REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

NANYUKI TEACHING AND REFERRAL HOSPITAL

FOR THE YEAR ENDED 30 JUNE, 2023

COUNTY GOVERNMENT OF LAIKIPIA

NANYUKI TEACHING AND REFERRAL HOSPITAL
COUNTY GOVERNMENT OF LAIKIPIA

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2023

Table of Contents

1. Acronyms & Glossary of Terms

Provide a list of all acronyms and glossary of terms used in the preparation of this report e.g.

CSR	Corporate Social Responsibility
OSHA	Occupational Health & Safety Act
PFMA	Public Financial Management Act
MED SUP	Medical Superintendent
Fiduciary Management	Key management personnel who have financial responsibility in the entity.
NTRH-	Nanyuki Teaching and Referral Hospital

2. Key Entity Information and Management

(a) Background information

Nanyuki Teaching and Referral Hospital (NTRH), previously Nanyuki District Hospital, has been in existence since 1930s [1935], primarily serving the people of Laikipia and parts of neighbouring Meru and Nyeri Counties. NTRH is a level 4 hospital established vide Gazette Notice No. 9811 dated 20th July 2012 and is domiciled in Laikipia County under the Health Department. The hospital is governed by a Board of Management. However, FY 2022/2023 the board was non-existent because the term of the previous board had expired in the FY 2020/2021 and a new board was yet to be gazetted.

(b) Principal Activities

The principal mandate of the hospital is to …

I. To provide quality, accessible and affordable health care services
II. To Facilitate preventive, promotive and rehabilitative services to the community
III. To provide training to different health professionals
IV. To conduct research in diverse public health fields

(c) Key Management

The *hospital's* management is under the following key organs:

- County department of health
- Board of Management
- Accounting Officer/ Medical Superintendent
- Health Management Team

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2023 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Chief Officer- Health Department	**Dr. Timothy Panga**
2.	Chief Executive Officer	**Dr. Sammy Kilonzo**
3.	Health department Accountant	CPA M. Charles Ntonjira
4.	Hospital Accountant	CPA Nahashon Ngujiri

(e) Fiduciary Oversight Arrangements

- County Treasury
- Internal Audit Directorate
- County Assembly
- Senate Parliamentary committees
- Development partners & Donors

(f) Entity Headquarters

P.O. Box 66-10400
Off Nanyuki-Rumuruti Road
NANYUKI, KENYA

(g) Entity Contacts
Telephone: (+254) 722478289
E-mail: nanyukihospital@laikipia.go.ke

(h) Entity Bankers

1. Central Bank of Kenya
   Haile Selassie Avenue
   P.O. Box 60000, City Square 00200
   Nairobi, Kenya

2. Kenya Commercial Bank
   P.O box 10004-10400
   Nanyuki

3. Family Bank
   P.O box 74145-10400
   Nanyuki

(i) Independent Auditors
Office of Auditor General
Anniversary Towers, Institute Way
P.O. Box 30084
GPO 00100
Nairobi, Kenya

(j) Principal Legal Adviser
The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

(k) County Attorney
P.O. Box. 1271-10400
Nanyuki, Kenya

3. THE BOARD OF MANAGEMENT

During the period under review the board of management was not in place since the lapse of the immediate former board.

4. KEY MANAGEMENT TEAM

Ref	Management	Details
1.	 **Dr. Sammy Kilonzo**	Chief Executive Officer
2.	 **Dr. Esbon Njau**	Head of Clinical Services
3.	 **Mrs. Alice Mboroki**	Head of corporate Services

4.	 **Mrs. Lucy Njogu**	Manager nursing services
5.	 **CPA Nahashon Ngunjiri**	Hospital Accountant
6.	 Getrude Nkatha	Procurement officer
7.	 **Dr. Sharon Wagema**	Manager, Pharmacy Services

5. CHAIRMAN'S STATEMENT

During the period under review the board of management was not in place since the lapse of the immediate former board.

6. REPORT OF THE CHIEF EXECUTIVE OFFICER

Nanyuki Teaching and Referral Hospital (NTRH) is the largest public hospital in Laikipia county with a bed capacity of 250. It is currently registered as a level IV hospital (vide Gazette Notice No. 9811 dated 20th July 2012) with plans underway to upgrade it to a level V hospital. It has been in existence since 1930s. It has a large catchment area including Nanyuki, Thingithu, Segera, Umande, Tigithi, Ngobit, Mukogodo East and Mukogondo West wards in Laikipia county. Additionally, it serves neighbouring counties including Buuri and Kieni constituencies in Meru and Nyeri counties respectively. These areas make up a catchment population of approximately 270,000.

Our institution is guided by the eight pillars as outlined in the strategic plan (2021-2025). These pillars include: Leadership and Governance; Service Delivery; Health Products, Vaccines and Technologies; Health Research; Human Resources for Health; Health Infrastructure; Health Information and Health Financing.

Under leadership and governance, the hospital established a new partnership with Pathology Network Africa in April 2023. This partnership will ensure that our patients receive their biopsy and cytology reports within seven days thus enhancing early diagnosis of cancer. A number of existing partnerships were strengthened through continued collaborations and new joint projects such as training of additional staff on emergency care by Dharura Charity, CCC support by USAID Tujenge Jamii (UTJ) and AMREF support of oxygen supply in the hospital. The hospital in collaboration with Dharura charity won a grant amounting to £ 65,000 from Commonwealth Pharmacists Association. The grant will be implemented over the next 18 months and will help our institution improve the use of antibiotics in addition to developing a hospital antibiogram

In the FY 2022/23, the hospital attended to approximately 264,680 undifferentiated (walk-in) patients in our outpatient departments. A total of 9525 patients were admitted and attended to in our inpatient wards. NTRH offered a wide range of services that included: in patient services (general wards, maternity ward; general outpatient walk-in clinics; corporate outpatient walk-in clinics; specialized outpatient walk-in clinics (ENT, ophthalmology, ortho-trauma, TB, mental health, youth centre, GBV, CCC clinics); Scheduled specialist outpatient clinics (paediatric OPC, medical OPC, surgical OPC, high-risk antenatal clinic, Obs/gyn OPC, orthopaedics OPC, ENT clinic, ophthalmology, ccc, oncology). The hospital offered round the clock pharmacy services, accident and emergency services, laboratory services and radiology services.

We continue to endeavour to improve our prescription fill rate and reduce stock outs of essential health products and technologies. The hospital saw a tremendous improvement in stocking levels compared with the previous year. Our fill rate of prescriptions was averaging at about 70%. A commendable improvement was noted in terms of the days when essential medicines and non-pharmaceutical supplies were out of stock.

Our vision of being a centre of excellence in health service delivery cannot be realized without focusing on quality improvement. To this end, the hospital established a fully-fledged department focusing on research and quality assurance. A number of ongoing quality improvement projects were initiated during the period including; table top simulations for ED department, IPC training including waste management.

Our institution has a total staff establishment of 444 comprising of medical specialists, general practitioners, dentists, specialized clinical officers, general clinical officers, specialized nurses. general nurse, pharmacists, pharmaceutical technologists, Laboratory technicians, nutritionists, health record information officers, public health officers, supportive cadres and general casuals. During the financial year, the hospital received additional staff who included specialists, medical officers, dentist and pharmacists. This was as a result of reinstatement of 34 doctors who had been unfairly dismissed in the year 2019.

Notable infrastructural improvement was initiated and completed to enhance services offered to our patients such as renovation of female ward, construction of reinforced inpatient fence, acquisition of new laundry machines, purchase of medical equipment, installation of state-of-the-art incinerator, repair of the hospital borehole to supplement NAWASCO water supply, power cable upgrade in the laundry department, water distribution improvement in parts of the inpatient areas, renovation of covered walkways. Other projects were initiated in the financial year and were still ongoing at the end of the period. These included: renovation of male ward, old maternity and orthopaedic ward; expansion of OPD/ED block; construction of physiotherapy building, satellite blood transfusion centre, CCC/TB block;

Our hospital continues its journey towards a paperless system. In line with this vision, we were able to partially integrate radiology services with the hospital management information system. Our goal is to fully digitize the management of our supplies and inventory in the next financial year.

Our institution was able to raise revenue amounting to Ksh. 250,687,346.00 which was an improvement from Ksh. 206, 675,380.00 collected in the FY 2021/2022. The revenue growth could be attributed to reinstatement of specialists and improved availability of supplies. The main revenue streams continued to be NHIF capitation and NHIF rebates. Other sources included NHIF fee for service and Private insurances such as AoN MINET, Britam, Jubilee health Insurance and Kenya Alliance. Our main threat to revenue growth remains to be patient waivers

Preparation of 2nd financial statements for Nanyuki teaching & referral Hospital

The financial statements for Nanyuki Teaching & referral Hospital for the FY 2022/23 have been derived from the Audited Financial Statements for Laikipia County Executive for the same period. This is because during the period the Hospital was operationally considered as part of the Department of Health & Medical Services of Laikipia County Government. It was therefore not operationally autonomous as all transactions were effected on the IFMIS system at the County Executive level.

The financial statements have in accordance with IPSAS 33 opted for the transitional adoption of IPSAS accrual basis of financial statements presentation.

Dr. Sammy Kilonzo

Chief Executive Officer- Nanyuki Teaching & Referral Hospital

NANYUKI TEACHING & REFERRAL HOSPITAL
CHIEF EXECUTIVE OFFICER
14 AUG 2024
P. O. Box 66-10400
NANYUKI
COUNTY GOVERNMENT OF LAIKIPIA

7. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES

Section 164 Subsection 2 (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the accounting officer when preparing financial statements of each County Government entity, to include in the financial statement, a statement of the County Government entity's performance against predetermined objectives.

NTRH has 8 strategic pillars and objectives within the current Strategic Plan for the FY 2021-2025. These strategic pillars/ themes/ issues are as follows;

Pillar 1: Leadership and Governance
Pillar 2: Service Delivery
Pillar 3: Health Products, Vaccines and Technologies
Pillar 4: Health Research
Pillar 5: Human Resources for Health
Pillar 6: Health Infrastructure
Pillar 7: Health Information
Pillar 8: Health Financing

NTRH develops its annual work plans based on the above 8 pillars. Assessment of the hospital management's/ Board's performance against its annual work plan is done on a quarterly basis. The hospital achieved its performance targets set for the FY 2022/2023 period for its 8 strategic pillars, as indicated in the table below:

Strategic Pillar	Objective	Key Performance Indicators	Activities	Achievements
Leadership and Governance	To strengthen Leadership, Management and Governance (LMG) at NTRH	• Percent of increase in partnerships	• Improve existing partnership and develop new ones	• Signed an MoU with Pathology Network Africa • Won a grant in collaboration with Dharura charity

				• AMREF supported the hospital with oxygen supply
Service Delivery	To provide effective teaching and referral services towards contribution to attainment of universal health coverage by 2026:	Number of HCWs trained on emergency and trauma care	• Training of HCWs on Emergency and trauma care	44
		No. of clients receiving new specialized services	• Cancer screening, counselling, palliative care,	1962
		No. of contracts with private health insurance	• Signed Contracts	Signed contracts with Britam, AON, Kenya Alliance and Jubilee Insurance
Health Products, Vaccines and Technologies		Prescription fill rate	Improve drug availability	70%
Human Resources for Health	To strengthen the HRH management towards improved health outcomes at NTRH.	• % compliance of staff returns to the approved staff establishment	Staff returns	99.9
		No. of departments with work plan	Preparation of work plan	2

		No. of staff with performance targets based on departmental work plans	Setting of performance targets	23
Health Infrastructure	To expand and improve the NTRH physical infrastructure for ease of access to health services and to attain the level 5 facility status	Completed renovation against target areas	Renovations	Renovation of female ward
		New installations in place	Installation	Construction of inpatient fence
Health Information	To establish health information system for ready access of information for decision making	No. of departments networked	Networking of offices	
		No. of desktop computers	Installation of desktop computers	58
Health Financing	Provide resource adequacy to achieve the hospital's health delivery mandate.	Amount of revenue generated through NHIF		Kshs. 168,667,776
		% increase in revenue collected through NHIF		52.5%
		% increase of new NHIF clients		22%

8. CORPORATE GOVERNANCE STATEMENT

During the period under review the board of management was not in place since the lapse of the immediate former board.

9. MANAGEMENT DISCUSSION AND ANALYSIS

The hospital attended to 264680 outpatients and 9525 inpatients during the year ending 30th June 2023. Maternal deliveries stood at 3625.

Clinical/operational performance

Table 1: Summary of OPD Attendance for the FY 2022/2023

OPD Attendance	Q1	Q2	Q3	Q4	Total
Over 5	37963	39980	41249	34931	**154123**
Under 5	8630	8828	9239	9055	**35752**
Casualty/Emergency department	700	1062	1212	1181	**4155**
Totals	**47293**	**49870**	**51700**	**45167**	**194030**

Table 2: Summary of inpatient for the FY 2022/2023 (Q1)

Wards	Beds	Cots	Admissions	Discharges	Deaths	Absconders
Medical ward Male	22		208	166	27	5
Medical ward Female	36		178	146	20	2
Maternity Ward	66		1011	950		
Labour Ward						
Paediatric Ward	25	2	161	159	2	
Nursery/Neonatal Ward	20	8	256	252	9	
Surgical paediatric	10		53	53		
Surgical Female	11		59	60	2	
Surgical Male	24		118	101	2	2
Gynaecology Ward	9		187	175		1
Orthopaedic Ward						
Other Wards	17		38	26	7	
TOTALS	**240**	**10**	**2269**	**2088**	**69**	**10**

Table 3: Summary of inpatient for the FY 2022/2023 (Q2)

Wards	Beds	Cots	Admissions	Discharges	Deaths	Absconders
Medical ward Male	22		212	178	31	1
Medical ward Female	36		193	174	18	5
Maternity Ward	66		1044	1027		
Labour Ward						
Paediatric Ward	25	2	209	208	3	
Nursery/Neonatal Ward	20	8	223	212	2	
Surgical paediatric	10		65	54	1	
Surgical Female	11		74	63		
Surgical Male	24		139	124	1	
Gynacology Ward	9		193	190		
Orthopaedic Ward						
Other Wards	17		48	26	19	
TOTALS	**240**	**10**	**2400**	**2256**	**75**	**6**

Table 4: Summary of inpatient for the FY 2022/2023 (Q3)

Wards	Beds	Cots	Admissions	Discharges	Deaths	Absconders
Medical ward Male	22		207	184	19	2
Medical ward Female	36		181	157	17	1
Maternity Ward	66		972	975		
Labour Ward						
Paediatric Ward	25	2	278	233	11	2
Nursery/Neonatal Ward	20	8	233	225	10	
Surgical paediatric	10		56	61		
Surgical Female	11		72	54	1	
Surgical Male	24		149	132	3	
Gynacology Ward	9		191	187	1	
Orthopaedic Ward						
Other Wards	17		63	45	22	
TOTALS	**240**	**10**	**2402**	**2253**	**84**	**5**

Table 5: Summary of inpatient for the FY 2022/2023 (Q4)

Wards	Beds	Cots	Admissions	Discharges	Deaths	Absconders
Medical ward Male	22		223	191	28	
Medical ward Female	36		192	173	25	
Maternity Ward	66		981	951		
Labour Ward						
Paediatric Ward	25	2	283	269	10	
Nursery/Neonatal Ward	20	8	204	184	13	
Surgical paediatric	10		83	65	1	
Surgical Female	11		82	91	4	
Surgical Male	24		152	153	6	5
Gynaecology Ward	9		192	198		3
Orthopaedic Ward						
Other Wards	17		62	51	16	
TOTALS	**240**	**10**	**2454**	**2326**	**103**	**8**

Table 6: Summary of key indicators for the FY 2022/2023

Indicator	Q1	Q2	Q3	Q4	Average
Average length of stay (Days)	7	5	6	9	7
Bed Occupancy rate (%)	64	74	67	86	73
Mortality rate (%)	**3.3**	**2.0**	**3.7**	**4.3**	**3.3**

Table 7: Summary of surgical theatre utilization for the FY 2022/2023

	Q1	Q2	Q3	Q4	Totals
Minor surgeries operated	27	22	22	135	**205**
Emergencies Operated	243	312	313	204	**1072**
Cold surgical cases	208	92	66	59	**425**
Major surgeries Operated	437	498	494	333	**1762**
Caesarean Sections	256	283	267	272	**1075**
Totals	**1171**	**1207**	**1162**	**1003**	**4539**

Table 8: Specialized Clinics attendance summary for the FY 2022/2023

Specialized Clinic	New clients	Re-visits	Totals
ENT Clinic Attendance	4385	2240	6625
Eye Clinic Attendance	2829	7902	10731
TB and Leprosy attendance	300	2647	2947
Comprehensive Care Clinic (CCC)	110	21600	21710
Psychiatry Attendance	204	1398	1602
Orthopaedic Clinic Attendance	774	1188	1962
Occupational Therapy Attendance	136	275	411
Physiotherapy Attendance	531	1081	1612
Medical Attendance	285	1783	2068
Surgical Clinics attendances	551	1025	1576
Paediatrics attendances	234	637	871
Obstetrics/Gynaecology Attendance	693	1653	2346
Nutrition Clinic	2687	10271	12958
Oncology Clinic	114	239	353
Renal Clinic	24	274	298
All other special clinics attendance	246	2334	2580
43 Totals	**14103**	**56547**	**70650**

Dr. Sammy Kilonzo

Chief Executive Officer- Nanyuki Teaching & Referral Hospital

NANYUKI TEACHING & REFERRAL HOSPITAL
CHIEF EXECUTIVE OFFICER
14 AUG 2024
P. O. Box 66-10400
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10. Environmental and Sustainability Reporting

The institution main mandate is provision of quality and affordable healthcare services. However, these services require enabling resources such as energy and water among other inputs. A significant proportion of our revenue is spent on electricity and water. We explored sustainable sources of energy. As a result, an energy transition plan to solar was initiated. Additionally, water harvesting was considered to supplement piped water from NAWASCO.

A number of activities that have been undertaken in order to promote sustainability as outlined below.

Environmental performance

Through collaboration with Mary Immaculate primary school, flowers were planted around the new maternity and along the road leading to the mortuary. Waste management practices and processes were established with all medical waste from surrounding facilities both private and public incinerated at the hospital's incinerator. Notably, a new incinerator was procured and installed. Sensitization training on waste segregation and management was conducted among different healthcare workers. Efforts were made to have designated green areas, conserve water and also minimize energy wastage.

i) Employee welfare

The hospital has an established HR recruitment and management policy outlining diversity and equality, fair compensation and disciplinary processes as guided by the relevant legislations and policies. A staff end of year party was conducted in December 2022 during which a number of staff received spot awards. Seventeen hospital employees who were under county UHC contract were transitioned to permanent and pensionable establishment. The hospital continued providing staff with tea and snacks. A staff welfare committee was established during this period

Market place practices-

a) **Responsible competition practice.**

The hospital has zero tolerance to corruption. The hospital collaborates with other health institutions on different areas to ensure continuity of care. For instance; patients' referrals, consultations and trainings. Tendering process has remained open and competitive in line with relevant legislations.

b) **Responsible Supply chain and supplier relations**

The institution adheres to Public Procurement and Asset Disposal Act (PPDA), 2015 and Public Finance Management Act, 2012. The hospital endeavours to pay suppliers within the agreed credit period. However, delays have been experienced due to inadequate funding and exchequer delays.

c) **Responsible marketing and advertisement**

The hospital has an active communication unit and a vibrant social media presence. Plans are underway to have an institutional website.

ii) Corporate Social Responsibility / Community Engagements

A number of CSR activities were undertaken during the financial year including orthopaedics camp where 3167 patients were screened out of whom 67 were operated. In addition, other CSR activities included provision of free services to street families

11. REPORT OF THE BOARD OF MANAGEMENT

During the period under review the board of management was not in place since the lapse of the immediate former board.

12. STATEMENT OF BOARD OF MANAGEMENT'S RESPONSIBILITIES

Section 164 of the Public Finance Management Act, 2012 requires the Accounting Officer to prepare financial statements in respect of Nanyuki Teaching and Referral Hospital, which give a true and fair view of the state of affairs of the Nanyuki Teaching and Referral Hospital at the end of the financial year 2022/23 and the operating results of the for the Nanyuki Teaching and Referral Hospital FY 2022/23. The Accounting Officer is also required to ensure that the Nanyuki Teaching and Referral Hospital keeps proper accounting records which disclose with reasonable accuracy the financial position of the Nanyuki Teaching and Referral Hospital. The council members are also responsible for safeguarding the assets of the. Nanyuki Teaching and Referral Hospital

The Accounting Officer is responsible for the preparation and presentation of the Nanyuki Teaching and Referral Hospital*'s* financial statements, which give a true and fair view of the state of affairs of the Nanyuki Teaching and Referral Hospital for and as at the end of the financial year ended on June 30, 2023. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period, (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity, (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud, (iv) safeguarding the assets of the Nanyuki Teaching and Referral Hospital; (v) selecting and applying appropriate accounting policies, and (vi) making accounting estimates that are reasonable in the circumstances.

The Accounting Officer accepts responsibility for the Nanyuki Teaching and Referral Hospital*'s* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012. The Accounting Officer is of the opinion that the Nanyuki Teaching and Referral Hospital*'s* financial statements give a true and fair view of the state of Nanyuki Teaching and Referral Hospital*'s* transactions during the financial year ended June 30, 2023, and of the Nanyuki Teaching and Referral Hospital*'s* financial position as at that date. The Accounting Officer further confirms the completeness of the accounting records maintained for the Nanyuki Teaching and Referral Hospital, which have been relied upon in the preparation of the Nanyuki Teaching and Referral Hospital's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Accounting Officer to indicate that the Nanyuki Teaching and Referral Hospital will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Hospital's financial statements were approved on 15th November 2023 and signed by

Dr. Sammy Kilonzo

Chief Executive Officer- Nanyuki Teaching & Referral Hospital

NANYUKI TEACHING & REFERRAL HOSPITAL
CHIEF EXECUTIVE OFFICER
14 AUG 2024
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OFFICE OF THE AUDITOR-GENERAL

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REPORT OF THE AUDITOR-GENERAL ON NANYUKI TEACHING AND REFERRAL HOSPITAL FOR THE YEAR ENDED 30 JUNE, 2023 – COUNTY GOVERNMENT OF LAIKIPIA

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.

B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure the Government achieves value for money and that such funds are applied for the intended purpose.

C. Report on the Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Nanyuki Teaching and Referral Hospital – County Government of Laikipia set out on pages 1 to 27, which comprise of the statement of financial position as at 30 June, 2023 and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, in all material respects, the financial position of Nanyuki Teaching and Referral Hospital – County Government of Laikipia as at 30 June, 2023 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and do not comply with the Public Finance Management Act, 2012, the County Governments Act, 2012, the Health Act, 2017 and the Laikipia Health Services Act, 2014.

Basis for Adverse Opinion

1. Unconfirmed Revenue

The statement of financial performance reflects total revenue of Kshs.801,919,996. The following unsatisfactory observations were made;

i. Review of the Laikipia County Government's programme-based annual estimates for the year ending 30 June, 2023 as well as the County's Department of Health vote book indicated voted expenditure of Kshs.256,048,908. The voted amount was transferred to Laikipia County Facilities Improvement Fund (FIF) bank account for utilization by the Hospital but were not disclosed in the statement of financial performance.

ii. Laikipia County Facilities Improvement Fund (FIF) bank statement and cashbook CBK account number 1000392959 indicated that the County was operating a single cashbook for several entities with receipts totalling to Kshs.916,880,806. As a result, the specific transfers from the County Government to Nanyuki Teaching and Referral Hospital could not be confirmed.

iii. Revenue records provided indicated that Nanyuki Teaching and Referral Hospital (NTRH) offered services and collected Kshs.206,675,380 net of waivers and exemptions of Kshs.673,993. The collections were remitted to the County Revenue Fund (CRF) and was not disclosed in the financial statements as revenue from exchange transactions nor were the transfers supported by evidence of receipt in CRF bank statements. Further, details of the waivers and exemptions including patients' names, reasons for exemptions and policy guiding the exemptions, were not provided for audit review.

iv. During verification of store items and analysis of data from KEMSA, it was observed that program drugs/donations were received for use in the Comprehensive Care Clinic (CCC) which is run by United States Agency for International Development (USAID) and handles HIV patients, the chest clinic which handles Tuberculosis patients as well as other departments in the Hospital. However, the program commodities/donations with a total value of Kshs.33,073,379 as per the Kenya Medical Supplies Agency (KEMSA) data was not disclosed as revenue in the financial statements. Further, audit review of the report of the CEO indicate that the Hospital in collaboration with Dharura charity won a grant amounting to £65,000 from the commonwealth pharmacists association. However, this was not disclosed as revenue from non-exchange transactions in the Statement of Financial Performance.

v. In addition, during the physical inspection of the Hospital, a kiosk was noted to be operating in the Hospital precincts. However, the rent/lease agreement indicating the lessee, rent charges and terms of the lease were not provided for audit nor rent collected disclosed in the financial statements.

In the circumstances, the accuracy and completeness of the total revenues of Kshs.801,919,996 could not be confirmed.

2. Variances in the Cash and Cash Equivalents Balance

The statement of financial position reflects cash and cash equivalents of Kshs.1,614,513 as disclosed under Note 8 to the financial statements. The balance includes Kshs.960,995 in respect of cash in hand KCB account being the M-Pesa transactional account. However, M-Pesa statements indicated a balance of Kshs.4,756 which was not reconciled by the cash book balance resulting to unexplained variance of Kshs.956,239.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.1,614,513 could not be confirmed.

3. Unconfirmed Inventory

The statement of financial position reflects inventory balance of Kshs.133,708,405 as disclosed under Note 10 to the financial statements. However, audit review of inventory records indicated that the stock balance was supported by a stock listings/schedules from various departments. However, the Management did not produce for audit a stock certificate and letters of appointment of the board of survey team that undertook the stock take. Further, no reconciliation of the physical stock-take balances with balances as per the store records (bin cards) was done to confirm the accuracy of the stock take quantities.

In the circumstances, the accuracy, existence and completeness of the inventory balance of Kshs.133,708,405 could not be confirmed.

4. Unconfirmed Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transactions of Kshs.44,434,628 as disclosed under Note 9 to the financial statements. However, NHIF records on claims payable to the Hospital indicated that the Fund owed the Hospital an amount of Kshs.62,844,072 as at 30 June, 2023. Further, the Hospital's NHIF claims movement schedule provided indicated a balance of Kshs.44,086,113 thus varying with NHIF records by Kshs.18,757,959 which has not been explained or reconciled. In addition, Management provided private insurance companies debtors ledgers which indicated that three companies owed the Hospital a total of Kshs.23,680,924 which was not disclosed in the financial statements. These debtors were not supported by the insurance companies' statements to confirm the accuracy of the Hospital ledger balances

In the circumstances, the accuracy and completeness of receivables from exchange transactions balance of Kshs.44,434,628 could not be confirmed.

5. Undisclosed Property, Plant and Equipment Balance

The statement of financial position reflects property, plant and equipment balance of Kshs.16,647,729 as disclosed under Note 11 to the financial statements. However, management provided a list of assets held by the Hospital as at 30 June, 2023 whose values was not included. The explanatory notes to the statement of financial position asserts that assets and liabilities had not been presented since the Hospital was in the transition phase of adopting IPSAS accrual and has not finalized on measurement of assets and liabilities. However, paragraph 2 of Note XVII on Significant Accounting Policies indicated that the financial statements have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS) Accrual. This was contrary to Paragraph 28 of International Public Sector Accounting Standards (IPSAS) 33 which states that an entity opting to exempt itself from presenting PPE in the financial statements affects the fair presentation of a first-time adopter's financial statements and its ability to assert compliance in accordance with IPSAS accrual.

In the circumstances, the accuracy, completeness and ownership of property, plant and equipment balance of Kshs.16,647,729 could not be confirmed.

6. Undisclosed Intangible Assets

The statement of financial position reflects Nil intangible assets. However, audit review of information, reports provided, and physical verification indicated that the Hospital had installed an ERP system (Funsoft I - Health Information System), for hospital operations.

In the circumstances, the accuracy and completeness of the Nil balance in respect of intangible assets could not be confirmed.

7. Unconfirmed Trade and Other Payables Balance

The statement of financial position reflects Kshs.150,661,963 in respect of trade and other payables balance as disclosed under Note 12 to the financial statements and as detailed below:-

Details/Particulars	**Amount (Kshs.)**
Un-committed LPO/LSO	60,360,731
Pending Bills with Audit Committee	21,147,148
Voided Payments 2022-2023	69,154,084
Total Pending Bills 2022-2023	**150,661,963**

However, the salaries and wages for permanent staff of Kshs.49,536,415 which was in arrears as a result of return-to-work framework agreement between the County Government of Laikipia, County Public Service Board and Kenya Medical Practitioners and Dentists Union (KMPDU) were not disclosed as pending bills neither by the Hospital nor the County Government of Laikipia.

In the circumstances, the accuracy and completeness of the trade and other payables balance of Kshs.150,661,963 could not be confirmed.

8. Inaccurate Disclosure in Statement of Comparison of Budget and Actual Amounts

The statement of comparison of budget and actual amounts reflects revenue final budget and actual on comparable basis both of Kshs.801,919,996 which is also equal to expenditure budget and actual on comparable basis. However, audit review of IFMIS vote book indicated a final budget of Kshs.332,000,000 and total payments and commitments of Kshs.316,227,149 resulting to under expenditure of Kshs.15,772,851. The Management did not explain the variance between the balances disclosed in the statement of comparison of budget and actual amounts and the amounts as per the IFMIS vote report.

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

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs). I am independent of the Nanyuki Teaching and Referral Hospital Management in accordance with ISSAI 130 on the Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse opinion.

Emphasis of Matter

NHIF - National Capitation Cover Deficiency

Audit of revenue records for the year under review indicated that the Hospital received a capitation of Kshs.66,587,680 from the NHIF in respect of National Capitation Cover. However, the Hospital provided services valued at Kshs.209,105,655 to the patients under this cover resulting in a cover deficiency of Kshs.142,517,975. The cover deficiency may affect sustainability of services by the facility which is dependent on continued funding by the County Government of Laikipia.

My opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. There were no key audit matters in the year under review.

Other Matter

Hospital's Name Misnomer

Review of the gazette notice number 9811 of 10 July, 2012 indicated that the Hospital's name was changed from a district hospital to a teaching and referral hospital. However, inspection of the facility and discussions held with Management revealed that the Hospital did not hold a teaching status since the planned Nanyuki Kenya Medical Training College that had been envisioned was not in operation and in any case, only had four classrooms that were not in use. Further, there was no evidence of a medical training college license or approval to warrant the use of term "Teaching" as part of the Hospital's name. These facts have not been disclosed in the financial statements. In the circumstances, the Hospital's name is a misnomer may be misleading to the stakeholders.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Adverse Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Non-Disclosure of Waivers

Records provided for audit indicated that the Hospital issued waivers amounting to Kshs.20,133,533. The waivers were given to patients following application for waivers, review and vetting of the patient by the social worker and approval of the waivers by the Waiver Committee. However, the waivers were recommended by the social worker without a well-designed review model for determining the need by the patient and was therefore not objective. Further, there was no evidence that the waivers were authorized by the County Executive Member for Finance as required by Section 159 of the Public Finance Management Act, 2012 which states that the County Executive Committee Member for Finance may waive a county tax, fee or charge imposed by the county government and its entities in accordance with criteria prescribed in regulations.

In addition, the waiver schedule did not indicate the patients original bill before waivers and were not disclosed in the financial statements as part of revenue from rendering of services.

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

2. Late Submission of Financial Statements

The financial statements for the Nanyuki Teaching and Referral Hospital for the year ended 30 June, 2023 were due for submission to the Office of Auditor-General on 30 September, 2023. However, the financial statements were submitted on 6 December, 2023 contrary to provisions of Section 164(4)(a) of the Public Finance Management Act, 2012 which states that, within three months after the end of each financial year, the accounting officer for an entity shall submit the entity's financial statements to the Auditor-General.

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

3. Idle Assets

Physical review of the Hospital assets carried out in April 2024 revealed the following:

i. Sixty-one (61) beds, eleven (11) delivery coaches, nine (9) CTG machines and many mattresses in the maternity ward-first floor were poorly stored and lying idle since they were not in use.

ii. The Maternity theatre was non-functional because it was not equipped.

In the circumstances, the Hospital may not have achieved value for money used to acquire the assets.

4. Failure to Fully Utilize Funsoft I-HMIS System Modules

Review of the Funsoft Integrated-Health Management Information System (I-HMIS) Manual, 2020 as provided by Management for review revealed that the system had ten (10) different modules. However, it was observed that.

i) For non-pharmaceuticals and expired drugs, the Hospital used a manual inventory management system.

ii) The care stations management module at the pharmaceutical store did not provide details of the item being reconciled and therefore verification of the reconciled items could not be done.

iii) The laboratory did not utilize the inventory module and only utilized the billing module.

iv) Interviews with the head of ICT management and other users of the system indicated that no staff has been trained by the system vendor on the system use and all staff have learned through peer and on job training.

v) The Management did not provide reports to confirm used of the following modules.

a. Funsoft Clinicals Modules (Nursing, Doctors and Theatre).

b. Funsoft Care stations management module (Laboratory, Pharmacy, Radiology, Dental, Therapy Stations, Eye, ENT, Nutrition and other clinics).

c. Farewell Home Management.

d. Funsoft Asset and Fleet Management module.

e. Funsoft Accounting and Financial Management Module (Chart of Accounts, User Fee Manuals, Trial Balance, Balance Sheet, Cash Flow, Statements for Debtors and Creditors, Treasury management and Financial Reporting).

In the circumstances, the Hospital may not have achieved value for money used to acquire the assets.

5. Governance - Facility/Hospital Operating Without a Board

Review of the governance structure of the hospital revealed that the facility has been operating without a Board of Management. An interview with the Management revealed that the last Board meeting was held in June, 2021. This is contrary to Section 9(1) of the Laikipia County Health Services Act, 2014 which states that a County and a Sub-County Hospital shall be governed by a Board appointed by the Executive Member (of Health) and approved by the Governor.

Further, discussions held with Management indicated that the Hospital Management Team (comprising of heads of departments) was the body that undertook governance roles during the period under audit. However, the Management did not provide evidence of official appointment letters and duties, roles and responsibilities to be undertaken by the team.

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

6. Failure to Acquire Valid Operating Licenses

The Hospital was registered as a Level 4 public medical institution under serial number GK-013057 on 15 August, 2017. However, review of the Hospital's license to operate as a public medical institution provided for audit revealed that the Hospital has been operating for over 6 years without a valid license. This is contrary to the Medical Practitioners and Dentists Act, 2021 Section 15(11) which states that no premise shall be used by any person as a health institution unless it is registered and licensed for such use by the Council. The Management explained that the license costs are too high but a review of the KMPDC licensing fees revealed that Public Health Facilities are charged nil (zero) fee for the Facility License. Further valid licenses for radiology and pharmacy services were not provided for audit review.

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

7. Irregular Procurement of Pharmaceutical and Non-Pharmaceutical Supplies

The statement of financial performance reflects medical/clinical costs of Kshs.109,477,119 out of which Kshs.91,303,236 is in respect of pharmaceutical and non-pharmaceutical supplies available from Kenya Medical Supplies Authority (KEMSA). Review of the procurement processes indicated that the Hospital maintained a list of suppliers engaged with framework contracts for supply of pharmaceutical and non-pharmaceutical supplies. The suppliers we recruited and engaged at the County Headquarters level and the same was in use by the Hospital. The following observations were made on review of the initiation (user request), processing and ordering of the supplies by the Hospital.

i. The Hospital procured all the pharmaceutical and non-pharmaceutical supplies from other suppliers instead of KEMSA. The procurements were not supported by evidence of the non-availability of the supplies from KEMSA. This is contrary to the law before the supplies are done.

ii. The Hospital Management did not have a clear process of the role of the pharm and non-pharm supplies users, procurement officers and stores officers in the procurement process. This resulted in overlapping roles with users making orders and being involved in issuing the supplies.

iii. Review of local purchase orders indicated that the Hospital issued manual orders not captured in IFMIS.

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

8. Mismanagement of Expired Drugs

Review of records and physical inspection of the store indicated existence of expired medical supplies (PMC Injection) that had been kept away from other drugs in boxes but still in the store whose value was not provided.

Further, there was no documented policy on detection/identification, storage and destruction of expired pharmaceutical products that would produce toxins and expose staff to side effects. No value provided for the expired drugs and the dates received.

In addition, it was established that the inventory module of Funsoft the Hospital`s ERP system had the capability and provision for capturing the drugs batch numbers, date of manufacture and expiry date for tracking of drugs. However, the information was not being captured as required rendering the system ineffective in detecting, warning and identifying the expiry of drugs held in stock by the Hospital. This was contrary to Section 163(1) of Public Procurement and Asset Disposal Act, 2015, which states that an accounting officer shall establish a disposal committee as and when prescribed for the purpose of disposal of unserviceable, obsolete, obsolescent, or surplus stores, equipment or assets.

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

9. Anomalies in Laboratory Operations and Management

Physical verification undertaken at the Facility's laboratory in April 2024 revealed poor internal control of medical supplies and equipment contrary to Section 162(1) of the Public Procurement and Asset Disposal Act, 2015 stating that an accounting officer of a procuring entity shall ensure that all inventory, stores and assets purchased are received, but shall not be used until taken on charge and as a basis for ensuring that all procured items are properly accounted for and put in proper use as intended by the procuring entity, as follows.

i. The Funsoft system inventory management module is not in use for stock management in the laboratory and manual records are maintained (bin cards).
ii. Seven (7) fridges which contained laboratory reagents were not traced in the stock take report were physically available in the laboratory.
iii. Review of the bin cards against the actual balances revealed variances as detailed below.

S/No.	Lab Items	Bin Card	Count	Variance
1	Purple tops (100 pieces)	188	172	-16
2	Red tops (100 pieces)	54	67	13
3	Salmonela Ag	107	45	-62

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

10. Anomalies in Pharmacy Operations

Verification and review of the records and physical verification at the Hospital pharmacy in April 2024 to check compliance with Section 162 (1) of the Public Procurement and Asset Disposal Act, 2015 stating that an accounting officer of a procuring entity shall ensure that all inventory, stores and assets purchased are received, but shall not be used until taken on charge and as a basis for ensuring that all procured items are properly accounted for and put in proper use as intended by the procuring entity indicated the following observations.

i. The staff, including the Hospital ICT, do not have a comprehensive understanding of the pharmacy module. Receipt of transfer from the main store could not be verified as the pharmacy staff were unable to generate transfer reports from the inventory management module.

ii. The Pharmacy did not have a serialized catalogue for easy identification of drugs in the shelves.

iii. The pharmacy had a leaking roof which compromises the state of the drugs stored.

iv. The pharmacy had poor access controls. The door was not fully locked and non-pharmacy staff could walk in and out.

v. Prescriptions were often manually keyed into the system from manual copies of prescriptions which in the pharmacy, thus, cutting off audit trail: ability to match dispensed drugs to the prescriptions.

vi. The Management did not provide an inventory movement schedule and the prescriptions report for comparison to ensure all issues from the pharmacy were as a result of prescriptions and not through pilferage.

vii. Review of the balances in the system against the physical count revealed variances as detailed below.

S/No.	Pharmaceuticals	System	Count	Variance
1	Amoxillain 250mg	3800	3830	30
2	Artane 5mg	2000	2420	420

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

11. Failure to Comply with Pharmacy and Poisons Rules

Physical observation and discussions held with Management indicated that the Hospital did not have a documented policy of handling, management (receipt, issue and dispensing) and custody of controlled drugs(poisons) as provided by the Pharmacy and Poisons Rules.

The management did not provide a list of Part I poisons in the custody of the pharmacist contrary to the Pharmacy and Poisons Rules 13. on Safe custody of poisons which states that (1) No person engaged in a trade, business or profession shall knowingly have in his possession or under his control a poison, unless the following conditions are complied with at all times when the poison is not in actual use - (a) the poison shall be kept under lock and key (i) in a separate room or compartment specially reserved for keeping poisons and partitioned off from the rest of the premises; or (ii) in a cupboard, box or other receptacle specially reserved for keeping poisons, clearly marked with the words “Poisons Only”, and kept in a place apart from anything containing food or drink. (b) the poison shall be kept in a place ordinarily accessible only to persons lawfully having access thereto; (c) the key of the room, compartment, cupboard, box or other receptacle in which poisons are kept shall be retained under the control of the person in charge of the poison.

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

12. Improper Casuals Engagement

The statement of financial performance reflects employee costs of Kshs.629,160,486 out of which Kshs.65,819,093 is in respect of salaries, wages and allowances temporary employees (casuals). Audit review of casuals' records indicated that the hospital engaged casuals with three (3) months renewable contracts which had been renewed for periods ranging from 1 to 8 years. This is contrary to Employment Act Cap 226 Section 37. Conversion of causal employment to term contract (1) which states that, notwithstanding any provisions of this Act, where a casual employee (a) works for a period or a number of continuous working days which amount in the aggregate to the equivalent of not less than one month. Audit examinations of casual records indicated the following.

i. The salaries and wages – temporary employees of Kshs.65,819,093 varied with the IFMIS extract of payments details in respect of compensation of casuals of Kshs.Nil which has not been explained or reconciled.

ii. The management did not provide an approved salary structure for engagement of casuals approved by the County Public Service Board and therefore prescribed and fixed the casuals salaries contrary to the law.

iii. The casuals list provided indicated that they were posted to key and sensitive roles in the hospital including post of clinical officers, medical officers, nurses, ICT officer, billing officers, revenue clerks, stores man/woman, NHIF clerks, and radiographer. Posting of casuals in key and sensitive hospital departments/sections exposes the provision of services to a major threat of discontinuation of services.

In the circumstances, the management contravened the law and exposed hospital operations to interruptions by casuals with 3 months contract holding key roles in the hospital.

13. Non-compliance with Affirmative Action on Gender, Ethnicity and Regional Distribution

Audit review of the IPPD payroll provided in support of the salaries and wages expenditure indicated that out of 188 staff members paid through the Integrated Payroll and Personnel Database (IPPD), one hundred and thirty-nine (139) or 74% were female while only forty-nine (49) or 26% were male. In addition, one hundred and twelve (112) or 60% came from only one ethnic tribe contrary to the constitution. The gender, ethnicity and regional distribution of staff on casual engagement was not provided for audit review.

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

14. Staff in Acting Role for More than the Stipulated Period

Review of personnel files indicated that the Head of Corporate Services, Chief Executive Officer, Head of Clinical Services and the Nursing Manager have been acting for periods exceeding 6 months. Management did not provide details on why the officer continued in the post in an acting capacity without confirmation for over thirty months contrary to

Section C.14(1) of the Human Resource Policies and Procedures Manual for the Public

Service, 2016 which states, *inter alia*, acting allowance will not be payable to an officer for more than six (6) months. Further, no evidence was provided to show payment of acting allowance or intention through advertisement of filling the post substantively.

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

15. Unsafe Storage of Flammable and Corrosive Supplies

Audit inspection of the main store indicated that highly flammable liquids like methanol, ethanol, surgical spirit were stored together and close to non-flammable store items. The international hazard symbols were also not displayed. There was no evidence that the hospital complied with the Fire Reduction Rules 2007.

In addition, corrosive items like potassium hydrogen and methanol were not stored in steel cabinets to prevent leakage in contravention of Section 4 of the Occupation Health and Safety Act, no.15 of 2007, which states that a person wishing to set up or operate a facility for the use on or storage of highly flammable substances shall ensure that such facility is in the designated area.

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

16. Staff Working Beyond the Prescribed Retirement Age

Audit review of a sample of the staff personal files indicated that one senior medical laboratory technician was born in the year 1961 a clear indication that the staff was over 60 years of age contrary to Section D.21 of the Human Resource Policies and Procedures Manual for the Public Service, 2016 which states that, all officers shall retire from the Service on attaining the mandatory retirement age of 60 years, 65 years for persons with disabilities and/or as may be prescribed by the government from time to time. However, the management did not explain the continued engagement of the staff after retirement age nor was there evidence staff disability to support continued services after sixty years age limit.

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

The audit was conducted in accordance with the ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements comply in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

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

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, because of the significance of the matters discussed in the Basis for Adverse Opinion and the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Lack of Policy Documents

Review of information, documents and discussions held with Management and staff of departments indicated that the facility did not have a risk management policy, stores management policy, ICT policy, assets management and safeguard policy and the relevant manuals for its operations. Management and staff therefore innovated and implemented their own undocumented processes and procedures for various operations that were not guided by approved, policies and manuals.

In the circumstances, the effectiveness of operational processes and procedures geared towards provision of health services in the facility could not be confirmed.

2. Lack of Essential Medicines at the Facility

Audit comparison of the Kenya Quality Model for Health (KQMH) list of essential medicines as required for the level 4 hospitals, against what was in stock held by the hospital indicated that some essentials medicines were not stocked contrary to Appendix 2 of the Ministry of Health's Checklist for Assessing Quality of Healthcare on Essential Medicines which stipulates the medicines that must be available in the Level 4 hospitals in Kenya, as in the below.

S/No.	Level 4 Facility - Essential Medicines	Status
1	Tab Artemisinin lumefantrine	Not Stocked
2	Tab Cotrimoxazole	Not Stocked

The management did not provide an explanation on why the hospital had not stocked the essential drugs or indicated the alternatives drugs stocked in place of the requirement.

In the circumstances, the Hospital's status as a Level 4 hospital was cast in doubt and consideration for downgrading is recommended.

3. Lack of a Business Continuity Plan and a Disaster Recovery Plan

Review of the Hospital's ICT environment as well as the Laikipia County Disaster Risk Management Policy, 2016, revealed that there was no formal approved IT Business

Continuity Plan, data back up and retention strategy and Disaster Recovery Plan in place as at 30 June, 2023 to ensure that all its records, financial or otherwise kept in electronic form are adequately protected and backed up.

Interviews with the head of ICT and discussions with Management revealed that the back-up for the Hospital's ERP (Funsoft I-HMIS) is in a hard disk that is stored in an officer's desk drawer. Management indicated plans are underway to have the back-up stored at the Nyahururu County Referral Hospital, but this had not been implemented as at the time of audit.

In the circumstances, the Hospital's effectiveness in disaster management could not be confirmed.

4. Improper Management of Property, Plant and Equipment

Audit review of the list of assets provided physical verification and discussions held with management indicated the following observations.

i) The listing of non-current assets did not include/disclose the assets' date of acquisition, cost at acquisition, custodian, assets status (serviceable, unserviceable or bonded), equipment model/serial numbers, assets' tag number and the assets' location which are basic asset register requirements.

ii) The following assets were omitted from the asset listing:

   a. Land (approximately 45 acres as per management representation).
   b. ICU Building/block with eight (8) beds, four (4) ventilators and one (1) refrigerator.
   c. Seven (7) fridges in the laboratory.
   d. Sixteen (16) beds in High dependency unit (HDU).
   e. 4 Refrigerators in the pharmaceutical main store.
   f. One X-RAY machine, one anesthetic machine and an X-RAY viewer in the emergency department/block.
   g. Water dispenser and two (2) beds in the amenity department/block.

iii) Management asserted that valuation of assets was being done to establish estimated values. However, the audit noted that assets acquired in the year which did not require valuation, did not have values in the asset listing provided.

iv) There was no evidence provided that the assets held by the Hospital had been insured against any peril that they are exposed to including fire, burglary and natural disaster among others.

The Hospital's internal controls on management of assets are weak and may result in mismanagement and loss of public assets.

5. Weakness in Kitchen Inventory Controls

The statement of financial performance reflects medical and clinical costs of Kshs.109,477,119 out of which Kshs.14,216,816 is for food and ration. Audit inspection of the food stuff store and review of documents and information maintained in respect of the food stuff was done in April 2024 and the following observations were made.

i. The Hospital did not have a documented policy of issue and management of food stock items being unique stores whose issue and management is dependent on number and composition of patients; nutritional needs of patients as would be prescribed by the nutritionist and perishability of the stock.

ii. Discussions held in store with the Management indicated that there was no documented ration rate for feeding patients for use to guide the kitchen requirement each day based on the patients in the facility and staff to be fed.

iii. The store did not have a refrigerator for storing perishable food items (milk & meat) and these were issued directly to the kitchen on delivery.

iv. The store had a manual weighing scale whose accuracy and efficiency could not be confirmed in the absence of evidence of inspection as required Weights and Measures Act Cap 513.

The anomalies noted are a clear indication of weakness in kitchen inventory controls that may result in pilferage and losses of kitchen stores.

6. Variances in Bin Card Balances and Actual Stocks

During physical verification of the main stores in April 2024 a comparison of the final stocks in the bin cards as at the date of verification against the actual stock in the shelves indicated variances of pharmaceuticals stocks as detailed below.

S/No.	Pharma/Non-pharmaceuticals	Bin Card	Count	Variance
1	Disposable Syringes (100 pieces) - 2ml	2400	1800	- 600
2	Disposable Syringes (100 pieces) - 5ml	586	83	-503
3	Disposable Syringes (80 pieces) - 20ml	115	106	-9
4	Alcohol pads (200 pieces)	618	1208	590
5	Purple Branuler (plus flon)	5450	5800	350
6	Ifas-Ferrous Sulphate:Folic Acid	507	490	-17
7	Nifedipine 20mg per tab	690	530	-160

The variances were not explained nor reconciled.

The anomalies are an indication of weak internal controls that may lead to loss of pharmaceutical stocks.

7. Lack of an Inventory Management System

Audit review of store records and discussions held with Management indicated that the hospitals main store does not have an inventory management system and maintained manual records for requisitioning, ordering, receipting controlling and issuing of stores. The hospital owned and operated check Hospital information management system which has an inventory management module in use at the pharmacy. However, the system was not in use at the Hospital's main store. The absence of the inventory management system resulted in the following control weaknesses.

i. There was no documented inventory management manual.

ii. The stores did not have a formal way of identifying and tracing expired drugs.

iii. The Hospital did not have a way of establishing when pharmaceutical stocks were understocked and required reorders.

iv. There were no documented reorder levels for various stocks.

v. Issues from the main stores to the pharmacy, laboratory and wards could not be tracked for accountability.

vi. The Hospital did not have detailed reports of various drugs utilization and dispensing requirement per period.

vii. Unstructured procurement whose basis and quantities were not supported by any utilization and dispensing requirements.

viii. There was no policy in respect of storage of high value items, separately and in a controlled area.

Further, the store did not have a documented catalogue detailing all the inventory in the store and their locations of storage. The location of the drugs and other store items was only well known by the store staff. This is in contravention of Section 161 (1) of the Public Procurement and Asset Disposal Act, 2015, which requires an accounting officer of a procuring entity to set up an inventory management system which shall be managed by the head of the procurement function, for the purpose of control and managing its inventory, stores and assets.

In the circumstances, the facility is likely to incur losses prone to a manual inventory management system and therefore cause a likely loss of public resources.

8. Failure to Procure a Professional Indemnity Cover

Audit review of records and discussions held with Management indicated that the Hospital had not obtained professional indemnity cover for the health facility and medical practitioners.

In the circumstances, the Hospital was exposed to litigation and material losses in the event of professional malpractice that would result in loss of public funds.

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.

Responsibilities of the Management and Board of Management

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal controls as the Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Hospital's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless t Management is aware of the intention to cease operations.

The Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements comply with the authorities which govern them and that public resources are applied in an effective way.

The Board of Management is responsible for overseeing the Hospital's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Hospital's policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Hospital's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Hospital to cease to continue to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Hospital to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

08 July, 2024

14. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2023

Description	Notes	2022/23 Kshs.	2021/22 Kshs.
Revenue from non-exchange transactions			
In- kind contributions from the County Government	1	801,919,996	577,724,190
Total Revenue from non-exchange transactions		**801,919,996**	**577,724,190**
Revenue from exchange transactions			
Total revenue from exchange transactions		-	-
Total revenue		**801,919,996**	**577,724,190**
Expenses			
Medical/Clinical costs	2	(109,477,119)	(54,491,384)
Employee costs	3	(629,160,486)	(464,258,158)
Depreciation and amortization expense	4	(3,197,814)	-
Repairs and maintenance	5	(21,384,043)	(8,713,298)
General expenses	6	(41,898,348)	(50,261,350)
Total expenses		**(805,117,810)**	**(577,724,190)**
Medical services contracts Gains/Losses	7	**(20,133,533)**	-
Total other gains/(losses)		**(20,133,533)**	-
Surplus/(deficit) for the period		**(23,331,347)**	-

The entries in the Statement of Financial Performance for the FY 2022/23 are derived from the Audited Financial Statements of Laikipia County Executive for the FY 2022/23. The financial statements are in accordance with IPSAS 33 opted for the transitional adoption of IPSAS accrual basis of financial statements presentation.

The notes set out on pages 23 to 24 form an integral part of the Annual Financial Statements

The Hospital's financial statements were approved on 15th November 2023 and signed by:

NANYUKI TEACHING & REFERRAL HOSPITAL
CHIEF EXECUTIVE OFFICER
14 AUG 2024
P. O. Box 66-10400 NANYUKI
COUNTY GOVERNMENT OF LAIKIPIA

Dr. Sammy Kilonzo
CEO Nanyuki Teaching & Referral Hospital

CPA M Charles Ntonjira
Health Department Accountant
ICPAK No:24072

15. STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2023

Description	Note	2022/23	2021/22
		Kshs.	Kshs.
Assets			
Current assets			
Cash and cash equivalents	8	1,614,513	748,386
Receivables from exchange transactions	9	44,434,628	21,357,073
Inventories	10	133,708,405	103,420,479
Total Current Assets		**179,757,546**	**125,525,938**
Non-current assets			
Property, plant, and equipment	11	16,647,729	-
Total Non-current Assets		**16,647,729**	-
Total assets		**196,405,276**	**125,525,938**
Liabilities			
Current liabilities			
Trade and other payables	12	150,661,963	112,644,637
Total Current Liabilities		**150,661,963**	**112,644,637**
Non-current liabilities			
Total Non-current liabilities		-	-
Total liabilities		**150,661,963**	**112,644,637**
Net assets		**45,743,313**	**12,881,301**
Accumulated surplus/Deficit		-	-
Capital Fund		45,743,313	
Total net assets and liabilities		**45,743,313**	-

In accordance with IPSAS 33, the statement of Financial Position for the FY 2022/23 has not presented all the Hospital's Assets & Liabilities since the hospital is currently in the transitional phase of adopting IPSAS Accrual Basfinancialstatementpresentation and therefore has not concluded the measurement of its assets and liabilities.The notes set out on pages 23 to 24 form an integral part of the Annual Financial Statements

The Hospital's financial statements were approved on 15th November 2023 and signed by:

Dr. Sammy Kilonzo
CEO Nanyuki Teaching & Referral Hospital

CPA M Charles Ntonjira
Health Department Accountant
ICPAK No:24072

14 AUG 2024

16. Statement of Changes in Net Asset for The Year Ended 30 June 20~~XX~~23

	Capital/ Development Grants/Fund	Revaluation Reserve	Accumulated surplus	Total
		Kshs.	Kshs.	Kshs.
Balance as at 1 July 2021	-	-	-	-
Revaluation gain		-	-	-
Surplus/(deficit) for the year	-	-	(23,331,347)	(23,331,347)
Capital/Development grants	-	-	69,074,660	69,074,660
Balance as at 30 June 2022	-	-	**45,743,313**	**45,743,313**

The notes set out on pages 23 to 24 form an integral part of the Annual Financial Statements

The Hospital's financial statements were approved on 15th November 2023 and signed by:

NANYUKI TEACHING & REFERRAL HOSPITAL
CHIEF EXECUTIVE OFFICER
14 AUG 2024
P. O. Box 66-10400
NANYUKI

Dr. Sammy Kilonzo
CEO Nanyuki Teaching & Referral Hospital

CPA M Charles Ntonjira
Health Department Accountant
ICPAK No:24072

17. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2023

	Note	2021/23	2021/22
		Kshs.	Kshs.
Cash flows from operating activities			
Receipts			
In- kind contributions from the County Government	1	801,919,996	577,724,190
Total Receipts		**801,919,996**	**577,724,190**
Payments			
Medical/Clinical costs	2	(109,477,119)	(54,491,384)
Employee costs	3	(629,160,486)	(464,258,158)
Repairs and maintenance	5	(21,384,043)	(8,713,298)
General expenses	6	(41,898,348)	(50,261,350)
Total Payments		**(801,919,996)**	**(577,724,190)**
Net cash flows from operating activities		-	-
Cash flows from investing activities			
Purchase of PPE & intangible assets	11	(19,845,543)	-
Net cash flows used in investing activities		**(19,845,543)**	-
Cash flows from financing activities			
Receipts from Capital grants		-	-
Net cash flows used in financing activities		-	-
Net increase/(decrease) in cash & cash equivalents		**(19,845,543)**	-
Cash And Cash Equivalents At 1 July		748,386	
Cash And Cash Equivalents At 30 June	8	**1,614,513**	**748,386**

Dr. Sammy Kilonzo
CEO Nanyuki Teaching & Referral Hospital

NANYUKI TEACHING & REFERRAL
CHIEF EXECUTIVE OFFICER
14 AUG 2024
P. O. Box 56-10400
NANYUKI
COUNTY GOVERNMENT LA...

CPA M Charles Ntonjira
Health Department Accountant
ICPAK No:24072

18. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR YEAR ENDED 30 JUN 2023

Description	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% of utilisation
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	
	A	b	c=(a+b)	d	e=(c-d)	f=d/c
Revenue		Kshs.	Kshs.	Kshs.	Kshs.	
Transfers from the County Government	-		-		-	
In- kind contributions from the County Government	**801,919,996**		801,919,996	801,919,996	-	**100**
Total Revenue	**801,919,996**	-	**801,919,996**	**801,919,996**	-	**100**
Expenses			-	-		**0**
Medical/Clinical costs	(109,477,119)	-	(109,477,119)	**(109,477,119)**	-	**100**
Employee costs	(629,160,486)	-	(629,160,486)	**(629,160,486)**	-	**100**
Repairs and maintenance	(21,384,043)	-	(21,384,043)	**(21,384,043)**	-	**100**
General expenses	(41,898,348)	-	(41,898,348)	**(41,898,348)**	-	**100**
Total Expenditure	**(801,919,996)**	-	**(801,919,996)**	**(801,919,996)**	-	**100**
Surplus for the period	-	-	-	-	-	

Dr. Sammy Kilonzo
CEO Nanyuki Teaching & Referral Hospital

NANYUKI TEACHING & REFERRAL HOSPITAL
CHIEF EXECUTIVE OFFICER
14 AUG 2024

CPA M Charles Ntonjira
Health Department Accountant
ICPAK No:24072

19. SIGNIFICANT ACCOUNTING POLICIES

1. General Information

Nanyuki Teaching & Referral Hospital is established by and derives its authority and accountability from Gazette Notice No. 9811 of 20th July 2012. The entity is wholly owned by the County Government of laikipia and is domiciled in Kenya. The entity's principal activity is

i. To provide quality, accessible and affordable health care services

ii. To Facilitate preventive, promotive and rehabilitative services to the community

iii. To provide training to different health professionals

iv. To conduct research in diverse public health fields.

2. Statement of Compliance and Basis of Preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant, and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the *entity's* accounting policies.The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Hospital.

The financial statements have been prepared in accordance with the PFM Act, and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

3. Adoption of New and Revised Standards

IPSASB deferred the application date of standards from 1st January 2022 owing to Covid 19. This was done to provide entities with time to effectively apply the standards. The deferral was set for 1st January 2023.

i New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2023.

Standard	Effective date and impact:
IPSAS 41: Financial Instruments	**Applicable: 1st January 2023:** The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an Entity's future cash flows. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by: • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held; • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an Entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.
IPSAS 42: Social Benefits	**Applicable: 1st January 2023** The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting Entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general-purpose financial reports assess: (a) The nature of such social benefits provided by the Entity; (b) The key features of the operation of those social benefit schemes; and

	(c) The impact of such social benefits provided on the Entity's financial performance, financial position and cash flows.
Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments	**Applicable: 1st January 2023:** a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued. b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued. c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued. Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.
Other improvements to IPSAS	***Applicable 1st January 2023*** • *IPSAS 22 Disclosure of Financial Information about the General Government Sector.* Amendments to refer to the latest System of National Accounts (SNA 2008). • *IPSAS 39: Employee Benefits* Now deletes the term composite social security benefits as it is no longer defined in IPSAS. • **IPSAS 29: Financial instruments: Recognition and Measurement** Standard no longer included in the 2021 IPSAS handbook as it is now superseded by IPSAS 41 which is applicable from 1st January 2023.
IPSAS 43	***Applicable 1st January 2025*** The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cashflows of an Entity.

	The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities.
IPSAS 44: Non- Current Assets Held for Sale and Discontinued Operations	***Applicable 1st January 2025*** The Standard requires, Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation od such assets to cease and: Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.

ii. **Early adoption of standards**

The entity did not early – adopt any new or amended standards in the FY 2021/22

4. Summary Of Significant Accounting Policies

a. Revenue recognition

i) Revenue from non-exchange transactions

Transfers from other Government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (*cash, goods, services, and property*) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably.

Revenue from exchange transactions

Rendering of services

The entity recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably, and it is probable that the economic benefits or service potential associated with the transaction will flow to the entity.

Interest income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income for each period.

Dividends

Dividends or similar distributions must be recognized when the shareholder's or the entity's right to receive payments is established.

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue.

Budget information

The original budget for FY 2021/22 was approved by the County Assembly on 31st August 2021. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the entity recorded supplementary appropriations on the FY 2021/22 budget following the Supplementary Budget's approval. The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget.

A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

Taxes
Sales tax/ Value Added Tax

Expenses and assets are recognized net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable.
- When receivables and payables are stated with the amount of sales tax included. The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

b. Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property.

Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment properties are measured using the cost model and are depreciated over the recommended number years. Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition. Transfers are made to or from investment property only when there is a change in use.

c. Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

d. Leases

Finance leases are leases that transfer substantially the entire risks and benefits incidental to ownership of the leased item to the Entity. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Entity also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition.

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit.

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Entity will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Entity. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

e. Intangible assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the

date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred. The useful life of the intangible assets is assessed as either finite or indefinite

f. Research and development costs

The Entity expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Entity can demonstrate:

- The technical feasibility of completing the asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- The asset will generate future economic benefits or service potential
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development.

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

g. Financial instruments

Financial assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Entity determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Entity has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

Impairment of financial assets

The Entity assesses at each reporting date whether there is objective evidence that a financial asset or an entity of financial assets is impaired. A financial asset or an entity of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or an entity of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Entity determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

Loans and borrowing

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

i) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labour, and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower cost and the current replacement cost.Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution. Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Entity.

j) Provisions

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Entity expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent liabilities

The Entity does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Contingent assets

The Entity does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Entity in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

k) Nature and purpose of reserves

The Entity creates and maintains reserves in terms of specific requirements.

Changes in accounting policies and estimates

The Entity recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

l) Employee benefits

Retirement benefit plans

The Entity provides retirement benefits for its employees and directors. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable. Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump-sum payments or increased future contributions on a proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

m) Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

n) Borrowing costs

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment. Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

o) Related parties

The Entity regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa. Members of key management are regarded as related parties and comprise the directors, the CEO/principal and senior managers.

p) Service concession arrangements

The Entity analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Entity recognizes that asset when, and only when, it controls or regulates the services. The operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Entity also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

q) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

r) Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

s) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2022.

5. Significant Judgments and Sources of Estimation Uncertainty

The preparation of the Entity's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur.(IPSAS 1.140)

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Entity.
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes.
- The nature of the processes in which the asset is deployed.
- Availability of funding to replace the asset.
- Changes in the market in relation to the asset.

Provisions

Provisions were raised and management determined an estimate based on the information available.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Notes to Financial Statements Continued

1. In Kind Contributions from The County Government

Description	2022/23	2021/22
	KShs	KShs
Salaries and wages	629,160,486	464,258,158
Pharmaceutical and Non-Pharmaceutical Supplies	109,477,119	54,491,384
Medical supplies-Drawings Rights (KEMSA)	-	-
Repairs And Maintenance	21,384,043	8,713,298
General Expenses	41,898,348	50,261,350
Total grants in kind	801,919,996	577,724,190

2. Medical/ Clinical Costs

Description	2022/23	2021/22
	KShs	KShs
Dental costs/ materials	-	(15,999,203)
Laboratory chemicals and reagents	(20,305,056)	(8,477,291)
Public health activities	-	-
Food and Ration	(14,216,816)	(12,975,003)
Uniform, clothing, and linen	(2,348,845)	(595,000)
Dressing and Non-Pharmaceuticals	(49,496,246)	(7,549,921)
Pharmaceutical supplies	(16,825,659)	-
Health information stationery	-	-
Reproductive health materials	-	-
Sanitary and cleansing Materials	(3,944,075)	(2,835,785)
Purchase of Medical gases	(1,453,000)	(4,587,900)
X-Ray/Radiology supplies	(732,200)	(1,181,862)
refunds of overpayments	(155,222)	(289,418)
Total medical/ clinical costs	**(109,477,119)**	**(54,491,384)**

3.Employee Costs

Description	2022/23	2021/22
	KShs	KShs
Salaries, wages, and allowances-permanent	(563,341,393)	(411,372,222)
Salaries, wages, and allowances- temporary	(65,819,093)	(52,885,936)
Employee costs	(629,160,486)	(464,258,158)

(Social contribution relates to expenses incurred by the employer towards social welfare of Employees)

4.Depreciation and Amortization Expense

Description	2022/23	2021/22
	KShs	KShs
Property, plant and equipment	(3,197,814)	-
Intangible assets	-	-
Investment property carried at cost	-	-
Total depreciation and amortization	(3,197,814)	-

5.Repairs And Maintenance

Description	2022/23	2021/22
	KShs	KShs
Property- Buildings	(17,708,946)	(3,682,691)
Medical equipment	(313,600)	(2,894,090)
Office equipment	(1,782,250)	-
Furniture and fittings	-	-
Computers and accessories	(1,096,078)	(706,100)
Motor vehicle expenses	(483,170)	(1,430,418)
Maintenance of civil works	-	-
Total repairs and maintenance	(21,384,043)	(8,713,298)

Notes to the Financial Statements (Continued)

6.General Expenses

Description	2022/23	2021/22
	KShs	KShs
Advertising and publicity expenses	(5,660,050)	-
Catering expenses	(3,159,968)	-
Waste management expenses	-	-
Insecticides and rodenticides	(96,789)	(499,990)
Audit fees	-	-
Bank charges	-	-
Conferences and delegations	-	(2,885,868)
Consultancy fees	-	-
Contracted services	-	(5,082,286)
Electricity expenses	(9,672,232)	(16,344,299)
Fuel Expenses	(3,962,235)	(5,845,098)
Insurance	-	-
Research and development expenses	-	-
Travel and accommodation allowance	(5,774,810)	(2,250,090)
Legal expenses	-	-
Licenses and permits	-	-
Courier and postal services	(15,386)	(55,340)
Printing and stationery	-	(4,476,500)
Hire charges	-	-
Rent expenses	-	-
Water and sewerage costs	(8,672,131)	(5,000,000)
Skills development levies	-	-
Telephone and mobile phone services	(1,428,000)	(1,232,315)
Internet expenses	(310,650)	(573,720)
Staff training and development	(57,592)	(3,093,500)
Subscriptions to professional bodies	-	-
Subscriptions to newspapers periodical,	-	-
magazines, and gazette notices	-	-
Library books/Materials	-	-
Parking charges	-	-
General Office Supplies	(3,088,505)	(2,922,344)
Total General Expenses	**(41,898,348)**	**(50,261,350)**

Notes to the Financial Statements (Continued)

7.Medical Services Contracts Gains /Losses

Description	2022/23	2021/22
	KShs	KShs
Comprehensive care contracts with NHIF	-	-
Non- Comprehensive contracts care with NHIF	-	-
Linda Mama Program	-	-
Waivers and Exemptions	-20,133,533.00	-
Total Gain/Loss	-20,133,533.00	-

8.Cash And Cash Equivalents

Description	2022/23	2021/22
	Kshs.	Kshs.
Current accounts	648,762	-
On - call deposits	-	-
Fixed deposits accounts	-	-
Cash in hand	960,995	747,716
Others(*specify*)- Mobile money pay bill 3131311	4,756	670
Total cash and cash equivalents	1,614,513	748,386

9.Receivables From Exchange Transactions

Description	2022/23	2021/22
	Kshs.	Kshs.
Medical services receivables	-	-
Rent receivables	-	-
Other exchange debtors - NHIF AND OTHER PRIVATE INSURANCES	44,434,628	21,357,073
Less: impairment allowance	-	-
Total receivables	44,434,628	21,357,073

10.Inventories

Description	2022/23	2021/22
	KShs	KShs
Pharmaceutical supplies	63,000,000	41,065,335.00
Dressings & Non-pharmaceuticals	70,708,405	56,084,585.00
X-ray materials	-	461,300.00
Laboratory materials	-	3,086,734.00
Renal Mateial	-	1,869,410.00
Maintenance supplies	-	-
Food supplies	-	853,115.00
Linen and clothing supplies	-	-
Cleaning materials supplies	-	-
General supplies	-	-
Less: provision for impairment of stocks	-	-
Total	**133,708,405**	**103,420,479.00**

11.Property, Plant and Equipment

Description	Land	Buildings and Civil works	Motor vehicles	Furniture, fittings, and office equipment	ICT Equipment	Plant and medical equipment	Capital Work in progress	Total
	Shs		Shs	Shs	Shs	Shs	Shs	Shs
Cost								
At 1st July 2022	-	-	-	-	-	-	-	-
Additions	-	7,200,218	-	7,518,890	5,126,435	-	-	19,845,543
Disposals ()	-	-	-	-	-	-	-	-
Transfer/adjustments	-	-	-	-	-	-	-	-
At 30th June 2023	-	7,200,218	-	7,518,890	5,126,435	-	-	19,845,543
Depreciation and impairment								
Depreciation for the year	-	720,022	-	939,861	1,537,931	-	-	3,197,814
Impairment	-	-	-	-	-	-	-	-
total depreciation & impairment	-	720,022	-	939,861	1,537,931	-	-	3,197,814
Net book values 30th June 2023	-	6,480,197	-	6,579,028	3,588,505	-	-	16,647,729
At 1st July 2023	-	6,480,197	-	- 6,579,028	3,588,505	-	-	16,647,729

12.Trade and other Payables

Description	2022/23	2021/22
	KShs	KShs
Trade payables	150,661,963.00	112,644,637.00
Employee dues	-	-
Third-party payments (*unremitted payroll deductions*)	-	-
Doctors' fee	-	-
Total trade and other payables	**150,661,963.00**	**112,644,637.00**

1. **Events After The Reporting Period**
   There were no material adjusting and non- adjusting events after the reporting period.

2. **Ultimate And Holding Entity**
   The entity is a Semi- Autonomous Government Agency under the County Government of Laikipia.

3. **Currency**
   The financial statements are presented in Kenya Shillings (Kshs).

20. APPENDICES

APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Being the 1st Annual financial statement submitted for Audit, there were no prior year audit recommendations.

Dr. Sammy Kilonzo

Chief Executive Officer- Nanyuki Teaching & Referral Hospital

NANYUKI TEACHING & REFERRAL HOSPITAL
CHIEF EXECUTIVE OFFICER
14 AUG 2024
P. O. Box 56-10400
NANYUKI
COUNTY GOVERNMENT OF LAIKIPIA