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REPORT

OF

THE AUDITOR-GENERAL

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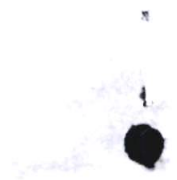
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COMMITTEE	
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FAZA SUB-COUNTY LEVEL 4 HOSPITAL

FOR THE YEAR ENDED
30 JUNE, 2025

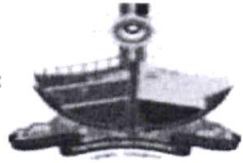
COUNTY GOVERNMENT OF LAMU

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COUNTY GOVERNMENT OF LAMU
Department of Health, Sanitation & Environment
Medical Superintendent - Faza Sub County Hospital



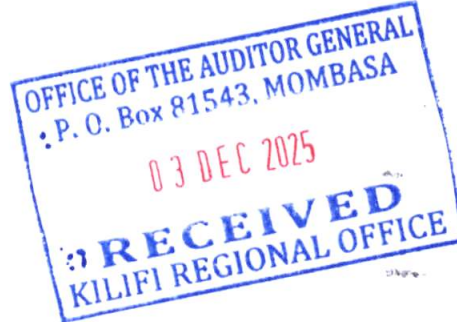
Telephone: +254+254-0778705377
E-mail: fazaschospital@gmail.com

P.O. BOX 45 - 80500
LAMU

REF:CGL/HEALTH/FS/VOL.I/5

DATE: 2nd December 2025

The Director
Office of the Auditor General.
North Coast Regional Office
P.O Box 95202 – 80100
MOMBASA

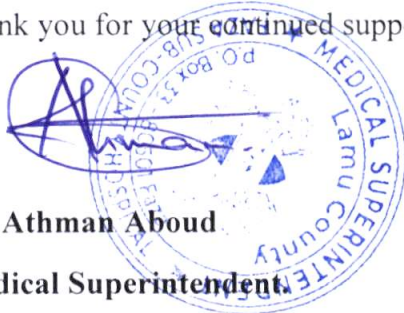


**AMMENDED FINANCIAL STATEMENTS FOR FAZA SUB-COUNTY LEVEL 4 HOSPITAL
FOR THE FINANCIAL YEAR ENDED 30TH JUNE, 2025.**

The above subject refers.

Forwarded herewith please find Amended Financial Statements for Faza Sub – County level 4 hospital for the financial year 2024 – 2025 for your action.

Thank you for your continued support and guidance.



Dr. Athman Aboud
Medical Superintendent

County Government of Lamu.

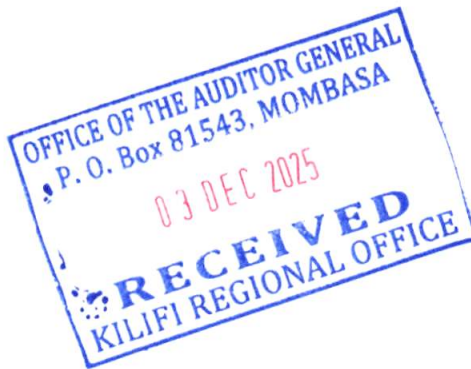
Copy to: Director Accounting Services
The National Treasury
Treasury Building
NAIROBI.

Office of the Controller of Budget
Bima House
NAIROBI

The Chief Executive Officer
Commission on Revenue Allocation
14th Riverside Road
NAIROBI

The Clerk
County Assembly of Lamu
P.O BOX 374 – 80500
LAMU

The county Secretary and Head of Public Service.
County Government of Lamu.
P.O Box 74 – 80500
LAMU



**Faza Sub – County Level 4 Hospital
(County Government of Lamu)**

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2025

Prepared in accordance with the Accrual Basis of Accounting Method under the International Public Sector Accounting Standards (IPSAS)

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1. Acronyms & Glossary of Terms

CSR	Corporate Social Responsibility
OSHA	Occupational Health & Safety Act
PFMA	Public Financial Management Act
MED SUP	Medical Superintendent
SHA	Social Health Authority
HDU	High Dependency Unit

Glossary of terms

Fiduciary Management entity	Key management personnel who have financial responsibility in the
Hospital	Faza sub county hospital

2. Key Entity Information and Management

(a) Background information

Faza Sub - County Hospital is a level 4 hospital with MFL code 11373 and registration number GK – 007580. The hospital is domiciled in Lamu East Sub – County, Faza ward under the Medical Service Department. The hospital is governed by a Board of Management.

(b) Principal Activities

The principal activity of the hospital is to offer quality medical care and services to the people of Lamu East.

Vision

Be a leading healthcare institution in the region recognized for excellence in – patient care, medical services and community health initiatives.

Mission

To provide accessible, compassionate and high – quality healthcare services to all patients to promote health and well – being of the Lamu East residence

Core values

Compassion – providing care with empathy and respect for all individuals

Integrity – upholding high ethical standards in all actions and decisions.

Excellence – Striving for the highest standards in medical care and service delivery

Collaboration – working together with partners, staff and the community to achieve health goals

(c) Key Management

The hospital’s management is under the following key organs:

- Board of Management
- Accounting Officer/ Medical Superintendent
- Hospital Management Team.

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(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2025 and who had direct fiduciary responsibility were:

SN	Designation	Name
1.	Medical Superintendent	Dr. Athman A. Aboud
2.	Head of finance	CPA Mohamed Abbas Abubakar
3.	Head of supply chain	Ms. Jamila Mitsanze
4.	Hospital Administrator	Mr. Michael Mugo
5.	Chief Officer Medical Service	Dr. Victor Tole

(e) Fiduciary Oversight Arrangement

The fiduciary oversight arrangements for the Faza Sub- County Hospital is under the following organs.

Sno	Position	Name
1	Directorate of Accounting Service	The Directorate is headed by the Director Finance Services. It derives its mandate from the Constitution 2010, the Public Finance Management Act 2012. The main responsibility of the directorate is monitoring of expenditure and projects through vote controls, including program implementation on a periodic basis and ensuring that timely corrective action is taken
2	Directorate of Internal Audit	The Directorate is headed by the Ag. Director Internal Audit to provide independent assurance, advice and insight in order to enhance and protect organisational value, contribute towards evidence-based decision making, and promote organisational learning, transparency, integrity and accountability

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3	County Assembly Public Accounts Investment Committee	The committee is headed by the Chairperson with primary mandate of oversight the expenditure of public funds by Lamu County entities, to ensure value for money.
4	Office of the Auditor General	The Office is charged with the primary oversight / assurance role of ensuring accountability within the three arms of government i.e. the Legislature, the Judiciary and the Executive; as well as the Constitutional Commissions and Independent Offices.

(f) Entity Headquarters

P.O. Box 33 - 80501
Faza Sub – County Hospital
Lamu, KENYA

(g) Entity Contacts

Telephone: (+254) 202682093/ 4700460993
E-mail: Fazahospital@yahoo.com
Website: www.lamu.go.ke

(h) Entity Bankers

Kenya Commercial Bank
P.O Box 121 – 80500
Lamu Branch.

(i) Independent Auditors

Auditor General
Office of Auditor General
Anniversary Towers, Institute Way
P.O. Box 30084
GPO 00100

Faza Sub -County Hospital (County Government of Lamu)
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Nairobi, Kenya.

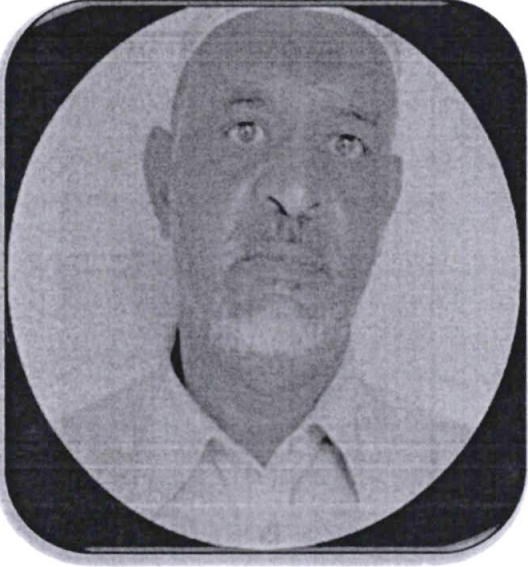

(j) Principal Legal Adviser

The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya




(k) County Attorney

Director legal service
P.O Box 74 – 80500
County Government of Lamu.



3. The Board of Management

Name	Details
 <p data-bbox="229 1061 568 1122">Mr. Athman Ahmad Kheir Chairman</p>	<p data-bbox="820 443 1417 831">Mr. Athman was born in year 1962 at Siu Village Faza Ward. He is a trained teacher holding degree in education from Pwani University and Diploma in special education. Prior to his appointment, he served as ECDE coordinator for County Government of Lamu, early childhood education officer in the National Government and taught in various schools in Lamu County.</p>
 <p data-bbox="363 1783 667 1839">Ms. Halima Mbwana Majid Member</p>	<p data-bbox="820 1126 1417 1223">Born in Patte village 1986, She work for Amu Power Company limited as community liaison officer.</p>

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 <p>Mr. Mzee Mohamed Mzee Member</p>	<p>Mr. Mzee Mohamed Mzee was born in 1969 Rasini Faza ward. He worked for the Ministry of roads and public works as inspector roads under the road planning unit. He holds a certificate in supplies management. He has served various districts within the Coastal region.</p>
 <p>Ms. Umi Mohamed Shariff Member</p>	<p>Born in 1986, Ms. Umi is a trained teacher registered by the Teachers Service Commission. She has over ten years' experience serving Siyu, Mbwajumwali, and Faza Boys primary school in Lamu East. She holds diploma in education from St Luze Teachers College (2014). Currently pursuing a degree in education from Mount Kenya university.</p>
 <p>Mr. Idarus Said Mohamed Member</p>	<p>Born in 1959, Mr. Idarus Said Mohamed is a retired senior public health assistant for Ministry of Health for more than 20 years. He also worked with UNHCR coastal refugee camps under ICRC and KRCS for 2 years on secondment. He also served as board member of Kizingitini secondary school. Mr. Idarus holds certificate in public health, KEPI certificate on maintenance and Cold chain</p>

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 <p>Ms. Aisha Mwalimu Herezo Member</p>	<p>Born in 1986, Ms. Aisha has over 15 years' experience as a P.T.A teacher after completion of her certificate in education.</p>
 <p>Dr. Athman A. Aboud Secretary /Medical Superintendent ICS – Non-member</p>	<p>Born in 1991, Dr. Athman A. Aboud is the Sub – County Medical Officer of health and community liaison for Lamu East a position he held since January 2023 to date. He holds Bachelor of medicine and bachelor of surgery degree from Egerton University, post- graduate diploma in acute medicine – University of south Wales and Master of science in public health from the same university. He has undergone professional training in Leadership and Management in Health – University of Washington, Certificate in Senior management and Strategic Leadership Both from Kenya School of Government. Prior to his appointment as Medical Superintendent he served as senior medical officer at Mpeketoni Sub – County Hospital.</p>

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Mr. Michael Mugo
Hospital Administrator




Born in 17th July 1984, Mr Mugo holds Bachelor of Arts in Social Work from University of Nairobi and Senior Management Course from the Kenya School of Government. Before his deployment to Faza Sub -County Hospital he served as hospital administrator for the King- Fahad Hospital. He previously works as enforcement officer – Private Investigation protection logistic and Branch manager – Unbound Kansas.





Mr. Lali Shelali
Lamu East Sub – County Administrator

Was appointed as Ex-officio Member for Faza Sub – County Hospital. Mr. Lali graduate from JKUAT with bachelor degree in Business Administration (marketing option). He is currently the Sub – County Administrator for Lamu -east a position he holds since 2014. Before joining the County, he was the hospital administrator for Mombasa Hospital.

4. Key Management Team

Name	Position
 <p>Dr. Athman A. Aboud Bachelor in Medicine and Bachelor in Surgery</p>	<p>Medical Superintendent Secretary to the Board of Management</p>
 <p>CPA Mohamed Abbas Abubakar B.COM Finance, Masters – Finance, CPA(K)</p>	<p>Head of finance</p>
 <p>Ms. Jamila Mitsanze</p>	<p>Head of supply chain</p>

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Name	Position
<p data-bbox="268 383 805 414">B.COM Procurement, Masters - Procurement</p>  <p data-bbox="359 851 718 907">Mr. Michael Mugo Bachelors of Arts Social Work</p>	<p data-bbox="1013 772 1268 806">Hospital Administrator</p>
 <p data-bbox="343 1355 726 1411">Dr. Victor Tole Bachelors in Pharmacy, Masters</p>	<p data-bbox="973 1142 1300 1176">Chief Officer Medical Service</p>

5. Chairman’s Statement

As Chairman of the Board of Management for Faza Sub-County Hospital, it is my honour to present this statement as part of the Annual Report and Financial Statements for the financial year ending 30th June 2025.

This year has been both transformative and demanding for our facility. Despite facing resource constraints common to many facilities within the county, Faza Sub-County Hospital has made commendable progress in strengthening healthcare delivery for the people of Lamu East.

Key achievements this financial year include the successful operationalization of our Medically Assisted Therapy (MAT) clinic — a major step in addressing the growing public health concern of substance use disorders and violent youth extremism under influence of drugs within our community.

We continue to manage our Facility Improvement Fund (FIF) prudently, ensuring that own-source revenue is prioritised towards the procurement of essential medical drugs, non-pharmaceuticals, and laboratory supplies to avoid stockouts and maintain quality service delivery.

Looking ahead, the Board is committed to sustaining momentum in resource mobilization, strengthening stakeholder partnerships, and ensuring accountability and good governance in line with the Lamu County Health Facility Improvement Financing Act 2023. We will continue to support the management team to implement planned projects, improve data-driven decision-making through our Health Management Information System, and uphold the vision and mission of the County Department of Health.

On behalf of the Board of Management, I wish to sincerely thank the County Government of Lamu, our development partners, well-wishers, hospital staff, and the community for their unwavering support and collaboration. Together, we are taking meaningful steps towards achieving Universal Health Coverage and ensuring that the people of Lamu East can access timely, high-quality healthcare services.



.....

Mr. Athman Ahmad Kheir

Chairperson, Board of Management
Faza Sub-County Hospital

6. Report of The Medical Superintendent

It is with great privilege that I present the Medical Superintendent's Report for the financial year ending 30th June 2025. This reporting period has been characterized by remarkable progress in healthcare delivery at Faza Sub-County Hospital, despite operating within a challenging environment marked by geographical isolation, rising service demand, and resource limitations.

During the year under review, the facility recorded significant gains across both service delivery and systems strengthening. Foremost among these is the successful operationalization of the Medically Assisted Therapy (MAT) clinic, which is already playing a vital role in addressing the burden of substance use disorders within our community. This marks a shift toward more inclusive and specialized service provision for vulnerable populations and reflects our commitment to responsive public health programming.

From a financial standpoint, the prudent utilization of the Facility Improvement Fund (FIF) has remained central to sustaining operations. Own-source revenue targets were directed primarily towards the procurement of essential medical commodities, non-pharmaceuticals, and laboratory reagents — ensuring continuity of care and minimizing stockouts. We expect the County Government of Lamu to supplement our efforts with a KES 30 million investment to support key infrastructure and equipment needs, including ward refurbishments and procurement of a new x-ray and ultrasound machines and a power generator, which remain critical to meeting service demand.

Looking ahead, our focus will remain on consolidating gains made, accelerating the implementation of planned infrastructure upgrades, and deepening partnerships that align with our pursuit of Universal Health Coverage (UHC). We will also intensify efforts to improve health data quality through the Health Management Information System (HMIS) and strengthen internal quality assurance mechanisms.

In closing, I extend my sincere appreciation to the Board of Management for their unwavering oversight and strategic direction, to the County Department of Health for their continued support, to our development partners for their invaluable contributions, and to our dedicated staff whose commitment to excellence continues to inspire confidence in the public health system.

Dr. Athman A. Aboud
Medical Superintendent / Secretary to the Board
Faza Sub-County Hospital



7. Statement of Performance Against Predetermined Objectives

Faza Sub-County Hospital aligns its performance targets with the strategic goals of the Lamu County Department of Health, the County Integrated Development Plan (CIDP), and national priorities under the Universal Health Coverage (UHC) agenda, which guided priority interventions and performance monitoring throughout the year

Strategic Pillars and Objectives

Pillar 1: Improved Access and Service Delivery

Objective: To expand availability and accessibility of essential health services to Lamu East sub-county community.

Pillar 2: Quality of Care and Patient Safety

Objective: To enhance quality and safety standards through staff training, improved infrastructure, and consistent supply of medical commodities.

Pillar 3: Resource Mobilization and Financial Sustainability

Objective: To strengthen own-source revenue collection and prudent use of the Facility Improvement Fund.

Pillar 4: Stakeholder Engagement and Community Health Systems

Objective: To strengthen community linkages through Community Health Promoters (CHPs) and partnerships with local leaders, CBOs, and development partners.

Pillar 5: Governance, Compliance, and Data-Driven Decision Making

Objective: To strengthen oversight, transparency, and use of the Health Management Information System (HMIS) for better planning.

Strategic Pillar/Theme/Issues	Objective	Key Performance Indicators	Activities	Achievements
1. Improved Access and Service Delivery	To expand availability	Expand MAT clinic; enhance	MAT clinic operational;	Achieved

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Annual Report and Financial Statements for The Year Ended 30th June 2025*

	and accessibility of essential health services to Lamu East sub-county community.	immunization coverage; strengthen referral services	immunization coverage improved; follow-up on water ambulance for the islands	
2. Quality of Care and Patient Safety	To enhance quality and safety standards through staff training, improved infrastructure, and consistent supply of medical commodities.	Ward renovations; increase bed capacity; ensure consistent drug supply	Procurement of medical drugs and lab supplies prioritized; ward revamp funding secured under county budget	Partially Achieved; ongoing
3. Resource Mobilization and Financial Sustainability	To strengthen own-source revenue collection and prudent use of the Facility Improvement Fund.	Meet OSR targets; prudent budget absorption	OSR collection exceeded 9.5m target; more than 80% budget absorption	Achieved
4. Stakeholder Engagement and Community Health Systems	To strengthen community linkages through	Strengthen CHPs; conduct school health sessions	MAT awareness campaigns conducted	Achieved

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	Community Health Promoters (CHPs) and partnerships with local leaders, CBOs, and development partners.		International day against drugs abuse conducted	
5. Governance, Compliance, and Data-Driven Decision Making	To strengthen oversight, transparency, and use of the Health Management Information System (HMIS) for better planning.	Quarterly Board meetings; compliance with PFM Act, FIF Act, and audit requirements	Four Board meetings held; internal audits conducted; no audit queries pending	Achieved

Performance Highlights

- **Budget absorption** for FY 2024/2025 stood at above 80% with prudent utilization of the Facility Improvement Fund for essential commodities and operations.
- **Own-source revenue** performance exceeded KES 9.5 million target for the year ending, which helped sustain core operations, however there are still pending claims to be paid by insurance.
- **Infrastructure development** oxygen plant construction is ongoing through Amref, Global fund and Mombasa BOC partner supports. Follow up plans for the HDU/ICU project are in place through county strategic partnership with UAE Embassy, and Kenya Red Cross.

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- **Stakeholder collaboration** was strengthened with local leaders, CHPs, and CBOs to tackle substance abuse and promote immunization uptake.

The Board remains committed to aligning all planned activities with the strategic pillars by enhancing resource mobilization to ensure sustainable and quality service delivery for the community.

8. Corporate Governance Statement

Faza Sub-County Hospital is governed under the Lamu County Health Facility Improvement Financing Act, 2023, which was enacted to ensure that health services remain accessible, acceptable, affordable, and of high quality and that all revenue generated at the facility supplements, rather than substitutes, the county budget allocation.

A). The Hospital Management Board

I. Appointment, Process & Board Composition

Section 13 of the Lamu County Health Facility Improvement Finance Act, 2023 establishes a Hospital Management Board for whose members shall be nominated by the County Governor and gazetted by the County Executive Committee Member. The Hospital Management Board consist of-

- a chairperson, who shall not be a public officer;
- the hospital-in-charge, who shall be the secretary;
- hospital administrator;
- five members from the community taking cognizant of the special interest groups and gender; and
- sub-county administrator who will be an ex-officio member.

The Faza Sub -County Hospital has a 9-member hospital management board appointed by the His Excellency Governor and Gazetted.

II. Roles and Functions

The Board is responsible for providing strategic oversight and policy direction to ensure the hospital delivers quality health services. The hospital management board shall:

- provide oversight over the administration of the hospital;
- prepare and submit for approval to the Chief Officer the annual work plan and budgets;
- prepare and submit for approval to the Chief Officer the hospital quarterly budgets;
- ensure the quarterly implementation plans and budgets are based on available resources;
- formulate strategies on resource mobilization for the hospital;
- monitor the utilization of the County Health Facility
- approve the facility performance reports referred in section 12 (2) (f) and forward to the Chief Officer;

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- take corrective action on challenges identified that hinders efficient collection and absorption of funds;
- provide oversight for all financial procedures and reporting requirements by the hospital management teams and ensure they conform to the Public Finance Management Act and related regulations;
- ensure strict adherence to procurement procedures as prescribed in the Public Procurement and Asset Disposal Act;
- promote the development of the hospital;
- make policy recommendations to the County Executive Committee Member on the use of the County Health Facility Improvement Financing; and
- liaise with Health Facility Management Team and community to strengthen the delivery of quality health services.

III. Induction, Training, and Development

Board members were inducted on 28th February 2024 on county government functions, corporate governance principles, fiduciary responsibilities, and statutory frameworks. Ongoing training opportunities are identified to build capacity in governance, risk management, and performance monitoring.

IV. Board and Members' Performance

The Board has embraced a performance review approach to evaluate its effectiveness annually. This includes self-assessments, peer reviews, and feedback from the Hospital Management Team to ensure that governance objectives are met and improved upon

V. Board Meetings and Attendance

In the year under review, the Board held four (4) quarterly meetings. Attendance by each member was as follows:

Name	Position	Q1	Q2	Q3	Q4	Total
Mr. Athman Ahmad Kheir	Chairman	√	√	√	√	4
Ms. Halima Mbwana Majid	Member	√	√	√	√	4
Mr. Mzee Mohamed Mzee	Member	√	√	√	√	4
Ms. Umi Mohamed Shariff	Member	√	√	√	√	4

***Faza Sub -County Hospital (County Government of Lamu)
Annual Report and Financial Statements for The Year Ended 30th June 2025***

Mr. Idarus Said Mohamed	Member	√	√	√	√	4
Ms. Aisha Mwalimu Herezo	Member	√	√	√	√	4
Dr. Athman A. Aboud	Secretary/Medsup	√	√	√	√	4
Mr. Michael Mugo	Hospital Administrator	√	√	√	√	4
Mr. Lali Shelali	Ex-officio Member	√	√	√	√	4

VI. Succession Plan

The Board recognizes the importance of sustainability and institutional memory. A clear succession plan is in place for the seamless transition of Board leadership and key management positions in accordance with the County FIF Act 2023 and HR policies.

VII. Conflict of Interest Policy

The Board requires members and the Management Team to declare any conflicts of interest to ensure transparency and accountability.

VIII. Board Remuneration

Board members receive sitting allowances as provided for under the Lamu County Health Facility Improvement Financing Act, 2023 and are reimbursed after every quarterly meeting. This supports commitment and accountability.

IX. Ethics and Conduct

The Board upholds high standards of integrity, professionalism, and ethical conduct as guided by leadership and integrity act, this strengthens its role in governance, accountability, and service delivery standards.

X. Governance Audit

The Board is committed to regular governance audits in line with the Public Finance Management Act. This ensures that best practices are adopted and that any gaps are identified and addressed.

XI. Communication Policy

The Board, in collaboration with the Management Team, maintains an open and transparent communication policy. Key updates are shared with the County Department of Health, stakeholders, partners, and the community, ensuring accountability and trust.

XII. Committees and Terms of Reference

The Board is in the process of establishing sub-committees with clear Terms of Reference to handle

key areas such as Finance & Audit, Quality Assurance, Infrastructure Development, and Stakeholder Engagement. These committees will strengthen oversight and operational efficiency.

B). Entity's Compliance with Statutory Requirements

The Faza Sub-County Hospital has and will continue to manage its finances in accordance with the principles of fiscal responsibility as spelt out in the public finance management Act (2012) and its regulations and other applicable laws. The Hospital complied with the following listed requirements but not limited to:

- Lamu County Health Facility Improvement Financing Act 2023
- Public Procurement and Disposal Act 2020
- Public Finance Management Act 2012 and its regulations

The Hospital has no pending or on-going court litigation.

C). Key projects and investment decisions the entity is planning/implementing.

No investment is been done through the facility improvement financing.

D). Major risks facing the entity.

The Hospital has no major risk. The Hospital target to develop a risk management framework and risk assessment which will guide the Fund in identifying, assessing and managing the risks and prescribe mitigating measures of all the risks both external and internal is facing the Fund.

E). Material arrears in statutory/financial obligations

The hospital has financial obligation pending as of the period ended 30th June 2025.

The Hospital has no financial probity and nor serious governance issues noted during the period under review. The Faza Sub – County Hospital Management Board confirmed that the hospital had throughout the FY 2024/2025 complied with all statutory and regulatory requirements and that the fund had been managed in accordance with the principles of good corporate governance.

Internal Control and Risk Management

Standing Instructions

The fund is in the process to develop a Code of Ethics and Service Charter that will be applicable to all employees. This will entail a number of standing instructions to employees of the hospital designed to enhance internal control.

Conflict of interest

Mechanism have been put in place to ensure declaration of conflict of interest by the hospital management Board and Management Team.

Organization Structure

The Board has an organizational structure that clearly details line of authority and control responsibilities in line with the Lamu County Health Facility Improvement Fund Act of 2023.

Risk Management

The Management team is looking forward to capacity build staff on risk identifying and maintaining of risk register.

Management Team

The management team headed by the Chairman, the Secretary and Chief Officers as shown on page viii – xii implements the board decisions and policies through action plans. The team meets regularly to review these action plans to ensure that the board objectives are achieved effectively and efficiently.

Auditor

The fund is audited quarterly and annually by the internal auditor and the Office of the Auditor-General to ensure financial probity and public accountability.

9. Management Discussion and Analysis

Operational Performance

Faza Sub-County Hospital (FSCH), a Level IV facility with a bed capacity of 49, continued to provide a wide range of healthcare services to the population of Lamu East during the 2024/2025 financial year. The hospital recorded a total of **8,899 outpatient visits** and **506 inpatient admissions**, reflecting the facility's role as both a primary point of care and a referral center for the sub-county. Accident and Emergency services remained a critical function, with the unit managing acute medical, surgical, and trauma cases from both the local community and remote islands. The hospital's specialized clinics — including maternal and child health, HIV care, non-communicable disease clinics, recorded **1,237** and newly operationalized services such as the Medically Assisted Therapy (MAT) clinic — recorded **600 patient visits**, demonstrating a growing demand for targeted, chronic care management and rehabilitation services.

The average length of stay for inpatients indicates efficient patient flow and timely discharges. Bed occupancy remained steady, supported by effective case management, although seasonal variations in disease prevalence and patient load influenced short-term trends. The hospital recorded a **mortality rate of 2%**, within acceptable performance benchmarks for a Level IV facility.

Surgical capacity continued to improve, with the theatre department performing **147 operations** during the year, spanning emergency, elective, and obstetric procedures. This reflects not only the availability of surgical expertise but also improved community trust in the hospital's surgical services.

Financial Performance

The hospital's revenue streams during the year comprised the Facility Improvement Fund (FIF) collections from user fees, reimbursements from health insurance schemes, and budgetary allocations from the County Government of Lamu. Own-source revenue was prioritized for the purchase of essential medical drugs, non-pharmaceuticals, and laboratory supplies to minimize service disruptions. County allocations supplemented health products and commodities, operational needs and staffing.

Funds were utilized prudently to maintain service delivery standards, with a focus on cost-effective procurement, timely supplier payments, and resource mobilization from development partners. The

hospital maintained a closing balance sufficient to sustain operations into the first quarter of the 2025/2026 financial year.

Key Projects and Investments

Several strategic investments were initiated or advanced during the year. Notably, progress was made towards the development of an oxygen generation plant, supported by Amref Health Africa, the Global Fund, and BOC Mombasa. Establishment of the High Dependency Unit (HDU) and Intensive Care Unit (ICU) through county partnership with the UAE Embassy and Kenya Red Cross, is also underway to strengthen critical care capacity.

Compliance and Governance

The hospital adhered to all applicable statutory requirements, including the Public Finance Management Act, the Public Procurement and Asset Disposal Act, and the Lamu County Health Facility Improvement Financing Act, 2023. Regular board meetings and transparent financial reporting ensured accountability and alignment with governance standards.

Risks and Mitigation

Major risks included human resource shortages, unpredictable medical supply chains, and logistical challenges in serving remote islands. Mitigation strategies focused on continuous and timely engagement with suppliers and targeted advocacy for increased resource allocation.

Outlook

Looking ahead, FSCH aims to expand specialized services, enhance diagnostic capabilities, and improve emergency response capacity. Emphasis will be placed on digital health integration, staff capacity building, and sustainable resource mobilization to align with the goal of achieving Universal Health Coverage (UHC) for the Lamu East population.

Dr. Athman A. Aboud

Medical Superintendent / Secretary to the Board

FAZA SUB-COUNTY HOSPITAL

10. Environmental And Sustainability Reporting

1. Sustainability Strategy and Profile

Faza Sub-County Hospital recognizes that sustainability is central to our mandate of delivering accessible, equitable, and high-quality healthcare. Our sustainability approach is informed by national policy frameworks, the Lamu County Integrated Development Plan (CIDP), and global best practices such as the Sustainable Development Goals (SDGs), particularly SDG 3 (Good Health and Well-being), SDG 6 (Clean Water and Sanitation), and SDG 13 (Climate Action).

We acknowledge that climate change, evolving public health risks, and macroeconomic trends such as population growth and rising healthcare costs present challenges that must be addressed through sustainable and resilient health systems.

Key sustainability priorities for the year included responsible waste management, minimizing our environmental footprint, promoting efficient use of resources, and supporting local economic empowerment through procurement practices that give priority to local suppliers, women, youth, and persons with disabilities (PWDs).

We continued to ensure that a significant proportion of small contracts for non-pharmaceuticals, catering services, minor repairs, and casual works are awarded to local special interest groups, in line with national procurement guidelines.

The Hospital's Service Delivery Charter emphasizes our commitment to transparency, timeliness, and patient-centered care. To further improve contract management, we maintain clear procedures that ensure open tendering, fair competition, and timely payment to suppliers to build trust and support local livelihoods.

While progress has been made, gaps remain in fully implementing climate-smart technologies due to resource constraints. Plans are underway to gradually integrate solar lighting, energy-efficient systems, and environmentally friendly projects for future upgrades.

2. Environmental Performance

The hospital follows an Environmental Health Policy that guides us in reducing, reusing, and safely disposing of medical and general waste. This year, improvements were made in waste segregation at

source, with the placement of color-coded bins across the hospital compound. Sharps, infectious waste, and general waste streams are managed according to Ministry of Health guidelines.

To minimize environmental impacts, the hospital encourages reduction of single-use plastics, promotes paperless reporting through the Health Management Information System (HMIS), and maintains its vehicles regularly to limit carbon emissions.

While some areas such as full recycling remain constrained by our remote location, the hospital aims to work with county partners to explore options for sustainable waste disposal, such as linking with the county's designated waste disposal sites and incineration facilities.

Looking ahead, we plan to incorporate small-scale climate-smart solutions where feasible — such as promoting rainwater harvesting, using natural lighting and ventilation in renovated wards, and advocating for eco-friendly procurement where possible.

3. Employee Welfare

Faza Sub-County Hospital prioritizes staff well-being, inclusivity, and safe working conditions as a key pillar of sustainability. Hiring and staffing is done by the county department of health through the County Public Service Board, with a strong commitment to gender balance, youth representation, and inclusion of PWDs wherever possible.

Continuous Professional Development (CPD) is encouraged through trainings, mentorship, and support for staff to attend relevant workshops. The hospital complies with the Occupational Safety and Health Act (OSHA) 2007. Staff are equipped with personal protective equipment (PPE) and trained on infection prevention and control measures. No major work-related injuries were reported in the year under review, reflecting ongoing vigilance in upholding workplace safety standards.

4. Marketplace Practices

a) Responsible Competition Practice

The hospital upholds principles of integrity, fair competition, and zero tolerance for corruption. All procurement processes follow the Public Procurement and Disposal Act 2020.

Patients and the public are informed of their rights and services available through our Service Charter, which is displayed publicly at key points within the hospital. We continue to expand the use of digital

health records and cashless payment options to improve efficiency and minimize risks associated with cash handling.

b) Responsible Supply Chain and Supplier Relations

We honor all contractual obligations with suppliers and prioritize timely payments to strengthen trust and ensure steady supply of critical goods and services.

c) Responsible Marketing and Engagement

The hospital does not engage in commercial marketing; however, community engagement remains a key practice. We share accurate, relevant information during community and stakeholder meetings to build public trust. Information on new services such as the MAT clinic is disseminated responsibly to encourage appropriate utilization.

d) Product Stewardship / Awareness Creation

Patients are provided with clear information on available services, referral pathways, SHIF registration, and health entitlements. Privacy and confidentiality are maintained in line with patient rights. Feedback and suggestion are encouraged to address complaints, resolve disputes, and protect whistleblowers.

5. Corporate Social Responsibility (CSR) and Community Engagement

In line with our mandate, Faza Sub-County Hospital continues to engage actively with the community to promote public health and social well-being. This year, the hospital conducted targeted outreach programs in remote villages and islands to provide immunization, maternal health education, and health screenings, especially for vulnerable groups.

We worked closely with local leaders, CHPs, and schools to raise awareness on substance use prevention, sexual and reproductive health, and the importance of routine vaccinations with the International Day against Drug Abuse held in Faza for the first time.

Through partnerships with the County Government and other stakeholders, the hospital participated in local clean-up campaigns to maintain environmental hygiene by commemorating international ocean day. While our financial resources limit large-scale CSR investments, we remain committed to community participation in identifying health priorities and contributing towards collective action for a healthier Lamu East.

11. Report of The Board of Management

The Board of Management submits its report together with the audited financial statements for the year ended **30th June 2025**, which show the state of the hospital's affairs for the period under review.

Principal Activities

The principal activities of Faza Sub-County Hospital continue to be the provision of accessible, equitable, and high-quality healthcare services to the community within Lamu East Sub-County. These services include general outpatient and inpatient care, maternity and newborn care, immunization services, diagnostic and laboratory services, radiology, dental care, emergency and referral services, and specialized clinics such as the MOPC, SOPC and Medically Assisted Therapy (MAT) clinic.

Results

The results of the facility for the financial year ended **30th June 2025** are set out in the accompanying audited financial statements on pages 1 to 9.

Board of Management

The members of the Board who served during the year are listed on page vii to X of this report. There were no retirements or resignations during the year, and no new appointments were made

Auditors

The Office of the Auditor General is responsible for the statutory audit of the Faza Sub-County Hospital in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board

.....
Dr. Athman A. Aboud

Medical Superintendent / Secretary to the Board

FAZA SUB-COUNTY HOSPITAL

12. Statement of Board of Management's Responsibilities

Section 164 of the Public Finance Management Act, 2012 and the Lamu County Health Facility Improvement Financing Act 2023 requires the Board of Management to prepare financial statements in respect of that *entity*, which give a true and fair view of the state of affairs of the Faza Sub-County Hospital at the end of the financial year and the operating results of the *Hospital* for that year. The Board of Management is also required to ensure that the Faza Sub-County Hospital keeps proper accounting records which disclose with reasonable accuracy the financial position of the *entity*. The board members are also responsible for safeguarding the assets of the Faza Sub-County Hospital.

The Board of Management is responsible for the preparation and presentation of the Faza Sub-County Hospital's financial statements, which give a true and fair view of the state of affairs of the *Hospital* for and as at the end of the financial year ended on June 30, 2025. 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 *entity*; (v) selecting and applying appropriate accounting policies, and (vi) making accounting estimates that are reasonable in the circumstances.


The Board of Management accepts responsibility for the Faza Sub-County 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 Board members are of the opinion that the Faza Sub-County Hospital's financial statements give a true and fair view of the state of *entity's* transactions during the financial year ended June 30, 2025, and of the *entity's* financial position as at that date. The Board members further confirm the completeness of the accounting records maintained for the Faza Sub-County Hospital, which have been relied upon in the preparation of the *Hospital's* financial statements as well as the adequacy of the systems of internal financial control.

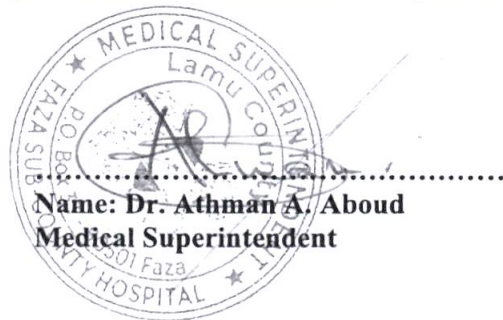
Faza Sub -County Hospital (County Government of Lamu)
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In preparing the financial statements, the members have assessed the Faza Sub-County Hospital's ability to continue as a going concern. Nothing has come to the attention of the Board of management to indicate that the Faza Sub-County 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 by the Board on 1st December and signed on its behalf by:


.....
Name: Mr. Athman Kheir
Chairperson
Board of Management


.....
Name: Dr. Athman A. Aboud
Medical Superintendent

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
Email: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON FAZA SUB-COUNTY LEVEL 4 HOSPITAL FOR THE YEAR ENDED 30 JUNE, 2025 - COUNTY GOVERNMENT OF LAMU

PREAMBLE

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

- A. Report on 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 the 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; and,
- C. Report on 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.

A Qualified Opinion is issued when the Auditor-General concludes that, except for material misstatements noted, the financial statements are fairly presented in accordance with the applicable financial reporting framework. The Report on Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management and Governance.

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

Qualified Opinion

I have audited the accompanying financial statements of Faza Sub-County Level 4 Hospital – County Government of Lamu set out on pages 1 to 42, which comprise of

the statement of financial position as at 30 June, 2025 and the statement of 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, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Faza Sub-County Level 4 Hospital at 30 June, 2025 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 comply with the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unsupported Revenue from Rendering of Services (Medical Service Income)

The statement of financial performance reflects revenue from rendering of services (medical service income) totalling to Kshs.17,236,429 as disclosed in Note 11 to the financial statements. Included in this amount are claims received in the year under review from National Hospital Insurance Fund (NHIF) totalling Kshs.405,840. However, Management did not provide breakdown of total claims raised and submitted to National Hospital Insurance Fund (NHIF) during that year.

In the circumstances, the accuracy and completeness of revenue from rendering of services (medical service income) totalling to Kshs.17,236,429 could not be confirmed.

2. Unsupported Property, Plant and Equipment Balance

The statement of financial position reflects property, plant and equipment balance of Kshs.374,042 as disclosed in Note 32 to the financial statements. Review of supporting documents revealed that additions to ICT equipment in the year under review of Kshs.369,950 was not supported by invoices while details and ownership of the Hospital parcel of land of undetermined size and value were not provided. In addition, Management had not opened an asset register to record all these assets.

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

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Faza Sub-County Level 4 Hospital – County Government of Lamu 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 qualified opinion.

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. Except for the effect of the matters

described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

Unresolved Prior Year Matters

In the prior year audit report, one (1) issue was raised under the Report on Financial Statements and Lawfulness and Effectiveness in Use of Public Resources respectively. These include inaccurate property, plant and equipment balance and failure to comply with International Public Sector Accounting Standards. Review of the status during audit of the Hospital in 2024/2025 revealed that only the issue on inaccurate property, plant and equipment balance remained unresolved.

Other Information

The Management is responsible for the Other Information set out on page iii to xxxi which comprise of Key Hospital Information and Management, The Board of Management, Key Management Team, Chairman's Statement, Report of the Medical Superintendent, Statement of Performance against Predetermined Objectives, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Board of Management and Statement of Board of Management's Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the Hospital's financial statements, my responsibility is to read the Other Information and in doing so, consider whether the Other Information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance conclusion thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in the Use of Public Resources section of my report, I confirm that nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Irregular Engagement of Casual Employees

The statement of financial performance reflects expenditure on employee costs totalling Kshs.2,970,920 as disclosed in Note 16 to the financial statements. The

expenditure relates to twenty-three (23) contractual employees engaged by the Hospital. However, the casual workers were engaged for more than three (3) months without a contract of service. This was contrary to Section 37 (1) of Employment Act, 2007 which states that notwithstanding any provisions of this Act, where a casual employee works for a period or a number of continuous working days which amount in the aggregate to the equivalent of not less than one (1) month; or performs work which cannot reasonably be expected to be completed within a period, or a number of working days amounting in the aggregate to the equivalent of three (3) months or more, the contract of service of the casual employee shall be deemed to be one where wages are paid monthly and Section 35 shall apply to that contract of service.

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

2. Non-Compliance With the Kenya Quality Model for Health for Level 4 Hospital Requirements

Review of documents revealed that the Hospital had thirty-two (32) medical staff against the minimum requirement of one hundred and one (101) leaving a variance of sixty-nine (69) or 68%. Further the Hospital had thirty-two (32) equipment and machines against the requirement of one hundred and eighty-one (181) for a Level 4 Hospital and therefore having a variance of one hundred and forty-nine (149) or 82%. It was also noted that the Hospital lacked specialists such as anesthesiologists, gynecologists and pediatrics. It also lacked vital Hospital facilities such as functional High Dependency Unit (HDU), Ear Nose and Throat (ENT) Unit, Renal Dialysis, CT Scan Machine and Mammography Machine. This was contrary to Gazette Notice No. 786 Vol.CXXII No. 24 of 4 February, 2020 which provides for classification of healthcare facilities including the basic essential primary services each level should carry out.

Article 43(1) of the Constitution of Kenya, 2010 provides that every person has the right to the highest attainable standard of health, which includes the right to health care services, including reproductive health care.

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

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standards require 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 EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Lack of Staff Establishment

The statement of financial performance reflects expenditure on employee costs totalling to Kshs.2,970,920 as disclosed in Note 16 to the financial statements. However, it was noted that the Hospital did not have staff establishment to guide Management in sourcing and filling vacant posts. This was contrary to Section B.5(2) of the County Public Service Human Resource Manual, 2013 which states that all vacancies shall be declared in a prescribed format which shall include the number of vacancies; when the vacancy occurred; whether the vacancy is within the authorized establishment and other relevant details.

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

2. Ineffective Governance by the Board of Management

Review of the Board records revealed that nine (9) members were appointed and gazetted on 2 February, 2024 to serve for a period of three (3) years. However, it was noted that the Board had not yet established an audit committee and other three (3) committees as per governance parameter 1.7 (1) (b) of Mwongozo Code and also had not developed Annual Board Work Plan. In addition, appointment letters of the nine (9) Board members were not provided. This was contrary to Governance Parameter 1.1(11) of Mwongozo Code of governance which states that each Board member shall be formally to the Board through a gazette notice and there after an appointment letter.

Governance Parameter 1.11 (1) of Mwongozo Code of governance states that the Board should develop and adopt a Board Charter. Further paragraph 1.9 (1) states that Board members should ensure the development of an Annual Board Work Plan.

Governance Parameter 1.7 (1) (b) of Mwongozo Code of governance states that the Board should establish an audit committee and a maximum of three other committees (by whatever name called) to discharge the following function; Governance, Risk, Compliance, Finance, Technical matters, Strategy, Compliance, Human Resources and Finance.

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

3. Lack of Risk Management Policy and Strategy

It was noted that the Hospital had not developed a risk management policy, strategies, and risk register to mitigate against risk. It was, therefore not clear how the management managed risk exposures. This is contrary to Regulation 158(1) of the Public Finance Management (County Governments) Regulations, 2015 which states that an Accounting Officer shall ensure that (a) the County Government entity develops risk management strategies, which include fraud prevention mechanism; and the county government entity develops a system of risk management and internal control that builds robust business operations.

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

4. Lack of Approved Strategic Plan

The Hospital draft strategic plan covering the period 2023-2032 developed to guide its operations by Management had not been approved and published for implementation. This was contrary to Section 149(2)(g) of the Public Finance Management Act, 2012 which states that in carrying out a responsibility imposed by Subsection (1), an Accounting Officer shall; in respect of the entity concerned prepare a strategic plan for the entity in conformity with the medium-term fiscal framework and financial objectives of the County Government.

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

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 those Charged with Governance

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 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 as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to cease operations.

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.

Those charged with governance are 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

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards of Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. 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 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 conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not 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 addition, I consider the entity's control environment in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: <https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/>. This description forms part of my auditor's report.


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

05 December, 2025

Faza Sub -County Hospital (County Government of Lamu)
Annual Report and Financial Statements for The Year Ended 30th June 2025

14. Statement of Financial Performance for The Year Ended 30 June 2025

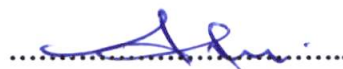
Description	Notes	FY 2024 - 2025 Kshs	FY 2023 - 2024 Kshs
Revenue from non-exchange transactions			
Transfers from the County Government	6	-	-
In- kind contributions from the County Government	7	6,141,230.00	-
Grants from donors and development partners	8	-	-
Transfers from other Government entities	9	-	-
Public contributions and donations	10	-	-
Total Revenue from non- exchange transactions		6,141,230.00	-
Revenue from exchange transactions			
Rendering of services- Medical Service Income	11	17,236,429.00	2,260,472
Revenue from rent of facilities	12	-	-
Finance /Interest Income	13	-	-
Miscellaneous income (<i>specify</i>)	14	-	-
Revenue from exchange transactions		17,236,429.00	2,260,472
Total revenue		23,377.659.00	2,260,472
Expenses			
Medical/Clinical costs	15	6,341,782	867,704
Employee costs	16	2,970,920	-
Board of Management Expenses	17	185,000	74,000
Depreciation and amortization expense	18	160,304	-
Repairs and maintenance	19	468,460	54,200
Grants and subsidies	20	-	-
Transfer	20 b	-	974,033
General expenses	21	4,002,512	306,095
Finance costs		-	-
Total expenses		14,128,978	2,276,032
Other gains/(losses)			
Gain on disposal of non-Current assets	23	-	-
Unrealized gain on fair value of investments	24	-	-
Impairment loss	26	-	-

Faza Sub -County Hospital (County Government of Lamu)
Annual Report and Financial Statements for The Year Ended 30th June 2025

Medical service contracts gains/loses	25	42,550.50	3,122,425
Total other gains/(losses)		-	-
Net Surplus for the year		9,291,232	3,106,865

(The notes set out on pages 9 to 43 form an integral part of the Annual Financial Statements.)

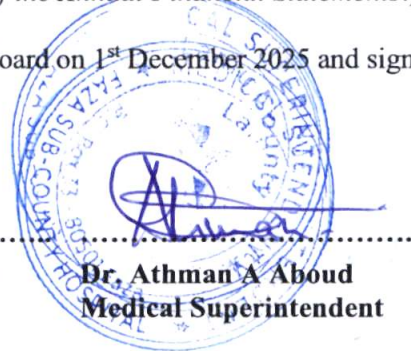
The Hospital's financial statements were approved by the Board on 1st December 2025 and signed on its behalf by:



Mr. Athman Kheir
Chairman
Board of Management



CPA Mohamed Abbas
Head of Finance
ICPAK No:23585



Dr. Athman A Aboud
Medical Superintendent

Faza Sub -County Hospital (County Government of Lamu)
Annual Report and Financial Statements for The Year Ended 30th June 2025

15. Statement of Financial Position As At 30th June 2025

Description	Notes	FY 2024 - 2025 Kshs	FY 2023 - 2024 Kshs
Assets			
Current assets			
Cash and cash equivalents	27	6,105,594	2,716,668
Receivables from exchange transactions	29	5,656,629	-
Receivables from non-exchange transactions	30	391,484	391,484
Inventories	31	-	-
Total Current Assets		12,153,708	3,108,152
Non-current assets			
Property, plant, and equipment	32	374,042	-
Intangible assets	33	-	-
Investment property	34	-	-
Total Non-current Assets		374,042	-
Total assets (A)		12,527,749	3,108,152
Liabilities			
Current liabilities			
Trade and other payables	35	812,042	683,677
Refundable deposits from customers/Patients		-	-
Provisions	37	-	-
Finance lease obligation	38	-	-
Current portion of deferred income	39	-	-
Current portion of borrowings	40	-	-
Social Benefits	42	-	-
Total Current Liabilities		812,042	683,677
Non-current liabilities			
Provisions		-	-
Non-Current Finance lease obligation	38	-	-
Non-Current portion of deferred income	39	-	-
Non - Current portion of borrowings	40	-	-

Faza Sub -County Hospital (County Government of Lamu)
Annual Report and Financial Statements for The Year Ended 30th June 2025

Service concession liability	41	-	-
Social Benefits	42	-	-
Total non-current liabilities		-	-
Total Liabilities (B)		812,042	683,677
Net assets (A-B)		11,715,707	2,424,475
Represented By:			
Revaluation reserve		-	-
Accumulated surplus/Deficit		11,715,707	2,423,188
Capital Fund		-	1287
Total Net Assets		11,715,707	2,424,475

(The notes set out on pages 9 to 43 form an integral part of the Annual Financial Statements.)


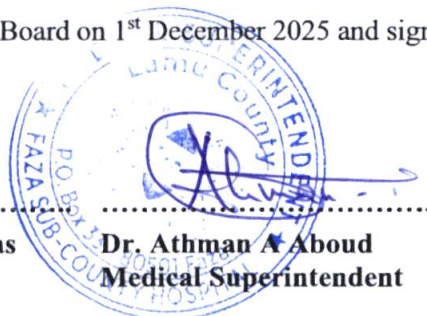
The Hospital's financial statements were approved by the Board on 1st December 2025 and signed on its behalf by:



Mr. Athman Kheir
Chairman
Board of Management



CPA Mohamed Abbas
Head of Finance
ICPAK No:23585

Dr. Athman A Aboud
Medical Superintendent

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16. Statement of Changes in Net Assets for The Year Ended 30 June 2025

Description	Revaluation reserve	Accumulated Surplus	Capital Fund	Total
At July 1, 2023	-	-	1,287	1,287
Revaluation gain	-	-	-	-
Surplus/(deficit) for the year	-	3,106,865	-	3,106,865
Capital grants received during the year	-	-	-	-
Prior year adjustments		(683,677)		(683,677)
At June 30, 2024	-	2,424,475	-	2,424,475
At July 1, 2024	-	2,424,475	-	2,424,475
Revaluation gain	-	-	-	-
Surplus/(deficit) for the year	-	9,291,232	-	9,291,232
Adjustment				-
Capital grants received during the year	-	-	-	-
At JUNE 30 2025	-	11,715,707	-	11,715,707

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17. Statement of Cash Flows for The Year Ended 30 June 2025

Description	Note	FY 2024 - 2025 Kshs	FY 2023 - 2024 Kshs
Cash flows from operating activities			
Receipts			
Transfers from the County Government		-	-
Grants from donors and development partners		6,141,230	-
Transfers from other Government entities		-	-
Public contributions and donations		-	-
Rendering of services- Medical Service Income		11,579,800	2,260,472
Impairment loss		-	-
Finance / interest income		-	-
Miscellaneous receipts(<i>specify</i>)		-	-
Medical service contracts gains/loses		42,551	2,730,941
Total Receipts		17,763,580	4,991,413
Payments			
Medical/Clinical costs		6,286,570	867,704
Employee costs		2,970,920	-
Board of Management Expenses		185,000	74,000
Repairs and maintenance		468,460	54,200
Grants and subsidies		-	-
General expenses		3,929,359	306,095
Finance costs		-	-
Transfer			974,033
Total Payments		13,840,309	2,276,032
Net cash flows from/(used in) operating activities	43	3,923,271	2,715,381
Cash flows from investing activities			
Purchase of property, plant, equipment, & intangible assets		534,345	-
Net cash flows from /(used in) investing activities		534,345	-
Cash flows from financing activities			
Proceeds from borrowings		-	-
Repayment of borrowings		-	-
Capital grants received		-	-

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Net cash flows from /(used in) financing activities		-	-
Net increase/(decrease) in cash and cash equivalents		3,388,926	2,715,381
Cash and cash equivalents at 1 July	27	2,716,668	1,287
Cash and cash equivalents at 30th June	27	6,105,594	2,716,668

(PSASB has now prescribed the direct method of cashflow presentation for all entities under the IPSAS Accrual basis of accounting).

*Faza Sub -County Hospital (County Government of Lamu)
Annual Report and Financial Statements for The Year Ended 30th June 2025*

18. Statement of Comparison of Budget and Actual Amounts for Year Ended 30 June 2025

Description	Original budget	Adjustments	Final Budget	Actual on comparable basis	Performance difference	Utilization Difference
	A	B	C=A+B	D	E=C-D	F=D/C%
	Kshs	Kshs	Kshs	Kshs	Kshs	%
Budget carryovers	2,716,668		2,716,668	2,716,668	-	0
Receipts						
Rendering of services- Medical Service Income	17,236,429	-	17,236,429	17,236,429	0	0
Medical service contracts gains/loses	42,551	-	42,551	42,551	-	0
Total Income	19,995,648	0	19,995,648	19,995,648	0	0
Expenses						
Medical/Clinical costs	6,099,600		6,099,600	5,604,862	494,738	92
Employee costs	172,000		172,000	102,920	69,080	60
Board of Management Expenses	148,000		148,000	185,000	-37,000	100
Repairs and maintenance	485,500		485,500	468,460	17,040	96
General expenses	1,609,600		1,609,600	1,502,232	271,763	83
Acquisition of assets	500,000		500,000	534,345	-34345	100
Total Expenditure	9,014,700	-	9,014,700	8,233,424	781,276	91
Capital expenditure	-	-	-	-	-	
Surplus For the Period				11,762,223		

Budget notes

1. Provide an explanation of differences between actual and budgeted amounts (any over/ 90% under) IPSAS 24.14
2. Provide an explanation of changes between the original and final budget, indicating whether the difference is due to reallocations or other causes. (IPSAS 24.29)

Budget Reconciliation

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Description of Particulars	Amount in Kshs
Actual Surplus Amounts as per the statement of Budget	11,762,223
Reason for differences: Budgeting difference (Receivables)	(5,656,629)
Closing Cash and Cash Equivalent as per the statement of Cash flows	6,105,594

19. Notes to the Financial Statements

1. General Information

Faza Sub – County Hospital facility improvement fund is established by and derives its authority and accountability from Lamu County Health Facility Improvement Financing Act 2023. The entity is wholly owned by the Lamu county government and is domiciled in Kenya. The entity’s principal activity is to provide medical care for Lamu East Residence.

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 areas involving a higher degree of judgment or complexity, or where assumptions and estimates are significant to the financial statements. The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the *entity*. 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

i. New and amended standards and interpretations in issue effective in the year ended 30 June 2025

There were no new and amended standards issued in the financial year.

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2025.

Standard	Effective date and impact:
IPSAS 43	<p><i>Applicable 1st January 2025</i></p> <p>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.</p> <p>The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities.</p>
IPSAS 44: Non- Current Assets Held for Sale and Discontinued Operations	<p><i>Applicable 1st January 2025</i></p> <p>The Standard requires,</p> <p>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 of such assets to cease and:</p> <p>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.</p>
IPSAS 45- Property Plant and Equipment	<p><i>Applicable 1st January 2025</i></p> <p>The standard supersedes IPSAS 17 on Property, Plant and Equipment. IPSAS 45 has additional guidance/ new guidance for heritage assets, infrastructure assets and measurement. Heritage assets were previously excluded from the</p>

Standard	Effective date and impact:
	<p>scope of IPSAS 17 in IPSAS 45, heritage assets that satisfy the definition of PPE shall be recognised as assets if they meet the criteria in the standard. IPSAS 45 has an additional application guidance for infrastructure assets, implementation guidance and illustrative examples. The standard has clarified existing principles e.g valuation of land over or under the infrastructure assets, under- maintenance of assets and distinguishing significant parts of infrastructure assets.</p>
<p>IPSAS 46 Measurement</p>	<p><i>Applicable 1st January 2025</i></p> <p>The objective of this standard was to improve measurement guidance across IPSAS by:</p> <p>Providing further detailed guidance on the implementation of commonly used measurement bases and the circumstances under which they should be used.</p> <p>Clarifying transaction costs guidance to enhance consistency across IPSAS;</p> <p>Amending where appropriate guidance across IPSAS related to measurement at recognition, subsequent measurement and measurement related disclosures.</p> <p>The standard also introduces a public sector specific measurement bases called the current operational value.</p>
<p>IPSAS 47- Revenue</p>	<p><i>Applicable 1st January 2026</i></p> <p>This standard supersedes IPSAS 9- Revenue from exchange transactions, IPSAS 11 Construction contracts and IPSAS 23 Revenue from non- exchange transactions. This standard brings all the guidance of accounting for revenue under one standard. The objective of the standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flow arising from revenue transactions.</p>
<p>IPSAS 48- Transfer Expenses</p>	<p><i>Applicable 1st January 2026</i></p> <p>The objective of the standard is to establish the principles that a transfer provider shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of expenses and</p>

Standard	Effective date and impact:
	cash flow arising from transfer expense transactions. This is a new standard for public sector entities geared to provide guidance to entities that provide transfers on accounting for such transfers.
IPSAS 49- Retirement Benefit Plans	<i>Applicable 1st January 2026</i> The objective is to prescribe the accounting and reporting requirements for the public sector retirement benefit plans which provide retirement to public sector employees and other eligible participants. The standard sets the financial statements that should be presented by a retirement benefit plan.
IPSAS 50: Exploration For & Evaluation of Mineral Resources	<i>Applicable 1st January 2027</i> The objective of this Standard is to specify the financial reporting for the exploration for and evaluation of mineral resources. The Standard requires: Limited improvements to existing accounting practices for exploration and evaluation expenditures. Entities that recognize exploration and evaluation assets to assess such assets for impairment in accordance with this Standard and measure any impairment in accordance with IPSAS 26. Disclosures that identify and explain the amounts in the entity's financial statements arising from the exploration for and evaluation of mineral resources and help users of those financial statements understand the amount, timing and certainty of future cash flows from any exploration and evaluation assets recognized

iii) Early adoption of standards

The Entity did not early – adopt any new or amended standards in the financial year or *the entity adopted the following standards early (state the standards, reason for early adoption and impact on entity's financial statements.)*

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. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, the amount is recorded in the statement of financial position and realised in the statement of financial performance over the useful life of the asset that has been acquired using such funds.

ii) 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.

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.

b. Budget information

The FIF budget for FY 2024/2025 was approved by Board on 8th July 2024. 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.

The budget is prepared on a accrual same basis as the financial statements. 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.

c. 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

d. 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 a period of xxx 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

Notes to the Financial Statements (Continued)

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.

e. 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. The method of depreciation used is the straight line method.

f. 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.

g. 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.

h. Biological Assets

The entity recognizes biological assets when it controls the assets due to past events, it is probable that future economic benefits associated with the asset will flow to the entity, and when the fair value or cost of the asset can be measured reliably. Biological assets are initially and subsequently measured at fair value less costs to sell, except where fair value cannot be reliably determined. In such cases, the asset is measured at its cost less accumulated depreciation and any accumulated impairment losses. Changes in fair value less costs to sell are recognized in surplus/deficit in the period in which they occur.

i. 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.

j. Financial instruments

IPSAS 41 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. *The entity does not have any hedge relationships and therefore the new hedge accounting rules have no impact on the hospital's financial statements. (amend as appropriate).*

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. At initial recognition, the entity measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through surplus or deficit, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Financial assets

Classification of financial assets

The entity classifies its financial assets as subsequently measured at amortised cost, fair value through net assets/ equity or fair value through surplus and deficit on the basis of both the entity's management model for financial assets and the contractual cash flow characteristics of the financial asset. A financial asset is measured at amortized cost when the financial asset is held within a management model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. A financial asset is measured at fair value through net assets/ equity if it is held within the management model whose objective is achieved by both collecting contractual cashflows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A financial asset shall be measured at fair value through surplus or deficit unless it is measured at amortized cost or fair value through net assets/ equity unless an entity has made irrevocable election at initial recognition for particular investments in equity instruments.

Subsequent measurement

Based on the business model and the cash flow characteristics, the entity classifies its financial assets into amortized cost or fair value categories for financial instruments. Movements in fair value are presented in either surplus or deficit or through net assets/ equity subject to certain criteria being met.

Amortized cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at fair value through surplus or deficit, are measured at amortized cost. A gain or loss on an instrument that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized

in profit or loss when the asset is de-recognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

Fair value through net assets/ equity

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through net assets/ equity. Movements in the carrying amount are taken through net assets, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in surplus/deficit. Interest income from these financial assets is included in finance income using the effective interest rate method.

Fair value through surplus or deficit

Financial assets that do not meet the criteria for amortized cost or fair value through net assets/ equity are measured at fair value through surplus or deficit. A business model where the entity manages financial assets with the objective of realizing cash flows through solely the sale of the assets would result in a fair value through surplus or deficit model.

Trade and other receivables

Trade and other receivables are recognized at fair values less allowances for any uncollectible amounts. Trade and other receivables are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end.

Impairment

The entity assesses, on a forward-looking basis, the expected credit loss ('ECL') associated with its financial assets carried at amortized cost and fair value through net assets/equity. The entity recognizes a loss allowance for such losses at each reporting date.

Financial liabilities

Classification

The entity classifies its liabilities as subsequently measured at amortized cost except for financial liabilities measured through profit or loss.

k. 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.

l. Provisions

Provisions are recognized when the Hospital 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.

m. Social Benefits

Social benefits are cash transfers provided to i) specific individuals and / or households that meet the eligibility criteria, ii) mitigate the effects of social risks and iii) Address the need of society as a whole. The entity recognises a social benefit as an expense for the social benefit scheme at the same time that it recognises a liability. The liability for the social benefit scheme is measured

at the best estimate of the cost (the social benefit payments) that the entity will incur in fulfilling the present obligations represented by the liability.

n. Contingent liabilities

The Faza Sub-County Hospital 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.

o. Contingent assets

The Faza Sub-County Hospital 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.

p. Nature and purpose of reserves

The Faza Sub-County Hospital does not create and maintains reserves in terms of specific requirements.

q. Changes in accounting policies and estimates

The Faza Sub-County Hospital recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

r. Employee benefits

Retirement benefit plans

The Faza Sub-County Hospital 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.

s. Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. At each reporting date, foreign currency monetary items are translated using the closing rate. Non-monetary items measured in historical cost are translated using the exchange rate at the date of the transaction, and those measured at fair value are translated using the exchange rates at the date when the fair value was determined. Exchange differences arising from the settlement of monetary items or translation of monetary/non-monetary items at rates different from those at which they were initially reported are recognized in surplus or deficit in the period.

t. 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.

u. Related parties

The Faza Sub-County Hospital 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.

v. 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.

w. 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 Commercial 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.

x. Comparative figures

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

y. 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, 2025.

5. Significant Judgments and Sources of Estimation Uncertainty

The preparation of the Faza Sub-County Hospital '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

No provisions were raised and managed.

Notes to Financial Statements Continued

6) Transfers From the County Government

Description	FY 2024 -2025	FY 2023/2024
	Kshs	Kshs
Total Government Grants and Subsidies	-	-

b. Transfers from The County Government

Name of the Entity sending the grant	Amount recognized to Statement of financial performance.	Amount deferred under deferred income.
	Kshs	Kshs
Total grants in Kind	-	-

7) In Kind Contributions from The County Government

Description	FY 2024 -2025	FY 2023/2024
	Kshs	Kshs
Salaries and wages	2,868,000	-
Pharmaceutical and Non-Pharmaceutical Supplies	-	-
Medical supplies-Drawings Rights (KEMSA)	681,708	-
Utility bills	2,591,522	-
Total grants in kind	6,141,230	-

8) Grants From Donors and Development Partners

Description	FY 2024 -2025	FY 2023/2024
	Kshs	Kshs
Total grants from development partners	-	-

(Provide brief explanation for this revenue)

8 (a) Grants from donors and development partners (Classification)

Name of the Entity sending the grant	Amount recognized to Statement of financial performance	Amount deferred under deferred income
	Kshs	Kshs

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Total	-	-
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9) Transfers From Other Government Entities

Description	FY 2024 -2025	FY 2023/2024
	Kshs	Kshs
Total Transfers	-	-

10) Public Contributions and Donations

Description	FY 2024 -2025	FY 2023/2024
	Kshs	Kshs
Total donations and sponsorships	-	-

10(b)Reconciliations of amortised grants

Description	FY 2024 -2025	FY 2023/2024
	Kshs	Kshs
Balance unspent at beginning of year	-	-
Current period receipts	-	-
Amortised and transferred to revenue	-	-
Conditions to be met – remain liabilities	-	-

11) Rendering of Services-Medical Service Income

Description	FY 2024 -2025	FY 2023/2024
	Kshs	Kshs
Dental services	90,950	94,850
Laboratory	386,400	247,040
Medical examination	44,050	38,900
Non-Pharmaceutical	219,023	28,410
Pharmaceuticals	1,076,903	672,331
Orthopedic and trauma technology	35,900	33,200
radiology	815,870	525,450
Ward admission	275,360	518,310

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Theatre	5,200	28,600
Consultation	150,310	73,381
Stitching and dressing	74,390	-
Outpatient	25750	-
Receivables SHA	5,553,886.45	-
Receivables CIC	102,743	-
SHA	7,973,853.55	-
NHIF claims	405,840	-
NHIF capitation	-	-
Total revenue from the rendering of services	17,236,429	2,260,472

For cashflow statement presentation

Description	FY 2024 -2025	FY 2023/2024
	Kshs	Kshs
Total revenue from the rendering of services	17,236,429	2,260,472
Less: Receivables	(5,656,629)	-
Total medical/ clinical costs	11,579,800	2,260,472

12) Revenue From Rent of Facilities

Description	FY 2024 -2025	FY 2023/2024
	Kshs	Kshs
Total Revenue from rent of facilities	-	-

13) Finance /Interest Income

Description	FY 2024 -2025	FY 2023/2024
	Kshs	Kshs
Total finance income	-	-

14) Miscellaneous Income

Description	FY 2024 -2025	FY 2023/2024
	Kshs	Kshs
Total miscellaneous income	-	-

15) Medical/ Clinical Costs

Description	FY 2024 -2025	FY 2023/2024
	Kshs	Kshs
Medical Drugs	3,839,162	229,842
Dressings and Other Non-Pharmaceutical Medical Items	1,908,479	249,730
Laboratory Materials, Supplies and Small Equipment	594,141	388,132

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Total medical/ clinical costs	6,341,782	867,704
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Medical /clinical purchases are recognized as inventory and when issued for use they are expensed. The above figures are less any closing inventory held for distribution. For the purpose of cashflow below table shows cash expenses for the medical and clinical expenses

15b) Medical/ Clinical Costs

Description	FY 2024 -2025	FY 2023/2024
	Kshs	Kshs
Total medical/ clinical costs	6,341,783	867,704
Add: Closing inventory of medical /clinical items	-	-
Total medical/ clinical costs	6,341,782	867,704

16) Employee Costs

Description	FY 2024 -2025	FY 2023/2024
	Kshs	Kshs
Contractual employees	2,970,920	-
Employee costs	2,970,920	-

17) Board of Management Expenses

Description	FY 2024 -2025	FY 2023/2024
	Kshs	Kshs
Sitting allowance	185,000	74,000
Total	185,000	74,000

18) Depreciation And Amortization Expense

Description	FY 2024 -2025	FY 2023/2024
	Kshs	Kshs
Property, plant and equipment	160,304	-
Total depreciation and amortization	160,304	-

19) Repairs And Maintenance

Description	FY 2024 -2025	FY 2023/2024
	Kshs	Kshs
Maintenance Expenses- Motor vehicle, Boats and Ferries	30,500	-
Maintenance of Plant, Machinery and Equipment (including lifts)	33,200	-
Maintenance of Office Furniture and Equipment	17,150	54,200
Maintenance of Medical and Dental Equipment	111,910	-
Maintenance of Buildings and Stations-- Non-Residential	275,700	-
Total repairs and maintenance	468,460	54,200

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20) Grants And Subsidies

Description	FY 2024 -2025	FY 2023/2024
	Kshs	Kshs
Total grants and subsidies	-	-

20b) Transfers

Description	FY 2024 -2025	FY 2023/2024
	Kshs	Kshs
Transfer to County Revenue		974,033
Total grants and subsidies	-	974,033

21) General Expenses

Description	FY 2024 -2025	FY 2023/2024
	Kshs	Kshs
Catering Services (receptions), Accommodation, Gifts, Food and Drinks	44728	12,670
Telephone, Telex, Facsimile and Mobile Phone Services	93,600	
Courier & Postal Services	166653	37,580
Travel Costs (airlines, bus, railway, mileage allowances, etc.)	2,700	
Daily Subsistence Allowance	448,000	14,700
Publishing & Printing Services	35,000	
Hire of Transport, Equipment	34,580	
Catering Services (receptions), Accommodation, Gifts, Food and Drinks	108,240	83,445
General Office Supplies (papers, pencils, forms, small office equipment etc)	153,029	41,700
Sanitary and Cleaning Materials, Supplies and Services	142,940	34,000
Refined Fuels and Lubricants for Production	141,840	34,000
Bank Service Commission and Charges	25,680	48,000
Gas expenses	14,000	
Electricity bill	2,591,522	683677
Total General Expenses	4,002,512	989,772

22) Finance Costs

Description	FY 2024 -2025	FY 2023/2024
	Kshs	Kshs
Total finance costs	-	-

23) Gain/Loss on Disposal Of Non-Current Assets

Description	FY 2024 -2025	FY 2023/2024
	Kshs	Kshs
Total gain on sale of assets	-	-

24) Unrealized Gain on Fair Value Investments

Description	FY 2024 -2025	FY 2023/2024
	Kshs	Kshs
Total gain	-	-

25) Medical Services Contracts Gains /Losses

Description	FY 2024 -2025	FY 2023/2024
	Kshs	Kshs
Comprehensive care contracts with NHIF	42,551	3,122,425
Non- Comprehensive contracts care with NHIF	-	-
Linda Mama Program	-	-
Waivers and Exemptions	-	-
Total Gain/Loss	42,551	3,122,425

For the purpose of cashflow the below table shows medical services contracts gains

25b) Medical Services Contracts Gains /Losses

Description	FY 2024 -2025	FY 2023/2024
	Kshs	Kshs
Total gain from medical service contracts	42,551	3,122,425
Less: Increase in receivables from NHIF	-	(391,484)
Total Gain/Loss	42,551	2,730,941

26) Impairment Loss

Description	FY 2024 -2025	FY 2023/2024
	Kshs	Kshs
Total impairment loss	-	-

27) Cash and Cash Equivalents

Description	FY 2024 -2025	FY 2023/2024
	Kshs	Kshs
Current accounts	6,105,594	2,716,668
Total cash and cash equivalents	6,105,594	2,716,668

27(a). Detailed Analysis of Cash and Cash Equivalents

Description		FY 2024 - 2025	FY 2023/2024
Financial institution	Account number	Kshs	Kshs
a) Current account			
Kenya Commercial bank	1324744847	1,299,997	500,015
Kenya Commercial bank	1211503658	4,805,598	2,216,453
Sub- total		6,105,594	2,716,468
d) Others(<i>specify</i>)			
Cash in hand		-	200
Sub- total		-	200
Grand total		6,105,594	2,716,668

28. Prepayments

Description	FY 2024 -2025	FY 2023/2024
	Kshs	Kshs
Insurance	-	-
Rent	-	-
Water	-	-
Internet	-	-
Others specify	-	-
Total	-	-

29) Receivables From Exchange Transactions

Description	FY 2024 -2025	FY 2023/2024
	Kshs	Kshs
Medical services	5,656,629	
Total receivables	5,656,629	-

Analysis of Receivables From
Exchange Transactions

Description	FY 2024 -2025		FY 2023/2024	
	Kshs		Kshs	
	FY 2024 -2025	% of the total	FY 2023/2024	% of the total
Less than 1 year	5,656,629	100	-	-
Between 1- 2 years	0	-	-	-
Between 2-3 years	0	-	-	-

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Over 3 years	0	-	-	-
Total (a+b)	5,656,629	100	-	-

30) Receivables From Non-Exchange Transactions

Description	FY 2024 -2025	FY 2023/2024
	Kshs	Kshs
NHIF capitation	391,484	391,484
Total	391,484	391,484

Analysis of Receivables From Non-Exchange Transactions

Description	FY 2024 -2025		FY 2023/2024	
	Kshs		Kshs	
	FY 2024-2025	% of the total	FY 2023-2024	% of the total
Less than 1 year	0	0	391,484	100
Between 1- 2 years	391,484	100	0	-
Between 2-3 years	0	0	0	-
Over 3 years	0	0	0	-
Total (a+b)	391,484	100	391,484	100

31) Inventories

Description	FY 2024 -2025	FY 2023/2024
	Kshs	Kshs
Non -Pharmaceuticals	-	-
Total	-	-

	FY 2024 -2025	FY 2023/2024
	Kshs	Kshs
Opening balance	-	-
Additional Inventory in the year	6,286,570	867,704
Inventory expensed in the year	(5,604,862)	(867,704)
Write-downs in the year	-	-
Others specify	-	-
Closing balance	681,708	-

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32) Property, Plant and Equipment

Description	Land	Buildings and Civil works	Medical Equipment's	Furniture and Fittings	ICT Equipment	Portable and attractive items	Plant and machinery	Total
		x%	30%	12.50%	30%	30%	30%	
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
Cost								
As at 1ST July 2023	-	-	-	-	-	-	-	-
Additions during the year	-	-	-	-	-	-	-	-
Disposals during the year	-	-	-	-	-	-	-	-
Transfers/adjustments during the year	-	-	-	-	-	-	-	-
As at 30th June 2024	-	-	-	-	-	-	-	-
As at 1st July 2024	-	-	-	-	-	-	-	-
Additions during the period					369,950	164,395	-	534,345
Disposals during the period	-	-	-	-	-	-	-	-
Transfer/adjustments during the period					-	-	-	-
As at 30th July 2025	-	-	-	-	369,950	164,395	-	534,345
Depreciation and impairment								
As at 1ST July 2023		-	-	-	-	-	-	-
Depreciation for the year	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
Impairment	-	-	-	-	-	-	-	-
As at 30th June 2024	-	-	-	-	-	-	-	-
As at 30th June 2024	-	-	-	-	-	-	-	-

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Depreciation for the period	-	-	-	-	110,985	49,319	-	160,304
Disposals for the period	-	-	-	-	-	-	-	-
Impairment for the period	-	-	-	-	-	-	-	-
Transfer/adjustment during the period	-	-	-	-	-	-	-	-
As at 30th July 2025	-	-	-	-	110,985	49,319	-	160,304
								-
Net book values								-
As at 30th June 2024	-	-	-	-	-	-	-	-
As at 30th June 2025	-	-	-	-	258,965	115,077	-	374,042

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33) Intangible Assets

Description	FY 2024 -2025 Kshs	FY 2023/2024 Kshs
NBV	-	-

34) Investment Property

Description	FY 2024 -2025 Kshs	FY 2023/2024 Kshs
At end of the period	-	-

35) Trade And Other Payables

Description	FY 2024 -2025	FY 2023/2024
	Kshs	Kshs
Electricity bill	756,830	683,677
Medical drugs (KEMSA)	55,212	-
Total Trade abd other payables	812,042	683,677

36) Refundable Deposits from Customers/Patients

Description	FY 2024 -2025 Kshs	FY 2023/2024 Kshs
Total deposits	-	-

37) Provisions

Description	Leave provision	Bonus provision
	Kshs	Kshs
Total Provisions	-	-

38) Finance Lease Obligation

Description	FY 2024 -2025 Kshs	FY 2023/2024 Kshs
Total	-	-

39) Deferred Income

Description	FY 2024 -2025 Kshs	FY 2023/2024 Kshs
Total	-	-

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40) Borrowings

Description	FY 2024 -2025 Kshs	FY 2023/2024 Kshs
Balance at end of the period	-	-

41) Service Concession Arrangements

Description	FY 2024 -2025 Kshs	FY 2023/2024 Kshs
Fair value of service concession assets recognized under PPE	-	-
Accumulated depreciation to date	-	-
Net carrying amount	-	-
Service concession liability at beginning the year	-	-
Service concession revenue recognized during the period	-	-
Service concession liability at end of the period	-	-

42) Social Benefits Liabilities

Description	FY 2024 -2025 Kshs	FY 2023/2024 Kshs
Total (tie to totals above)	-	-

43) Cash Generated from Operations

Description	FY 2024 -2025 Kshs	FY 2023/2024 Kshs
Surplus for the year before tax		
Adjusted for:	9,291,232	3,106,865
Depreciation	160,304	-
Non-cash grants received	-	-
Impairment	-	-
Gains and losses on disposal of assets	-	-
Contribution to provisions	-	-
Contribution to impairment allowance	-	-
Working Capital adjustments		
Increase in inventory	-	-
Increase in receivables	(5,656,629.45)	(391,484)
Net cash flow from/used in operating activities	3,794,906	2,715,381

Notes to the Financial Statements (Continued)

44. Financial Risk Management

The Faza Sub-County Hospital's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The hospital's overall risk management programme focuses on the unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The hospital does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The entity's financial risk management objectives and policies are detailed below:

(i) Credit risk

The entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments. Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the hospital's management based on prior experience and their assessment of the current economic environment. The carrying amount of financial assets recorded in the financial statements representing the entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

Description	Total amount	Fully performing	Past due	Impaired
	Kshs	Kshs	Kshs	Kshs
At 30 June 2024				
Receivables from exchange transactions	-			
Receivables from –non-exchange transactions	391,484	391,484	-	-
Bank balances	2,716,668	2,716,668	-	-
Total	3,108,152	3,108,152	-	-
At 30 June 2025				
Receivables from exchange transactions	5,656,629	5,656,629	-	-
Receivables from –non-exchange transactions	391,484	391,484	-	-
Bank balances	6,105,594	6,105,594	-	-
Total	12,153,708	12,153,708	-	-

(NB: The totals column should tie to the individual elements of credit risk disclosed in the entity's statement of financial position)

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the hospital has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts. The entity has significant concentration of credit risk on amounts due from National Health Insurance Fund. The board of management sets the hospital's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

(ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the hospital's board of management who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

(iii) Market risk

The hospital has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls. Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The hospital's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day-to-day implementation of those policies. There has been no change to the entity's exposure to market risks or the way it manages and measures the risk.

a) Foreign currency risk

The entity has no transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate. The carrying amount of the entity's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

Notes to the Financial Statements (Continued)

b) Interest rate risk

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The hospital's interest rate risk arises from bank deposits. This exposes the hospital to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the hospital's deposits.

Management of interest rate risk

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

Sensitivity analysis

The entity analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of financial performance if current floating interest rates increase/decrease by one percentage point as a decrease/increase. A rate increase/decrease of 5% would result in a decrease/increase in surplus.

iv) Capital Risk Management

The objective of the entity's capital risk management is to safeguard the Hospital's ability to continue as a going concern. The entity capital structure comprises of the following funds:

Description	FY 2024-2025	FY 2023-2024
	Kshs	Kshs
Revaluation reserve	-	-
Retained earnings	11,715,707	2,424,475
Capital reserve	-	-
Total funds	11,715,707	2,424,475
Total borrowings	-	-
Less: cash and bank balances	(6,105,594)	(2,716,668)
Net debt/ <i>(excess cash and cash equivalents)</i>	5,665,325	(292,193)
Gearing	-	-

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45. Related Party Balances

Nature of related party relationships

Entities and other parties related to the entity include those parties who have the ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates, and close family members.

Lamu County Government is the principal shareholder of the *Hospital*, holding 100% of the *entity's* equity interest. The National Government of Kenya has provided full guarantees to all long-term lenders of the entity, both domestic and external. The related parties include:

- i) The National Government;
- ii) The County Government;
- iii) Board of Directors;
- iv) Key Management

Description	FY 2024-2025	FY 2024 - 2025
	Kshs	Kshs
Transactions with related parties		
Key management compensation		
Board Allowance	185,000	74,000
Total	185,000	74,000

46. Segment Information

(Where an organisation operates in different geographical regions or in departments, IPSAS 18 on segmental reporting requires an entity to present segmental information of each geographic region or department to enable users understand the entity's performance and allocation of resources to different segments)

47. Contingent Liabilities

Contingent liabilities	FY 2024 - 2025	FY 2024 - 2025
	Kshs	Kshs
Total	-	-

(Give details)

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48. Capital Commitments

Capital Commitments	FY 2024 - 2025	FY 2024 - 2025
	Kshs	Kshs
Total	-	-

(NB: Capital commitments are commitments to be carried out in the next financial year and are disclosed in accordance with IPSAS 17. Capital commitments may be those that have been authorised by the board but at the end of the year had not been contracted or those already contracted for and ongoing)

49. Events after the Reporting Period

There were no material adjusting and non-adjusting events after the reporting period.

50. Ultimate and Holding Entity

The Faza Sub – County Hospital Semi- Autonomous Government Agency under the Department of Medical Service. Its ultimate parent is the County Government of Lamu.

51. Currency

The financial statements are presented in Kenya Shillings (Kshs) and all values are rounded off to the nearest shilling.

20. Appendices

Appendix 1: Progress on Follow Up of Auditor Recommendations

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	Inaccurate property, plant and equipment balance	There is no transfer of ownership of property, lands and equipment from the county department to facilities Modt of the county assets e.g lands have not been valued	Not resolved	
	Budgetary control and performance	Underutilization is due to carrying forward of the q4 collection to be spent in the following financial year in q1 since FIF budget depends on what has been collected during the specified quarter	Not resolved	

Guidance Notes:

- (i) Use the same reference numbers as contained in the external audit report.
- (ii) Obtain the “Issue/Observation” and “management comments”, required above, from the final external audit report that is signed by Management.
- (iii) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your entity responsible the for implementation of each issue.
- (iv) Indicate the status of “Resolved” or “Not Resolved” by the date of submitting this report to National Treasury

Accounting Officer



Appendix II: Projects Implemented by The Faza sub-county hospital

Projects

Projects implemented by the Hospital funded by development partners

Project title	Project Number	Donor	Period/ duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
1						
2						

Status of Projects completion

(Summarise the status of project completion at the end of each quarter, i.e. total costs incurred, stage which the project is etc)

SN	Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Sources of funds
1							
2							
3							

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Appendix III: Inter-Entity Confirmation Letter


Name of Transferring entity...county government of lamu.....

Name of Beneficiary entity.....faza subcounty hospital.....


Confirmation of amounts received by Faza Sub County Hospital as at 30 th June 2025					
Reference Number	Date Disbursed	Recurrent (A)	Development (B)	Total (C)=(A+B)	Remarks
-	-	-	-	-	
-	-	-	-	-	
--	-	--	-	-	
Total	-	-	-	-	

I confirm that the amounts shown above are correct as of the date indicated.

Head of Accounts Department - Disbursing Entity:

Name ...MOHAMED ABBAS..... Sign  Date 1/12/25

Head of Accounts Department - Beneficiary Entity:

Name .NAJMA ALI..... Sign  Date 1/12/25

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Appendix IV Reporting of Climate Relevant Expenditures

Project Name	Project Description	Project Objectives	Project Activities	Quarter				Source Of Funds	Implementing Partners
				Q 1	Q 2	Q 3	Q 4		

Appendix V: Disaster Expenditure Reporting Template

Program me	Sub-program me	Disas ter Type	Category of disaster related Activity that require expenditure reporting (response/recovery/mitigation/pr eparedness)	Expendit ure item	Amo unt (Kshs .)	Comme nts