals through Authority to Incur the Expenditure (AIEs).

In addition, the revenue income was not supported by monthly departmental revenue schedules and detailed daily schedules on the amounts charged per patient. This was contrary to Regulation 100 of the Public Finance Management (County Governments) Regulations, 2015 which provides that the Accounting Officers shall keep in all offices concerned with receiving cash or making payments a cash book showing the receipts and payments and shall maintain such other books and registers as may be necessary for the proper maintenance and preparation of the accounts of the vote for which he or she is responsible.

In the circumstances, Management was in breach of the law

#### **Management Response.**

The management acknowledges the need to maintain proper accounting records, bank reconciliations for the two bank accounts, monthly revenue schedule is available as attached below.

The revenue collection system utilized distributes the revenue automatically to individual departments by close of business. Contribution from NHIF could not be attributed to individual patients as payment was in form of batches and payment was made on quarterly basis.

#### **Committee Observations**

The Committee noted that the Management did not maintain bank reconciliations with details on daily billings and collections (amount paid), transfers to the Fund Account and withdrawals through Authority to Incur the Expenditure (AIEs).

#### **Committee Recommendations**

**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 line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;
- ii. the Accounting Officer should comply with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;
- 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 should enhance the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.

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

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

### **1. Lack of Internal Control Policy Documents**

During the year under review, Management did not have in place risk management policy, human resource policy and procedures manual, finance and accounting manual, assets management policy, transport management policy, disaster recovery plan or business continuity plan. This was contrary to Regulation 158(1) of the Public Finance Management (County Governments) Regulations, 2015 which requires that the accounting officer shall ensure that the County Government entity develops risk management strategies, which include fraud prevention mechanisms and a system of risk management and internal control that builds robust business operations.

Further, there was no evidence of risk identification, risk assessment and evaluation of likelihood of risk occurrence and its impact on Hospital's operations.

In the circumstances, it was not possible to confirm whether the Hospital's operations were effectively managed without the policy documents.

### **Management Response.**

The management acknowledges the observations regarding the absence of comprehensive internal control policy documents and provides the following response: The management has a Human Resource policy in place and is actively reviewing a risk management policy to address identified gaps. Management is committed to developing and operationalizing appropriate policies and procedures, including a finance and accounting manual, asset management policy, transport management policy, disaster recovery plan, and business continuity plan. These efforts aim to strengthen the internal control environment, enhance governance, and ensure effective risk identification and mitigation strategies.

### **Committee Observations**

The Committee observed that the Hospital operated without an approved risk management policy.

### **Committee Recommendations**

**The Committee recommends that the Board of Management ensures that the Hospital puts in place all internal control systems such as a Risk Management Policy as provided under section 158(1) of Public Finance Management (County Governments) Regulations, 2015 among others to guide the internal operations of the Fund. Further, the Board of Management to submit evidence of the same to the Auditor General for verification.**

## **2. Internal Controls Weaknesses on Payments**

The statement of financial performance reflects total payments amount of Kshs.605,130,252 which includes medical/clinical costs amount of Kshs.98,621,977, board of management expenses amount of Kshs679,800, repairs and maintenance amount of Kshs.945,720 and general expenses amount of Kshs.6,978,307.

Examination of payment vouchers and supporting ledgers provided for audit revealed that the payment vouchers were not serially numbered and dated. Further, the dates the vouchers were posted in the cashbook was not indicated. This is contrary to Regulation 104(1) of the Public Finance Management (County Government) Regulations, 2015 which states that all receipts and payment vouchers of public moneys to be properly

supported by pre-numbered receipt and payment vouchers and shall be supported by the appropriate authority and documentation.

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

#### **Management Response**

The management acknowledges the identified weaknesses in the internal controls related to payments.

Management is committed to addressing these issues by implementing the use of pre-printed and pre-numbered payment vouchers, ensuring they will be properly dated and accompanied by supporting documentation. We have also streamlined financial controls to ensure that payment details are accurately recorded in the cashbook on the date of posting. These measures are intended to strengthen the internal control environment.

#### **Committee Observations**

The Committee noted that the dates the vouchers were posted in the cashbook was not indicated and the payment vouchers were not serially numbered and dated.

#### **Committee Recommendations**

**The Committee recommends that the hospital strictly adheres to Regulation 104(1) of the Public Finance Management (County Government) Regulations, 2015, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply.**

### **3. Weak ICT Control Environment**

Review of the Information and Communications Technology controls for the Hospital revealed the following anomalies;

- (i) The Hospital's server rooms lacked Closed Circuit Television (CCTV) and server rooms had (CCTV) cameras for surveillance of these facilities, the physical access to the facilities was not effectively controlled since the entrance of the server rooms lacked biometric access controls.
- (ii) The Hospital does not have in place ICT strategic committee, ICT strategic plan, or an ICT policy. In addition, the Hospital does not have a disaster recovery and business continuity plan and an offsite backup site in case of any emergencies/disasters.
- (iii) Further, without a sound and ICT governance approved framework, users do not have any rules and procedures to follow in order to minimize risk of errors, fraud and the loss of data confidentiality, integrity and availability

In the circumstances, in the event of a disaster or IT failure affecting IT infrastructure and resources, the Hospital's operations can come to a complete shut down and irrecoverable loss of critical operational and strategic data may occur.

### **Management Response**

The management acknowledges the observations regarding ICT controls and is taking steps to address the concerns raised. CCTV surveillance will be extended to the server room, alongside the installation of biometric access systems to strengthen security and establish a robust multi-layered security framework controlling physical access to these facilities.

The management is in the process of adopting the county ICT policy that is currently in place that will provide the necessary guidelines for ICT governance, security, and operations. Plans are underway to establish cloud-based backups to ensure data redundancy and quick recovery in case of disasters.

Additionally, efforts are being made to develop and operationalize an ICT strategic plan, security policy, and business continuity framework to safeguard ICT systems.

### **Committee Observations**

The Committee observed that the Hospital operated without an approved ICT policy and strategic plan.

### **Committee Recommendations**

**The Committee recommends that the Board of Management ensures that the Hospital puts in place all internal control systems such as an ICT policy and strategic plan as provided under section 158(1) of Public Finance Management (County Governments) Regulations, 2015 among others to guide the internal operations of the Fund. Further, the Board of Management to submit evidence of the same to the Auditor General for verification.**

**4. Failure to Establish an Audit Committee and Operational Internal Audit Unit**  
During the year under review, the Hospital did not have in place both the audit committee and the internal audit unit/department. Further, no evidence was provided for audit to confirm that the Hospital was audited by the internal audit unit from the County Executive of Nandi.

In the circumstances, the Hospital operated without a mechanism for assessing and mitigating financial and operational risks.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, risk Management and overall governance were operating effectively in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

#### **Management Response.**

The hospital management recognizes the audit concern regarding the lack of an audit committee and an operational internal audit unit. Currently, the hospital depends on the County Internal Audit Unit and audit committee for oversight. The department of finance and economic planning is in the process of recruiting internal auditors and one will be deployed to the hospital to conduct regular internal audits and give the relevant recommendations.

These initiatives will enhance governance, accountability, and risk management processes, while also improving service delivery and resource management.

#### **Committee Observations**

The Committee noted that the hospital did not have an audit committee in place and the three other mandatory committees of the board of directors and the Board Charter was not provided for audit.

#### **Committee Recommendations**

**The Committee recommends that the Board of Management ensures that the Hospital puts in place all internal control systems such as the Internal Audit Committee as provided under section 155(5) of the Public Finance Management Act, 2012, among others to guide the internal operations of the Hospital. Further, the management to submit evidence of the same to the Auditor-General for verification.**

## **CHAPTER THREE**

### **REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR KISII TEACHING AND REFERRAL HOSPITAL FOR THE FINANCIAL YEAR 2023/2024**

The Governor of Kisii County, Hon. Paul Simba Arati, appeared before the Committee on Friday, 25<sup>th</sup> March, 2025 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Kisii Teaching and Referral Hospital for the Financial Year 2023/2024. The Governor was accompanied by the following officers—

1. Ronald Nyakwebwa- CECM, Health
2. Elizabeth Nyamukami- Accountant
3. Kevin Mazeya- Accountant
4. Dr. Oemeke Manita- Accountant

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

The Auditor-General rendered a **Qualified Opinion** on the financial statements of the Kisii Teaching and Referral Hospital for the financial year on the following basis;—

#### **1.0. Inaccuracies and Variances in the Financial Statements**

Review of the financial statements revealed inaccuracies within the financial statements and variances between balances in the financial statements and the supporting ledgers as highlighted below:

#### **1.1. Unsupported Amounts in the Statements of Financial Performance**

The statement of financial performance reflects depreciation and amortization expense amount of Ksh. 10,534,519 whose supporting ledger, updated asset register, assets values/costs and approved depreciation policy for the percentages used for asset category and depreciation method were not provided for audit.

Further, the statement reflects general expenses amount of Ksh. 149,274,114 which, as disclosed in Note 13 to the financial statements, includes bad debts written off (waivers and exemptions) amount of Ksh. 12,369,972. However, the supporting, credit policy on provisions or bad debt write-offs, reasons for write-off and the relevant approvals of the same were not provided for audit review.

In the circumstances, the accuracy and completeness of the above amounts totaling Ksh. 22,904,491 could not be confirmed.

#### **Management Response**

Depreciation was based on graduated scale as per disclosed rate in the notes to the financial statements under Property, Plant and Equipment. As regards to ledger and

asset register for the assets, the management regrets for not providing it during the audit process. The management has already appointed a team to develop the asset register find attached appointment letter.

Whereas the management has in place waiver policy on provision for bad debt (waivers and exceptions). Management does not have a credit policy but the current strategic plan which runs from 2024-2029 will address the missing policies.

### **Committee Observations**

The Committee observed that the management provided the ledgers for property, plant and equipment. However, the management did not provide the asset register but instead, submitted an inventory listing and an unapproved credit policy, contrary to the requirements of section 9(1)(e) of the Public Audit Act, 2015

### **Committee Recommendations**

- i. **The Governor of Kisii County ensures that the hospital secures full ownership of the property, plant and equipment and provide status update to the committee before 30<sup>th</sup> June 2025.**
- ii. **The Accounting Officer ensures that the hospital maintains an up-to-date asset register in the format prescribed by the Public Sector Accounting Standards Board (PSASB) and the hospital to carry out a valuation of all its assets and submit the same to the Office of the Auditor-General before 30<sup>th</sup> June 2025;**
- iii. **The Office of the Auditor-General to undertake physical verification and valuation of all assets of the hospital to ascertain that they were fully transferred to the hospital, and provide a status report to the Committee before 30<sup>th</sup> June 2025.**

### **2.0. Unconfirmed Property, Plant and Equipment Balance**

The statement of financial position and as disclosed in Note 18 of the financial statements reflects property, plant and equipment balance of Ksh. 43,267,574. However, audit of this balance revealed the following issues:

- i. As previously reported, the land, buildings, motor vehicles, furniture and fittings, medical equipment, which were in place before 1 July, 2022 have not been reported In the financial statements. Further, any depreciation that would have been charged to the above has not been accounted for.
- ii. Audit inspection in November, 2024 of the Hospitals property, plant and equipment (whose values were not provided) revealed the following unsatisfactory matters:

| Assets | Current Status |
|--------|----------------|
|--------|----------------|

|                           |  |
|---------------------------|--|
| 16 Slice CT Scan Machines | All the sixteen machines were not functioning. Management explained that they stopped working in the year 2019.  |
| 1 Cryotherapy Machine     | The machine was not functioning. It was explained that it stopped working in the year 2020.  |
| 12 Dialysis Machines      | Six (6) of the twelve (12) machines were functioning.  |
| 2 Oxygen Concentrators    | One (1) machine was in use, while the other was lying idle in the store.   |
| 1 Oxygen Production Plant | The plant was not working because, according to Management, it had not been serviced.  |
| 4 Anaesthetic Machines    | One (1) was not functioning due to break down of monitoring board.   |
| Mother and Child Hospital | The building was fully constructed at a total cost of Ksh. 541,120,498. The last payment to the contractor of Ksh. 8,509,020 was made on 5 July 2022. However, two (2) lifts procured had not been installed, and the contractor had not handed over the contract to the County Government. Keys were not on site. Whether or not the defect liability period had lapsed could not be determined. Further, the Hospital had not been equipped with beds and other medical equipment. |
| Doctors' Plaza            | The building was not in use. Management explained that the contractor was still working under the agreement and,   |

|  |  |
|--|--|
|  | therefore, had not handed over the building. |
|--|--|

- iii. The property, plant and equipment balance does not include land and buildings which are critical components of property plant and equipment. Management has attributed this to lack of title deed to parcel of land occupied by the Hospital.
- iv. Management did not maintain up-to-date fixed asset register to record necessary information such as date of acquisition, type of assets, supplier name, costs, accumulated depreciation, net book values, asset codes, custodian and location among other details in respect of the assets the fund owns. As a result, it was not possible to establish fully depreciated assets, bonded items and how the same will be written off in the books of accounts.
- v. There was no evidence, such as valuation report, to confirm that valuation of major assets was ever done.
- vi. There was no evidence that the Management had insured its assets against foreseeable risks.
- vii. Included in the assets in possession of the Hospital were donated motor vehicles from various agencies. However, the Hospital lacked ownership documents for the donated/inherited motor vehicles and other assets. This made it difficult to have these assets valued, insured, and disposed of if uneconomically viable. Further, most of the donated assets were not accounted for/included in the books of account/financial statements. Others were not correctly valued.
- viii. It was also noted that most of the assets were not tagged and asset movements registers were not appropriately kept. Thus, such assets may easily be stolen.
- ix. There was no evidence of any disposal of assets, yet there were quite a number of bonded items kept in various stores.
- x. No assets manager or in charge was appointed or asset management committee put in place to effectively manage the Hospital's assets.

In the circumstances, the accuracy and completeness of the property, plant, and equipment balance of Ksh. 43,267,574 could not be confirmed.

#### **Management Response**

- i. The management only accounted for property plant and equipment, whose costs were known and depreciated them during the year. As for the property plant and equipment whose costs were not known, a team was appointed to identify them and allocate value to them. This exercise was on going during the audit process. However, the team as so far concluded on two classes. That's Land and Building.

ii. **Hospital property**

| <b>Assets</b>             | <b>Management Response</b>   |
|---------------------------|--|
| 16 Slice CT Scan Machines | <p>Management took note of the auditor's observation on the 16 slice CT-scan machine. However, this was one machine which is one slice which is 16 slice contrarily to the auditor's observation of 16 c-scan machines.</p> <p>The machine is built on an outdated technology which has made it difficult to get its software in the market to enable its repairs.</p> <p>It could be considered for disposal.</p>   |
| 1 Cryotherapy Machine     | The machines are beyond their life span hence absolute   |
| 12 Dialysis Machines      | Management concurred with the auditor's observation on the Dialysis machines. The 6 machines that were non-functional had lived to their life span.  |
| 2 Oxygen Concentrators    | The concentrator is currently in use at the new born unit  |
| 1 Oxygen Production Plant | Repair works/ servicing is underway is an ongoing process  |
| 4 Anaesthetic Machines    | Currently the machine is functional.   |
| Mother and Child Hospital | <p>Management concurred with the auditor's observation. It is important to note that the contract bills of quantities provided for only 2 number lifts which the contractor installed. It was only prudent to provide lift shafts at strategic locations as guided by the project manager for posterity and management of traffic in future.</p> <p>External works are ongoing 98% complete mechanical works 90%. entire project anticipated completion date is end of April 2025.</p> |
| Doctors' Plaza            | The project is complete awaiting commissioning. in the meantime, the hospital  |

|  |  |
|--|--|
|  | management has factored in the annual work plan (this financial year 2024/2025) to fully furnish it for operation. |
|--|--|

- iii. The management takes note of the auditor's observation on land and building. This was work in progress at the time of audit which has since been concluded.
- iv. Whereas the management had not maintained an updated asset register during the audit process, it is important to note that an exercise of identifying, valuing and tagging was on going and currently two classes of assets have since been concluded.
- v. At the time of audit, no valuation of major assets had been done. However, the process had been initiated which has since concluded two classes of assets.
- vi. The management acknowledges with auditor's observation on lack of insurance of fixed assets. This was occasioned by absence of asset values. However, this is work in progress.
- vii. The management acknowledges the auditor's observation in regards to motor vehicles and other assets donated. This is a part of the assets whose Valuation exercise is ongoing.
- viii. The management takes note of the auditor's observation on tagging of assets during the audit period. Tagging is part of the scope of work to be covered by the team identifying and valuing assets. This is work in progress.
- ix. Part of the scope of the team valuing the assets is to give recommendations to management on any asset that is due for disposal.
- x. The management regrets that there is no formal appointment for the asset manager. However, the medical engineer being a technical staff in the area is tasked to manage the hospitals assets. The hospital is in the process on appointing an asset manager.

### **Committee Observations**

The Committee observed that the management had not acquired the Title deed, as well as not yet finalized the Asset register. The valuation report submitted was only concluded for buildings and land. The management action plan was still work in progress.

### **Committee Recommendations**

**The Committee recommends that;-**

- i. **The Governor of Kisii County ensures that the hospital secures full ownership of the queried property, plant and equipment and provide status update to the committee within 60 days of adoption of this report.**
- ii. **The Accounting Officer ensures that the hospital maintains an up-to-date asset register in the format prescribed by the Public Sector Accounting**

**Standards Board (PSASB) and the hospital to carry out a valuation of all its assets and submit the same to the Office of the Auditor-General before 30<sup>th</sup> June 2025.**

- iii. **The Governor engages The Intergovernmental Relations Technical Committee (IGRTC) to ensure that the process of transfer of all assets and liabilities are completed in a timely manner;**
- iv. **The Office of the Auditor-General to undertake physical verification and valuation of all assets of the hospital and provide a status report to the Committee before 30<sup>th</sup> June 2025.**

### **3.0. Cash and Cash Equivalents**

The statement of financial position reflects cash and cash equivalents balance of Ksh. 3,245,257 as disclosed in Note 15 to the financial statements. Included in this balance is a balance of Ksh. 1,656,750 held in one of the two accounts maintained at the Kenya Commercial Bank (KCB). Included in the reconciliation statement is an amount of Ksh. 350,000 (relating to the previous year) in respect of payments in the bank statement not in the cash book whose nature was not disclosed and the supporting documentation was not provided for audit.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Ksh. 3,245,257 could not be confirmed.

### **Management Response**

The management noted the transaction during the reconciliation process, that there is a payment of Ksh. 350,000 whose origin could not be traced. The matter was then reported to the police for investigation.

### **Committee Observations**

The Committee observed that the matter was reported to the police and is under investigation.

### **Committee Recommendations**

**The Committee recommends that the Inspector General fast-racks this matter and provide a status update on the matter to the auditors before 30<sup>th</sup> June 2025.**

### **4.0. Non-Compliance with Financial Reporting Framework**

The statement of cash flows reflects notes against receipts and payment items, contrary to the prescribed reporting template, which requires the statement to show only two notes against net cash flows from operating activities and cash and cash equivalents. Further, the statement of comparison of budget and actual amounts reflects total expenditure amount of Ksh. 670,936,141, while the statement of financial performance

shows total expenses of Ksh. 639,207,607, resulting in a variance of Ksh. 31,728,534. However, Management did not provide a reconciliation, under budget notes, to explain this variance as prescribed.

Therefore, Management violated Section 164(3) of the Public Finance Management Act, 2012, which requires an accounting officer to prepare financial statements in formats that comply with the relevant accounting standards prescribed and published by the Accounting Standards Board from time to time

#### **Management Response**

The management takes note of the auditor's observation and regrets the oversight. However, this will be complied in the subsequent financial year.

Further, the variance of Ksh. 31,728,534 between Ksh. 670,936,141 in the statement of comparison of Budget and Actual amount and Ksh. 639,207,607 in the statement of financial performance, represent the carrying cost of property plant and Equipment purchased during the year whose value is not captured in the statement of financial Performance.

#### **Committee Observations**

The Committee observed that the management compiled the financial statements to address the variance of Ksh. 31,728,534.

#### **Committee Recommendations**

**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 line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- ii. the Accounting Officer should comply with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- 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 should enhance the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.**

### **Emphasis of Matter**

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

The statement of comparison of budget and actual amounts reflects final income budget and actual on comparable basis amounts of Ksh. 864,715,811 and Ksh. 842,083,181 respectively, resulting in an underfunding of Ksh. 22,632,630, or 3% of the budget. Similarly, the Hospital expended Ksh. 670,936,141 out of the approved budget of Ksh. 864,715,811, resulting in an under-expenditure of Ksh. 193,779,670, or 22% of the budgets. Further, the Hospital spent Ksh. 670,936,141 out of the actual receipts of Ksh. 842,083,181, resulting in an under-utilization of funds of Ksh. 171,147,040, or 20% of the actual receipts. The underfunding, under-expenditure, and under-utilization of the available funds affected the planned activities and may have negatively impacted service delivery to the public.

#### **Management Response**

Management was not able to meet its revenue collection budget in the year under review. This was occasioned by industrial action by union sable employees for a period of three months.

The under-expenditure of Ksh. 193,779,670, or 22% of the budgets and under-utilization of funds of Ksh. 171,147,040, or 20% of the actual receipts was occasioned by low admission of patients due to industrial action which subsequently reduced the uptake of drugs, non-pharmaceuticals and food ration.

#### **Committee Observations**

The Committee observed that the management outlined factors contributing to under - expenditure and under performance which has been recurring.

#### **Committee Recommendations**

**The Committee recommends that;-**

- i. **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; and

- ii. 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

#### **Other Matter**

##### **Un-resolved Prior Year Matters**

All the audit issues reported in the previous year remained unresolved as at 30 June, 2024. Management has not provided satisfactory reasons for failure to resolve the prior year audit matters.

##### **Management response**

Management is not prepared for previous financial year (2022-2023) since the county public investment and special committee has invited us on current year in review (2023-2024). However, the management is ready for the previous Audit report once invited.

##### **Committee Observations**

The Committee observed that the management did not resolve the issues raised by the auditor general in the previous financial year.

##### **Committee Recommendations**

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 Auditor-General provides a status update on the progress made on the matter in the subsequent audit cycle upon review of the progress report.

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

##### **Basis for Conclusion**

##### **1.0. Irregular Repairs and Maintenance of Motor Vehicles**

The statement of financial performance reflects repairs and maintenance amount of Ksh. 54,066,287 which, as disclosed in Note 12 to the financial statements, includes motor vehicle expenses of Ksh. 1,542,725. The repairs and maintenance schedule provided for

audit indicated that this amount relates to repair and maintenance of motor vehicles not owned by the Hospital, since information provided indicated that the Hospital owned only one vehicle which was acquired during the year under review and was not among the vehicles repaired.

Further, no agreements or memoranda of understanding between the Hospital and the owners of the vehicles on the repair and maintenance of the vehicles were provided for audit. This was contrary to section 42(1)(b) of the Public Finance Management (County Governments) Regulations, 2015, which states that the Accounting Officer shall ensure that public funds entrusted to their care are properly safeguarded and are applied for purposes for only which they were intended and appropriated by the County Assembly and in the budget Regulation 22 (1)(c) of the regulation requires that the accounting officer to ensure that financial reports reflect a true and fair view of the financial position of the entity.

In addition, out of the amount of Ksh. 1,542,725, Ksh. 385,120 was used to repair a hospital's bus. However, there was no pre-inspection report from the Department of Mechanical and Transport Engineer, indicating the works to be done and the estimated costs. Further, physical verification of the painting and fabrication works done on the vehicle revealed evidence of poor workmanship. Cracks had developed on the fabricated areas and buffing on the painting was not done. This was contrary to section 48(4) of the Public Procurement and Asset Disposal Act, 2015 which states that the inspection and acceptance committee shall— (b) ensure that the goods, works or services meet the technical standards defined in the contract; (c) ensure that the goods, works or services have been delivered or completed on time, or that any delay has been noted;

### **Management Response**

The procuring entity for the above vehicles namely GK 331P, 45CG 023A, 45CG 025 A and KCP551M is National government and Kisii County Government. The management is awaiting the ownership document transfer from the national government and the county government.

The pre inspection was done by the mechanical and transport services at an estimated cost of Ksh. 394,260 but the works were done by Gebusura motor garage at an actual cost of Ksh. 385,120.

Inspection was done by the ad hoc inspection and acceptance committee inline to section 48 of the PPAD Act 2015. The bus is cracked at an open bay at the KTRH parking but due to direct sunlight exposure leading to cracks on the fabricated areas. Find attached copies of pre-inspection report and photos of the hospital bus before and after repairs.

Pre-inspection report from the department of Mechanical and Transport Engineer has been attached to indicate the cost work to be done.

#### **Committee Observations**

The Committee observed that the management submitted the reviewed inspector report for verification. However, the auditors could not confirm the ownership of vehicles, from the submitted documents.

#### **Committee Recommendations**

**The Committee recommends that;-**

- i. The Governor of Kisii County ensures that the hospital secures full ownership of the buses, provide status update to the committee before 30<sup>th</sup> June 2025.**
- ii. The Accounting Officer ensures that the hospital maintains an up-to-date asset register in the format prescribed by the Public Sector Accounting Standards Board (PSASB) and the hospital to carry out a valuation of all its assets and submit the same to the Office of the Auditor-General before 30<sup>th</sup> June 2025.**
- iii. The Governor engages The Intergovernmental Relations Technical Committee (IGRTC) to ensure that the process of transfer of all assets and liabilities are completed in a timely manner;**
- iv. The Office of the Auditor-General to undertake physical verification and valuation of all assets of the hospital and provide a status report to the Committee before 30<sup>th</sup> June 2025.**

## **2.0 Regularity of Human Resource Management Practices**

### **2.1. Failure to Adhere to the Law on Ethnic Diversity in Staffing**

During the year under review, the Hospital's master roll indicated that one hundred and ninety-nine (199), or 89% of the two hundred and twenty-three (223) employees of the Hospital were members of one ethnic community, contrary to the provisions of Section 7 (1) and (2) of the National Cohesion and Integration Act 2008.

Further, out of the 223 employees, only 1 employee was a person with disabilities, contrary to the provisions of Section 13 of the Persons with Disabilities Act, 2003.

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

#### **Management Response**

The hospital management endeavors to observe the ethnicity rule by taking on board staff outside the county and other disadvantaged groups. Further, most of the staff are hired on locum contracts that are renewable after three months.

### **Committee Observations**

The Committee observed that the management did not adhere to the law on ethnic diversity in its staff establishment, as 199 out of the two hundred and twenty-three (223) employees of the Hospital were members of one ethnic community, contrary to the provisions of Section 7 (1) and (2) of the National Cohesion and Integration Act 2008.

### **Committee Recommendations**

**The Committee recommends that;—**

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

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

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

### **3.0. Lack of Approved Strategic Plan**

The Hospital did not have an approved strategic plan in place to provide guidance on the broader objectives that are to be achieved by it and the responsibilities as stipulated in Section 149(2)(g) of the Public Finance Management Act, 2012.

Management indicated, without providing evidence, that the strategic plan is ready and is being reviewed by the board of management before granting it approval.

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

### **Management Response**

The management takes note on auditor's observation on lack of approved strategic plan in the year under review. However, this was in the process and has since been made available for verification.

#### **Committee Observations**

The Committee observed that the Hospital operated without an approved strategic plan. However, the management submitted the same for the committee verification.

#### **Committee Recommendations**

**The Committee recommends that the Board of Management ensures that the Hospital puts in place all internal control systems such as the strategic plan as provided under section 158(1) of Public Finance Management (County Governments) Regulations, 2015 among others to guide the internal operations of the hospital. Further, the Board of Management to submit evidence of the same to the Auditor General for verification.**

#### **4.0. Risk Management and Fire Management Strategy**

The Referral Hospital had not developed a risk and fire management strategy. This was contrary to the provisions of Regulation 158(1) of the Public Finance Management (County Governments) Regulations, 2015.

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

#### **Management Response**

During the auditor process the management did not have a risk management and fire management strategy. However, the management has since developed a Risk Management policy and procedure.

#### **Committee Observations**

The Committee observed that the Hospital operated without an approved fire management strategy.

#### **Committee Recommendations**

**The Committee recommends that the Board of Management ensures that the Hospital puts in place all internal control systems such as a fire management policy, as provided under section 158(1) of Public Finance Management (County Governments) Regulations, 2015 among others to guide the internal operations of the Fund. Further, the Board of Management to submit evidence of the same to the Auditor General for verification.**

#### **5.0 Lack of Information, Communication, and Technology (ICT) Policy**

Review of the fund's ICT environment revealed that there was no approved ICT policy in place during the year under review, which includes data security policy, and disaster recovery plans. Further, the ICT structure was not provided for audit review.

Additionally, the Hospital did not have an Information Technology (IT) steering committee for ensuring effective IT controls and data security measures. The Hospital did not have data backups outside its premises, and approved data recovery procedures were not in place.

Therefore, Management contravened Section 68(2)(c) of the Public Finance Management Act, 2012, which states that in reviewing the performance of a fund under subsection (1), an accounting officer shall ensure that all financial and accounting records the entity keeps in any form, including in electronic form, are adequately protected.

#### **Management Response**

The hospital management has developed a number of policies through the previous strategic plan. The current strategic plan which runs from 2024-2029 will address the missing policies.

#### **Committee Observations**

The Committee observed that the Hospital was operating without an ICT Policy contrary

#### **Committee Recommendations**

**The Committee recommends that the Board of Management ensures that the Hospital puts in place all internal control systems such as an ICT policy as provided under section 158 of Public Finance Management (County Governments) Regulations, 2015 among others to guide the internal operations of the hospital. Further, the Board of Management to submit evidence of the same to the Auditor General for verification.**

#### **6.0. Lack of a Finance and Accounting Policy Manual & Other Key Policy Manuals**

Management did not provide approved policy manuals for accounting and finance, credit policy, ICT policy, risk policy, among others, which play a critical role in guiding operations and acting as a reference guide.

The provided policy documents were not signed and were not distributed for operationalization. Additionally, minutes for policy approval were also not provided for audit review.

This was contrary to Section 68(2)(c) of the Public Finance Management Act, 2012, which states that an accounting officer of a County Government entity is accountable to the entity for ensuring that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed when procuring and disposing of goods, and that adequate arrangements are made for their custody, safeguarding, and maintenance.

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

### **Management Response**

The management regrets for not availing approved policy manuals for accounting and finance at the time of audit since the policy was at draft level which has since been approved.

### **Committee Observations**

The Committee observed that the management was operating without an accounting policy manual.

### **Committee Recommendations**

**The Committee recommends that the Board of Management ensures that the Hospital puts in place all internal control systems such as an ICT policy and strategic plan as provided under section 158(1) of Public Finance Management (County Governments) Regulations, 2015 among others to guide the internal operations of the hospital. Further, the Board of Management to submit evidence of the same to the Auditor General for verification.**

### **Basis for Conclusion**

#### **1.0. Inventory – Weak Controls in the Stores**

The statement of financial position, as disclosed in Note 17 to the financial statements, includes an inventory balance of Ksh. 81,597,093. The Hospital had three (3) stores located in different areas, divided into: kitchen stocks, laboratory stocks, drug stocks, non-pharm stock, radiology and stationary stock, which had the following closing stocks as at 30<sup>th</sup> June 2024.

- i. Non-Pharm – Ksh. 15,884,726
- ii. Stationary – Ksh. 201,892
- iii. Drugs – Ksh. 57,584,165
- iv. Laboratory – Ksh. 5,300,207
- v. Kitchen – Ksh. 904,636
- vi. Radiology – Ksh. 1,721,467

Upon visit to the physical stores, the following anomalies were noted:

- i. Bin cards under Nyangito stationary and non-pharm stores were not up to date.
- ii. The bin cards in all the stores did not record closing stock as of 30th June 2024.
- iii. There were no fire extinguishers in the stores.
- iv. The drugs bin cards showed zero stock, indicating that no drugs had been bought since January.

- v. The Nyangito bulk store (big store) had only one staff under stationary and non-pharm.

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

#### **Management Response**

- i. The bin cards under Nyangito with stores stationary and non-pharm have been updated.
- ii. The management has noted lack of closing stock as at 30 of June, 2024 and has taken the initiative to make sure that the same appears in the subsequent years.
- iii. Fire extinguishers have been budgeted for in the current financial year 2024/25.
- iv. Some drugs are not fast moving neither are they essential drugs to the facility. The procurement of drugs is on need basis as prescribed by the medicine and therapeutic committee (MTC)
- v. The hospital is in the process of conducting staff needs assessment to place clerks at the point of need including the Nyangito stores.

#### **Committee Observations**

The Committee observed that management was using the bin cards were updated after close of the year. However, updating of the new bin cards was still work in progress.

#### **Committee Recommendations**

**The Committee recommends that;-**

- i. the management considers automation of the bin cards for better control of the stores inventory.
- 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.

### **2.0. Procurement and Related Matters**

#### **2.1. Operation of Hospital Management Information System (HMIS) without a Service Level Agreement/Contract between the Vendor and the Hospital**

The statement of financial performance, as disclosed in Note 12 to the financial statements, reflects repairs and maintenance expenditure of Ksh. 54,066,287, which includes Ksh. 812,000 incurred on maintenance of the Hospital Management Information System (MIS). However, an examination of payment vouchers and other supporting documents revealed the following unsatisfactory matters:

- i. No service level agreement existed between the vendor and the Hospital.

- ii. The contract agreement between the vendor and the Hospital was not provided for audit; therefore, the scope of works/service for the vendor could not be determined.
- iii. Procurement records for the MIS were not provided for audit review; therefore, it could not be determined who was the supplier of the system.
- iv. The vendor was paid an amount of Ksh. 812,000 for upgrade of Fun Soft HIMS. FRONT END TO EXTEND EOL at KTRH and further demanded for a service level agreement between the Hospital and them, outlining the details of support services and duration for support. This is being done without establishing the details of the original contract between the vendor and the Hospital.

### **Management Response**

Funsot HMIS is a nationally procured through the MoH adopted across the country by public health institutions. The vendor issued an expiry notice therefore prompting an extension by one year.

### **Committee Observations**

The Committee observed that the management did not provide key deliverables on the part of the vendor, to the auditors during the time of audit. Contractual obligation not well established was also no well-established. Moreover, the basis of the Ksh. 812,000 payments not clarified. The management did not respond clearly to the procurement aspect.

### **Committee Recommendations**

**The Committee recommends that 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.**

### **2.2. Quotations to Vendors Not Pre-qualified**

Review of procurement documents revealed that Management invited quotations valued at Ksh. 9,347,050 from five (5) vendors to tender for supply of ENT equipment, servicing physiotherapy medical equipment, anesthetic machine, pediatrics thoracic and vascular set and open-heart instrument and plain 3-seater chair heavy gauge unpadded. However, these vendors had not been prequalified under the various categories. This was contrary to section 93 (2) and (4) of the Public Procurement and Asset Disposal Act, 2015, which states that: pre-qualification shall be for complex and specialized goods, works and services and shall include: (f) applicable preferences and reservations

or any conditions arising from the related policy; (g) declaration that it is open to bidders who meet the eligibility criteria; and (h) requirement that only bidders with capacity to perform can apply.

### **Management Response**

Pursuant to section 71 of the PPAD Act (Revised Edition 2022) the head of procurement shall maintain and continuously update the list of registered suppliers, contractors and consultants in various specific categories of goods, works and services according to its procurement needs. Kindly find attached extract of the updated list of suppliers highlighting the companies that were queried under prequalification category

### **Committee Observations**

The Committee observed that the management did not submit the documentary evidence of the updated list of suppliers highlighting the companies that were queried under prequalification category, during the time of audit. However, the documents were provided to the auditors.

### **Committee Recommendations**

**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, Cap.412B, failure to which the Committee shall recommend for their investigation and prosecution in line with section 62 (2) of the Public Audit Act, Cap.412B.
- ii. The Committee recommends to the DPP to direct an investigation into the possible contravention of section 47 of the Public Audit Act, Cap.412B by the Accounting Officer and where in the DPPs assessment, criminal culpability arises, to institute criminal proceedings against the Accounting Officer

## **CHAPTER FOUR**

### **REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR LAMU COUNTY REFERRAL HOSPITAL FOR THE FINANCIAL YEAR 2023/2024**

The Governor of Lamu County, Hon. Issa Timamy, EGH, appeared before the Committee on Tuesday, 18<sup>th</sup> March, 2025 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Lamu County Referral Level 4 Hospital for the Financial Year 2023/2024. The Governor was accompanied by the following officers—

1. Dr. Mbarak Mohamed Mbarak – CECM, Health Services
2. Mohamed MbwanaAli- CECM, Finance and Economic Planning
3. Amb Ali Abbas- County Secretary
4. Mohamed Abbas – Director Accounting Services

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

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

#### **1. Inaccurate Income**

The statement of financial performance reflects revenue from exchange transactions amount of Kshs.41,239,485 in respect of rendering of services - medical service income. The amount includes revenue collections of Kshs.4,969,362 from manual revenue books that differed with mobile payments of Kshs.8,033,289 resulting to unreconciled variance of Kshs.3,063,927. Further, the amount includes other medical service fees of Kshs.28,263,676 in respect of NHIF claims which differed with actual NHIF remittances of Kshs.35,046,263 resulting to unreconciled variance of Kshs.6,782,587.

In the circumstances, the accuracy and completeness of revenue from exchange transactions amount of Kshs.41,239,485 could not be confirmed.

#### **Management Response**

KES 28,263,676.00 were NHIF claims paid and received while KES 35,046,263 was NHIF capitation based on registered population expected to receive services from the facility.

#### **Committee Observations**

The Committee observed that—

- i. the variance of Ksh. 3,063,927 between revenue collections recorded manually and those made through mobile payments remained unreconciled; and
- ii. The management provided clarification regarding the balances of Kshs.28,263,676 and Kshs.35,046,263, stating that these amounts corresponded to NHIF payments and NHIF capitation, respectively, thereby eliminating any perceived variance.

#### **Committee Recommendations**

**The Committee recommends that; —**

- i. **The Ethics and Anti-Corruption Commission (EACC) conducts investigations on the revenue collections in Lamu County Referral Level 4 Hospital to ascertain if there was loss of any funds with a view to holding accountable those found culpable and provide a status update on actions taken within sixty (60) days of the adoption of this report; and**
- ii. **the Accounting Officer should ensure strict compliance with the provisions of regulation 90 (1) of Public Finance Management (County Government) Regulations 2015 with respect to monthly reconciliation of bank statements, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply.**

#### **Emphasis of Matter**

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

The statement of Comparison of budget and actual amounts reflects final revenue budget and actual on a comparable basis of Ksh. 77,607,966 and Ksh. 76,071,991 respectively, resulting to an under-funding of Kshs.1,535,975 or 2% of the budget. Similarly, the Hospital spent Kshs.46,918,687 against actual receipts of Ksh. 76,071,991 resulting in an underutilization of Kshs.29,153,304 or 38% of the receipts.

The underfunding and underutilization affected the planned activities and may have impacted service delivery to the public.

##### **Management Response**

The underfunding of KES 1,535,975, which translates to 2% of the budget, is due to waivers granted to needy patients. Appendix 2 (schedule of approved waivers)

The underutilization of KES 29,153,304 is for only recurrent expenditure excluding an expenditure of KES 1,990,954 for the acquisition of furniture, ICT equipment, and other

machines as stated under Note 31 of the statement of financial position. A re-computation of the surplus is KES 27,162,350.00 as per attached Appendix 3 (Statement of budget comparison for FY 2023/2024).

#### **Committee Observations**

The Committee observed that—

- i. the hospital had an underfunding of Kshs.1,535,975 (2% of the budget) during the financial year under review due to waivers granted to needy patients; and
- ii. the hospital failed to absorb Ksh. 29,153,304 (38% of its budget) during the financial year under review.

#### **Committee Recommendations**

**The Committee recommends that 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 Management Act on penalties for offences shall apply.**

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

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

#### **Failure to remit thirty percent (30%) to County Health Services Accounts**

The statement of financial performance reflects transfers of Ksh. 18,690,323 to the county revenue fund. This amount was revenue collected by the Hospital prior to the enactment of Facilities Improvement Fund (FIF) Act, 2023. However, it was observed that after enactment of the FIF Act, 2023, the Hospital did not remit thirty percent (30%) of its revenue as required. This is contrary, Section 24 (8) of the Lamu County Health Facility Improvement Financing Act, 2023 which states that except for Level 2 and 3 Hospitals, all other entities shall upon preparing quarterly budgets appropriate thirty percent (30%) of the budget to the County health services accounts to facilitate health management functions, primary health care services, and community health services.

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

## **Management Response**

The implementation of the Lamu County Health Facility Improvement Financing Act, 2023 came into effect on October 23, 2023. The revenue collected by the Hospital was not enough to meet its own budgetary needs hence the inability to transfer 30% to the County Health Services Account.

The hospital collected total revenue from operations of Ksh 41,239,485 out of which 30% would amount to Ksh 12,371,845.50 leaving a balance of Ksh 28,867,639.50 to meet operations and maintenance expenditure for the hospital. This would have compromised quality of services and negatively affected operations during the financial year under review. Due to this fact, management was unable to comply with Section 24(8) of the Lamu County FIF Act. management is considering making amendments to the act through the county assembly to facilitate full compliance.

## **Committee Observations**

The Committee observed that contrary, Section 24 (8) of the Lamu County Health Facility Improvement Financing Act, 2023, the hospital failed to remit 30% of its revenue to the County Health Services Account as the balance would be insufficient for the hospital's operations and expenses.

## **Committee Recommendations**

**The Committee recommends that the Governor of Lamu County ensures that the Lamu County Health Facility Improvement Financing Act, 2023 is amended to align to the Facilities Improvement Financing Act, Cap.277.**

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

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

### **1. Role of Hospitals in Universal Health Coverage**

#### **1.1 Inadequate staffing of the hospital**

Review of records provided revealed that the Hospital had twelve (12) medical officers against the sixteen (16) recommended by the Kenya quality model for health which represents a deficit of four (4) medical officers or twenty-five percent (25%). Further, the Hospital had no anaesthesiologists against the recommended two (2). It also had two

(2) general surgeons as per Kenya Quality Model for health and one (1) gynaecologist against the recommended two, representing a deficit of one (1). The paediatrics and radiologists were one (1) each against the recommended two (2) for each of them, representing fifty percent (50%) deficit in each category. Registered community health nurses were eighty-seven (87) which complied with the minimum required number of seventy-five (75).

### **Management Response**

We acknowledge the staff shortage. The hospital is committed to meeting the recommended staffing levels but faces challenges due to budget constraints and wage bill limitations. In the meantime, the following measures are implemented by the Management.

1. Medical Officers: The Hospital currently has 14 medical officers, which is 2 fewer than the recommended 16. During audit, two medical officers had resigned but have since been replaced through recruitment.
2. Anaesthesiologists: Please note this specialist is critical for the operation of the ICU which is yet to be operationalized. Due to budgetary constraints, the hospital will arrange for a visiting anaesthesiologist to serve the hospital once the ICU is operationalized. The Hospital also intends to release one medical officer, in September 2025, to specialize in anaesthesia.
3. Other specialists: Four medical officers have been released to further their studies in the field of obstetrics & gynaecology (2), internal medicine (1), and paediatrics (1).

In conclusion, the Hospital has faced challenges with staff turnover, particularly in specialized areas, but we are actively working to recruit additional staff to address these deficits and ensure that the quality of healthcare services is not compromised. We will continue to work towards achieving full compliance with the Kenya Quality Model for Health recommendations.

### **Committee Observations**

The Committee observe that the Hospital's staff complement did not meet the requirements of the Kenya Quality Model for Health. The Hospital has made some progress in mitigating the matter by recruiting two officers to fill vacant positions.

### **Committee Recommendations**

**The Committee recommends that—**

- i. within sixty (60) days from the adoption of this report, the Governor and the Accounting Officer submit a comprehensive plan outlining the specific measures being taken to address the hospital's staffing shortages. The measures should include both short-term and long-term solutions, focusing on optimizing existing resources, improving employee welfare, and ensuring sustainable staffing levels moving forward; and
- ii. the Governor should encourage the ongoing training and prioritize new recruitments to fill gaps in medical personnel, ensuring specialized services can be offered in-house.

### **1.2 Shortage in bed capacity**

Records provided for audit indicate the Hospital had a total bed capacity of one hundred (100) instead of the recommended one hundred and fifty (150) beds representing a thirty-three percentage (33%) deficit.

### **Management Response**

We acknowledge that the Hospital currently has a total of 100 beds, which is 50 fewer than the recommended 150 beds, resulting in a 33% deficit. The limited bed capacity has been influenced by a combination of factors, including space constraints.

The Hospital has started an expansion program and construction of additional wards of Ksh 19,772,837.30 out of which Ksh 9,077,274.05 has already been paid to the supplier and the project is at 60% implementation status which will increase the bed capacity by 20%.

### **Committee Observations**

The Committee observed that the hospital had a shortage of beds which was partially influenced by space constraints. The hospital began construction of additional wards to mitigate the issue.

### **Committee Recommendations**

The Committee recommends that –

- i. the Governor of Lamu County prioritizes the completion of infrastructure projects to provide adequate space and facilities for the new services; and

- ii. **the Auditor-General to monitor the progress of the project and provide a status update on the same to the Senate during the subsequent audit cycle.**

### **1.3 Inadequate Hospital equipment and machines**

It was also observed that the Hospital had one (1) resuscitaire in labour ward against the recommended two (2) representing fifty percent (50%) deficit. There were no functional ICU or High Dependence Unit (HDU) beds against the recommended six (6) for each of them. This was because the ICU Department was not operational. The Hospital also has four (4) dialysis machines against the recommended five (5) representing twenty percent (20%) deficit.

These deficiencies contravene the first schedule of Health Act, 2017 and imply that accessing the highest attainable standards of health may not be achieved.

### **Management Response**

The Hospital currently has two resuscitaires in the labour ward. One resuscitaire was purchased by the County Government of Lamu while the second one was a donation given to the Hospital by the Pablohortsman Foundation.

The ICU and high dependency unit (HDU) beds are not yet functional due to the absence of an operational oxygen plant. The Hospital management has acquired the oxygen plant of Ksh 38,500,000 out of which Ksh 33,010,567.22 has been paid to the supplier leaving a balance of Ksh 5,489,432.78 for installation, testing and commissioning, the project is at 85%. The installation and commissioning of the plant should be completed by the end of April 2025.

Dialysis Machines: We confirm that the Hospital has 5 dialysis machines in good working condition. During the audit, one was non-functional but has since been repaired. These machines were supplied through the National Government's Managed Equipment Services (MES) program.

### **Committee Observations**

The Committee observed that—

- i. the management submitted evidence showing that the Hospital is in compliance with the equipment and machinery requirements with regards to the resuscitaires and Dialysis Machines; and

- ii. the equipping of the ICU and High Dependency Unit (HDU) is to be completed by the end of April 2025.

### **Committee Recommendations**

**The Committee recommends that –**

- i. **the Governor of Lamu prioritizes availing of adequate funding and resource allocation for essential services like ICU and HDU among others to enable the Hospital to offer all the required services under the UHC; and**
- ii. **the Auditor-General to monitor the progress of the project and provide a status update on the same to the Senate during the subsequent audit cycle.**

### **2. Inefficiencies in the Manual Revenue Collection System**

The statement of financial performance reflects total revenue from exchange transactions amounting of Kshs.41,239,485. However, the Hospital used manual receipt books for the collection of income from services offered without alternative method for accrued receipts. Further, some of the receipt books and receipts numbers were omitted from the income schedule without reasonable explanation.

In addition, the Counter Receipt Books Register (CRBR) provided did not reflect receipt books issued and accounted for including their distribution list and although revenue collection control sheets were in the county stores, they were not applied in reconciliation of revenue collected and banked on a daily basis from each revenue clerk in each month during the year under review.

In the circumstances, the internal controls relating to revenue assessment, receipting, and accounting were not effective during the year under review.

### **Management Response**

The Hospital operated a cashless revenue system. Manual receipts were issued to clients upon making payments through the hospital Paybill. All receipts serial numbers indicated as missing by audit were captured in the schedules for the months of April, May and June 2024. Further, upon transfers of cashiers or re-deployment the unused receipt serial numbers were automatically cancelled. However, the fact was not disclosed to the auditors at the time of the audit. The CRBR was updated and reflects all receipt books issued.

The County Government of Lamu has automated revenue collection to ensure prudent management, accounting, and reporting of the revenue.

In addition, the Hospital Management has put the following measures in revenue collection:

Strengthening of revenue collection - Creation of subunits in the revenue department which made it easy to monitor performance and also easy to hold people accountable.

Monthly reconciliations-Deployment of a revenue accountant to carry out revenue reconciliation.

### **Committee Observations**

The Committee observed that the hospital relied on manual receipt books without an alternative for accrued receipts, the Counter Receipt Books Register failed to properly track issued receipts, and revenue collection control sheets were not utilized for daily reconciliation.

### **Committee Recommendations**

**The Committee recommends that—**

- i. **the Accounting Officer ensures the implementation of an integrated patient registration and electronic billing system that accurately tracks patient registrations, services rendered, payments received, and outstanding balances. The Accounting Officer to provide a status update on the implementation of the aforementioned system to the Senate within 60 days of the adoption of this report; and**
- ii. **the integrated hospital management information systems should comply with the provision of the Digital Health Act No.15 of 2023 in as far as application of comprehensive integrated digital health information system is concerned.**

## CHAPTER FIVE

### REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR NYAMIRA COUNTY REFERRAL HOSPITAL FOR THE FINANCIAL YEAR 2023/2024

The Governor of Nyamira County, Hon. Amos Nyaribo, appeared before the Committee on Tuesday, 18<sup>th</sup> March, 2025 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Nyamira County Referral Hospital for the Financial Year 2023/2024. The Governor was accompanied by the following officers—

1. Dr Mohoi Donald- CECM, Health
2. Dr Jack Magara- County Secretary
3. Jones Omwenga- CECM, Finance
4. Dr. Oeba Jared- Director of Medical Service.

### REPORT ON THE FINANCIAL STATEMENTS

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

#### 1.0 Unsupported Property, Plant and Equipment

The statement of financial position and as disclosed under Note 19 to the financial statements reflects Kshs.573,415,115 in respect of Property, Plant, and Equipment. However, management did not maintain an updated asset register detailing the dates of acquisition, cost, supplier, location, depreciation, unique identification number, disposal and other details to control its assets. Further, an eighth (8) hectares parcel of land and all buildings within the compound of the hospital were not included in the asset register.

In addition, there were no handover report and ownership documents for the reported assets including the land, buildings, motor vehicles, plant and medical equipment and other assets owned and operated by the hospital, from the County Government of Nyamira.

In the circumstances, the accuracy, completeness, ownership and valuation of plant property and equipment balance of Kshs.573,415,115 could not be confirmed.

#### Management Response

The management takes note of the auditors' observation that the hospital assets register was not fully updated at the time of the audit.

We wish to clarify that the hospital maintains assets register in the format stated in the audit report. However, at the time of the audit, the column on cost of immovable assets was not populated because the Inter-governmental Relations Technical Committee (IGRTC) did not complete the process of valuing and handing over of assets to the County Government of Nyamira.

The county government of Nyamira only received the valuation report for plant and motor vehicles.

Further the County Government of Nyamira is the process of carrying out valuation for immovable assets including land and buildings to enable the hospital management to complete its assets register.

In regards to the transfer of assets by the county government to the Hospital and to the extent of the existing laws, the hospital is an entity of county government of Nyamira and does not exist as an autonomous institution. Therefore, the hospital assets are held in trust by the County Government.

### **Committee Observations**

The Committee observed that—

- i. the Hospital's fixed assets register was not up-to-date; and
- ii. the transfer of various assets, including land, buildings, motor vehicles, plant, and medical equipment, from the County Government to the Hospital was not done. Management attributed this to the Hospital's lack of autonomy from the County Government.

### **Committee Recommendations**

The Committee recommends that—

- i. **Within sixty (60) days of the adoption of this report the Governor ensures that the hospital assets are registered in favour of the hospital and thereafter, the hospital maintains an updated asset register in the format prescribed by the Public Sector Accounting Standards Board pursuant to section 104(1)(h) of the Public Finance Management Act 2012, failure to which the penalties under section 199 of the Act shall apply; and**
- ii. **the Governor of Nyamira County ensures that the hospital has an independent budget in the subsequent financial year to facilitate independent procurement processes and ensure proper financial tracking and accountability in accordance to section 20 of the Facilities Improvement Financing Act 2023. Further, the budget must comply with Section 164(2)**

**a) of Public Finance Management Act, CAP 412A with respect to disclosures on appropriated funds, failure to which penalties under section 199 of the Public Finance Management Act shall apply.**

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

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

### **1.1 Unlawful Transfer of Funds**

The statement of financial performance and as disclosed in Note 13 to the financial statements reflects Kshs.8,870,048 incurred on transfer to other Government entities. Review of the supporting documents revealed, the hospital made transfers to Sub-County Ministry of Health (SCMOH) and County Health Management Team (CHMT) of Ksh. 6,388,289 and Kshs.2,481,759 respectively.

However, the transfers were in contravention of Section 5 (1) of the Facility Improvement Act no. 14 of 2023 which requires level 1 to 5 facilities to retain all the monies raised.

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

### **Management response**

The management takes note of the auditor's observation that the hospital transferred monies to the sub county medical officer of health and county health management team.

The county government enacted the Nyamira facility improvement Fund Act, 2022 that was operationalized on 1<sup>st</sup> July 2022. Part II section 6 of the Act provides for transfer of funds to County Health Management team and Sub County Medical Officer of Health.

However, parliament enacted national law on facilities improvement financing act 2023 whose section 6 provides for the retention of all monies raised or received by or on behalf public health facility.

To comply with the new law, the county Government of Nyamira has since stopped the transfers and is in the process of aligning the County act with the National law.

### **Committee Observations**

The Committee observed that—

- i. the Nyamira Facility Improvement Fund Act, 2022 allowed for the transfer of funds to Sub-County Ministry of Health (SCMOH) and County Health Management Team (CHMT), however, this was not in alignment with Facilities Improvement Financing Act, 2023; and
- ii. the County Government was in the process of amending the County Law, to make it consistent with the National Law.

### **Committee Recommendations**

**The Committee recommends that the Governor of Nyamira County ensures that the amendment process of the law is fast-tracked to align it to the National Law. The Auditor-General to provide a status update on the matter to the Senate during the subsequent audit cycle.**

## **2.0 Non-Compliance with Requirement of Universal Health Coverage**

Review of Hospital records and interviews revealed the Hospital had twelve (12) medical officers against the required fifty (50), One hundred and forty-two (142) Kenya Registered Community Health nurses against the required two hundred and fifty (250), one (1) gynaecologist against required three (3), one (1) radiologist against required four (4), two (2) general surgeons against required four (4) and one (1) Radiologists against the required four (4). Further, the Hospital has three (3) advanced life support against the required four (4), Six (6) functional intensive care unit beds against required twelve (12), and no high dependency unit beds against the required twelve (12) required for a level 4 Hospital. These deficiencies contravene the First Schedule of the Health Act, 2017 and imply that accessing the highest attainable standard of health, which includes the right to health care services, including reproductive health care as required by Article 43(1) of the Constitution of Kenya, 2010 may not be achieved.

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

### **Management Response**

The management acknowledges the observation by the auditors that at the time of the audit, the hospital had not met the human resource requirement as per the norms and standards guidelines by the Ministry of Health. However, the county government of Nyamira has been increasing the number, quality and skills of the health care workers since inception of devolution.

Because of the budgetary constraints and to effectively address the human resource challenges, the County government of Nyamira has adopted the scientific model to manage human resource needs in health facilities (Workload Indicators of Staffing Needs) as opposed to the generalized norms and standards. To this end, in July 2023 (2023/2024) the County Government of Nyamira employed 125 health care Workers. 40 of the health workers were deployed to Nyamira County Referral Hospital.

In the current financial year 2024-2025 the County Government will be employing one hundred (100) health care workers as per attached annexure. Majority will be deployed to Nyamira County Referral Hospital, therefore there is Commitment by the county Government of Nyamira to progressively build the capacity of the Hospital to provide UHC.

In addition, the County Government of Nyamira has released various healthcare workers for advanced training to further boost the number of specialists at Nyamira County Referral Hospital.

Further, the County Government has progressively invested in provision of specialized equipment for the Nyamira County referral hospital. In the current financial year, the Government has advertised for the purchase of extra medical equipment to progressively breach the gap on medical equipment as noted by the Auditors.

### **Committee Observations**

The Committee observed that—

- i. the hospital was not compliant with the requirements of Universal Health Coverage (UHC) program as it did not have the required equipment expected of the hospital, such as the required amount of functional intensive care unit (ICU) beds, High Dependency Unit (HDU) beds and advanced life support; and
- ii. Insufficient staffing levels at the hospital hindered its ability to comply with the standards set forth by the Universal Health Coverage program.
- iii.

### **Committee Recommendations**

The Committee recommends that—

- i. the Governor prioritizes availing of adequate funding and resource allocation for essential services like ICU and HDU among others to enable the Hospital to offer all the required services under the UHC;

- ii. the Governor should encourage the ongoing training and prioritize new recruitments to fill gaps in medical personnel, ensuring specialized services can be offered in-house; and
- iii. within sixty (60) days from the adoption of this report, the Governor and the Accounting Officer submit 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.

## **2.1 Unremitted Housing Levy and National Industrial Training Authority Payments**

The statement of financial performance as disclosed in Note 6 and 9 to the financial statements reflects casual employee wages amounting to Ksh 1,988,187 and 3,732,470 respectively, totalling to Kshs.5,720,657. However, a review of the hospital casual employees' payroll revealed that the facility did not remit to the National Industrial Training Authority (NITA) casuals employee's deductions for the period under review. This is against the industrial training Act section 5(Cap 237) which requires employers to pay NITA at a monthly rate of Kshs.50 per employee.

In addition, housing levy deductions were neither deducted nor remitted to Kenya Revenue Authority. This is contrary to the Finance Act 2023 that introduced the levy to all employees with effect from 1 July, 2023.

Lack of remittances to these levies could attract unnecessary penalties. In the circumstances, Management is in breach of the law.

### **Management Response**

The management takes note that at the time of the audit the hospital was not deducting and remitting housing and training levies. However, it is important to note that casuals are hired on short term basis and on daily wages and are not on salary. Because of administrative challenges, the accumulated daily wages are sometimes paid at the end of the month. Further casuals don't work uniformly across the month and because of the nature of their employment there is a high turnover. The law does not have explicit provisions on how such laborers are levied on housing and training.

In view of the above, we are seeking guidance from the Senate whether we should deduct NITA and housing levies from the daily wages.

### **Committee Observations**

The Committee observed that the Hospital failed to deduct and remit housing levy and National Industrial Training Authority (NITA) contributions due to the short-term, daily-wage employment model utilized for casual workers, who are not salaried employees.

### **Committee Recommendations**

**The Committee recommends that—**

**The Committee recommends that the Accounting Officer ensures that the hospital strictly adheres to the provisions of section 5 of the Industrial Training Act, Cap.237 with regards to National Industrial Training Authority (NITA) contributions**

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

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

### **1.0 Long Outstanding Trade and Other payables**

The statement of financial position and as disclosed in Note 20 to the financial statements reflects a Trade and Other payable of Ksh. 28,868,885. The amount relates to the supply of goods and services as at 30 June, 2024 and which were not settled in the year under review but were instead carried forward to the 2024/2025 financial year. Further, review of the supporting schedule indicated that bills amounting to Ksh. 10,667,762 related to prior years. Management has not explained why the bills were not settled during the year when they occurred and did not provide justification for non-payment of the long outstanding pending bills which should have formed the first charge in the subsequent years' budget.

The non-payment of suppliers may result in suppliers withholding their services and the Hospitals may incur avoidable and unnecessary costs of interest and penalties on pending payments.

### **Management Response**

The management appreciates the auditor's observation that at the time of the audit the Hospital had pending trade payables regarding to KEMSA Ksh. 13,925,207, KPLC

Ksh.7,536,092, GWASCO Ksh. 915,916, Kisii Security guards Ksh.3,360,000 and other general supplies of Ksh. 10,667,762. However, it is important to note that this was occasioned by unrealized revenues in particular unremitted payments from NHIF.

The management has since partially paid some of the outstanding bills as follows:

- i. KEMSA: Commitment of Ksh. 13,925,207.
- ii. KPLC: Cleared Ksh. 7,536,092
- iii. WASCO: Paid 400,000
- iv. Kisii Security Guards: Paid 800,000

The management commits to pay the outstanding payables once the Hospital receives the reimbursements from NHIF and SHA.

### **Committee Observations**

The Committee observed that—

- i. the hospital's financial statements included a Trade and Other payables balance of Ksh. 28,868,885 owed to various entities including KEMSA, KPLC, GWASCO, Kisii Security guards and other general supplies; and
- ii. the hospital made efforts in clearing some of the outstanding balances.

### **Committee Recommendations**

**The Committee recommends that within 60 days of the adoption of this report, the Governor of Nyamira County should engage KEMSA, GWASCO, Kisii Security guards and the other general supplies to agree on a repayment plan for the outstanding balances owed to each entity 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**

#### **1.1 Failure to Appoint an Audit Committee**

The audit revealed that, although the facility has a fully appointed Board of Management, there was no internal audit committee in place.

The Hospital relied on the finance and general committee to perform functions of the Audit committee. No explanation was provided for failure to establish the audit committee as required under Public Finance Management (County Governments) Regulations, 2015.

In the circumstances, the existence of an effective internal control and governance could not be confirmed.

### **Management Response**

Management takes note of the auditor's observation that the Hospital management board had not constituted the audit and risk management committee. However, management wishes to clarify that the committee in its sitting which was held on 4th July 2023 established three board committees as follows:

- i. Finance and General-Purpose committee
- ii. Quality and Service Delivery committee
- iii. Audit and Risk Management committee

Further, for the Hospital management Commits to operationalize the audits and risk management Committee.

### **Committee Observations**

The Committee observed that the hospital operated without an Audit Committee in place during the financial year under review.

### **Committee Recommendations**

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