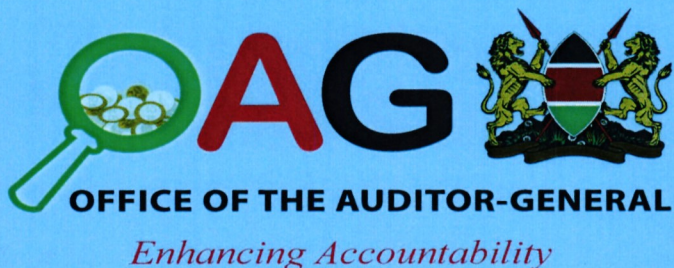



REPUBLIC OF KENYA



REPORT

 THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 09 FEB 2022	DAY: Wed
TABLED BY: LDM	
CLERK AT THE TABLE: S. Kalawa	

OF

THE AUDITOR-GENERAL

ON

**KENYA HEALTH SECTOR SUPPORT PROJECT -
HEALTH SECTOR SERVICES FUND (GRANT
NO.4771-KE AND TF-16027)**

**FOR THE YEAR ENDED
30 JUNE, 2021**

MINISTRY OF HEALTH



OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
REGISTRY

22 DEC 2021

RECEIVED

**Project Name. KENYA HEALTH SECTOR SUPPORT PROJECT (HEALTH
SECTOR SERVICES FUND)**

Implementing Entity: MINISTRY OF HEALTH

PROJECT GRANT/CREDIT NUMBER... 4771 & TF16027

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2021**

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

KENYA HEALTH SECTOR SUPPORT PROJECT (HEALTH SECTOR SERVICES FUND)
Reports and Financial Statements
For the year ended June 30, 2021

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1. PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and registered office

Name: The project's official name is Kenya Health Sector Support Project (Health Sector Services Fund)

Objective: The key objective of the project is to improve the key delivery of health care services and empower rural communities to take charge of improving their health

Address: The project headquarters offices are Nairobi (city), Nairobi County, Kenya. The address of its registered office is: Ministry of Health P.O. Box 30016-00100 Nairobi.

The project is based at the National Level but it supports all the facilities at the Lower levels of service i.e. Level 1, 2, 3 and Sub District Hospitals.

Contacts: The following are the project contacts
 Telephone: (254) -20-2717077
 E-mail: PS @health.go.ke
 Website: www.go.ke

1.2 Project Information

Project Start Date:	The project start date is 30/09/2010
Project End Date:	The project end date is 30/06/2018
Project Manager:	The project manager is Dr David G. Kariuki
Project Sponsor:	The project sponsor is -Dr. Gandham N.V. Ramana

1.3 Project Overview

Line Ministry/State Department of the project	The project is under the supervision of the Ministry of Health.
Project number	CR – 4771 – KE & TF -16027-KE
Strategic goals of the project	The strategic goals of the project are as follows: (i) To ensure an improved Health services to the Kenyan population especially the poor. (ii) To reduce Health inequity
Achievement of strategic goals	The project management aims to achieve the goals through the following s: (i) By improving health services and strengthening systems.

KENYA HEALTH SECTOR SUPPORT PROJECT (HEALTH SECTOR SERVICES FUND)
Reports and Financial Statements
For the year ended June 30, 2021

	(ii) Providing funds to NHIF to pay for the poor. The project operates within a sector wide approach. The foundation is laid down in the National Health Sector Strategic Plan 2005-2012.
Current situation that the project was formed to intervene	The project was formed to intervene in the following areas: (i) To improve health services (ii) To provide funds to NHIF to pay for health services for the poor
Project duration	The project started on 30 September 2010 and is expected to run until 30 June 2018.

1.4 Bankers

The following are the bankers for the current year:

- I. CENTRAL BANK OF KENYA – (PROJECT ACCOUNT)
P.O BOX 600000 – 0200
Nairobi
- II. COOPERATIVE BANK – DEPOSIT ACCOUNT
Ukulima Cooperative
P.O. Box 74956-00100
Nairobi

1.5 Auditors

The project is audited by the:
Auditor - General
P.O Box 30084 – 00100
Nairobi.

1.6 Roles and Responsibilities

List the different people who will be working on the project. This list would include the project manager and all the key stakeholders who will be involved with the project. Also, record their role, their positions, and their contact information.

Names	Title designation	Key qualification	Responsibilities
Dr. David G. Kariuki	Head, Directorate of policy, planning and Health care Financing.	MB chB, Msc	Project oversight and overall coordination of activities of the Directorate and Project Coordinator
Alice Olango	Project Accountant	B.com, CPA(K)	Preparation of Financial reports as required from time to time e.g. Bank reconciliation, exchequer requisition, preparation of project F/S ,

Note: The Project operates within the MOH structures and systems and therefore involves multiple parties beyond the names provided above.

1.0 Funding summary

The Project is for duration of 8 years from 2010 to 2018 with an approved budget of Usd 143.1 million equivalent to Kshs. 12,163 million as highlighted in the table below for the Bank. Other Partners are Danida and GOK whose contribution is given at the budgeting period.

KENYA HEALTH SECTOR SUPPORT PROJECT (HEALTH SECTOR SERVICES FUND)
Reports and Financial Statements
For the year ended June 30, 2021

Below is the funding summary:

Source of funds	Donor Commitment-		Amount received to date – (30 June 2021)		Undrawn balance to date (dd mm 20xx)	
	Donor currency	KShs	Donor currency	KShs	Donor currency	KShs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i) Grant						
Miscellaneous receipts				1,458,469,136		
(ii) Loan						
IDA-International Development Agency.				4,468,802,793		
(iii) Counterpart funds						
Government of Kenya				2,767,002,150		
Total				8,694,274,079		

1.7 Summary of Overall Project Performance:

- Budget performance against actual amounts for current year and for cumulative to-date,
- Physical progress based on outputs, outcomes and impacts since project commencement,
- Comment on value-for-money achievements,
- Indicate the absorption rate for each year since the commencement of the project.
- List the implementation challenges and recommended way forward.

1.8 Summary of Project Compliance:

- Include significant cases of non-compliance with applicable laws and regulations, and essential external financing agreements/covenants,
- Include consequences suffered on account of non-compliance or likely to be suffered
- Indicate mitigation measures taken or planned to be taken to alleviate the adverse effects of actual or potential consequences of non-compliance

2. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The *Principal Secretary* for the Ministry of Health and the *Project Coordinator* for KHSSP *project* are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year ended 30 June, 2021. This responsibility includes: (i) maintaining adequate financial management arrangement 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 Project; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Project; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

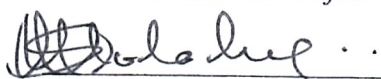
The *Principal Secretary* for the Ministry of Health and the *Project Coordinator* for KHSSP *project* accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The *Principal Secretary* for the Ministry of Health and the *Project Coordinator* for KHSSP *project* are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year ended 30 June, 2021, and of the Project's financial position as at that date. The *Principal Secretary* for Ministry of Health and the *Project Coordinator* for KHSSP & HSSP III further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

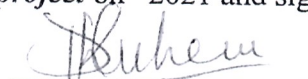
The *Principal Secretary* for the Ministry of Health and the *Project Coordinator* for KHSSP *project* confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year/period under audit were used for the eligible purposes for which they were intended and were properly accounted for.

Approval of the Project financial statements

The Project financial statements were approved by the *Principal Secretary* for the Ministry of HEALTH and the *Project Coordinator* for KHSSP *project* on 2021 and signed by them.



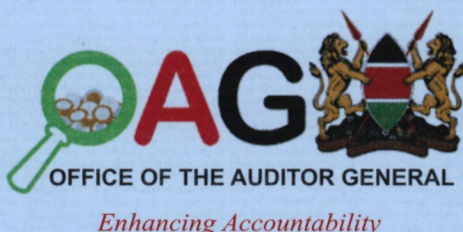
Susan Mochache, CBS
Principal Secretary
Date



David G. Kariuki
Project Coordinator
Date 9/12/21

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: 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 KENYA HEALTH SECTOR SUPPORT PROJECT - HEALTH SECTOR SERVICES FUND (GRANT NO.4771-KE AND TF-16027) FOR THE YEAR ENDED 30 JUNE 2021 - MINISTRY OF HEALTH

PREAMBLE

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

- A. Report on the financial statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in use of public resources which considers compliance with applicable laws, regulations, policies, gazetted notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure government achieves value for money and that such funds are applied for intended purpose.
- 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, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal control, risk management and governance systems are properly designed and were working effectively in the financial year under review.

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 Health Sector Support Project - Health Sector Services Fund (CR. No.4771-KE and TF-16027) set out on pages 7 to 27, which comprise the statement of financial assets and liabilities as at 30 June, 2021, and the statement of receipts and payments, statement of cash flows and statement of comparative 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 effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya Health Sector Support Project - Health Sector Services Fund (Grant No.4771-KE and TF-16027) as at 30 June, 2021, and (of) its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Financing Agreement dated 21 January, 2014 between International Development Association (IDA) and the Republic of Kenya; and the Public Finance Act, 2012.

Basis for Qualified Opinion

Unsupported Bank Balances and Transfers to Counties

The statement of financial assets and liabilities reflects restated opening bank balances of Kshs.1,247,228 instead of Kshs.659,122,495 reflected in the audited financial statements for the year ended 30 June, 2020. However, as had been reported in the previous year and as disclosed at the footnote of the statement of financial assets and liabilities for the year ended 30 June, 2021, the amount totaling Kshs.657,875,226 was transferred and utilized by the Counties. The Management did not provide evidence such as expenditure returns to support the project transfer of Kshs.657,875,226 to the Counties in financial year 2013/2014. Also, the corresponding funds' acknowledgement receipts were not provided for audit review.

Consequently, the propriety, accuracy and validity of Kshs.657,875,226 transfers to the Counties and bank balances of Kshs.1,247,228 as at 30 June, 2021 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Health Sector Support Project - Health Sector Services Fund (Grant No.4771-KE and TF-16027) in accordance with ISSAI 130 on 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 judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Lawfulness and Effectiveness in 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

Closure of the Project Account

The Project commenced on 30 September, 2010 and ended on 30 June, 2018. However, the Project account had not been closed as at 30 June, 2021. Consequently, any transactions from the Project account contravene Section IV (B2) of schedule 2 to the Financing Agreement which states that the closing date in respect of the original credit, first additional credit, the second additional credit and extension of closing date to 30 June, 2018.

However, to date the project account has not been closed and no explanation has been provided for failing to close the project account as per the financing agreements.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, 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, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

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 control, 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by Financing Agreement dated 21 January, 2014 between International Development Association and the Republic of Kenya, I report based on my audit, that:

- i. 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;
- ii. In my opinion, adequate accounting records have been kept by Kenya Health Sector Support Project - Health Sector Services Fund (Grant No.4771-KE and TF-16027), so far as appears from the examination of those records; and,
- iii. The financial statements are in agreement with the accounting records and returns.

Responsibilities of 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 (Cash Basis) and for maintaining effective internal control 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 control, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Project's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Project or 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 are in compliance 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 financial reporting process, reviewing the effectiveness of how the Project monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

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

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


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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Project to cease to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Project to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

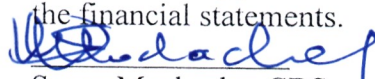
16 December, 2021

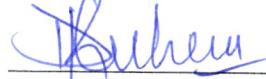
KENYA HEALTH SECTOR SUPPORT PROJECT (HEALTH SECTOR SERVICES FUND)
Reports and Financial Statements
For the year ended June 30, 2021

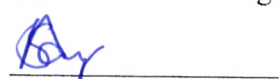
4. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30 JUNE 2021

	Note	2020/21		Restated 2019/20		Cumulative to-date
		Receipts and payments controlled by the entity	Payments made by third parties	Receipts and payment controlled by the entity	Payments made by third parties	
		KShs	KShs	KShs	KShs	KShs
RECEIPTS						
Transfer from Government entities	9.1	-	-	-	-	2,767,002,150
Loan from external development partners	9.2	-	-	-	-	4,468,802,793
Miscellaneous receipts	9.3	-	-	831,380	-	1,459,693,857
TOTAL RECEIPTS		-	-	831,380	-	8,695,498,800
PAYMENTS						
Compensation of employees	9.4	-	-	-	-	1,671,781,715
Purchase of goods and services	9.5	-	-	-	-	3,444,513,782
Acquisition of non-financial assets	9.6	-	-	-	-	177,520,945
Transfers to other government entities	9.7	-	-	-	-	2,734,209,510
Other grants and transfers and payments	9.8	-	-	-	-	8,350,655
TOTAL PAYMENTS		-	-	-	-	8,036,376,308
SURPLUS/ (DEFICIT)		-	-	831,380	-	658,291,112.00

The accounting policies and explanatory notes to these financial statements are an integral part of the financial statements.


 Susan Mochache, CBS
 Principal Secretary


 David G. Kariuki
 Project Coordinator
 9/12/21


 Alice Olango
 Project Accountant
 ICPAK Member No 15259
 9/12/2021

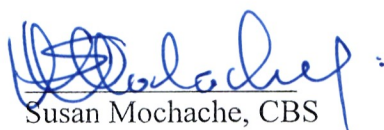
KENYA HEALTH SECTOR SUPPORT PROJECT (HEALTH SECTOR SERVICES FUND)
Reports and Financial Statements
For the year ended June 30, 2021


5. STATEMENT OF FINANCIAL ASSETS AND LIABILITIES AS AT 30 JUNE 2021

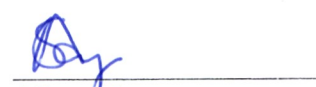
	Note	2020/21	2019/20	Restated 2019/20
		KShs	KShs	KShs
FINANCIAL ASSETS				
Cash and Cash Equivalents				
Bank Balances	9.9	1,247,228.30	659,122,495	1,247,228
Total Cash and Cash Equivalents			659,122,495	1,247,228
TOTAL FINANCIAL ASSETS		-	659,122,495	1,247,228
REPRESENTED BY				
Fund balance b/fwd	9.10	1,247,228.30	659,122,495	415,848
Prior year adjustments			-	
Surplus/(Deficit) for the year		-	831,380	831,380
NET FINANCIAL POSITION		1,247,228.30	659,122,495	1,247,228

Note: the amount of Kshs 657,875,226 which is part of the previous years' cash balances that was assumed to be in the counties' bank accounts was confirmed to have been utilized.

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on _____ 2021 and signed by:


 Susan Mochache, CBS
 Principal Secretary
 Date


 David G. Kariuki
 Project Coordinator
 Date 9/12/21


 Alice Olango
 Project Accountant
 Date 9/12/2021
 ICPAK Member Number: 15259

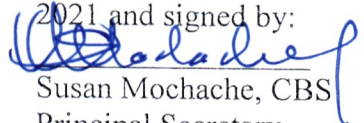
KENYA HEALTH SECTOR SUPPORT PROJECT (HEALTH SECTOR SERVICES FUND)
Reports and Financial Statements
For the year ended June 30, 2021

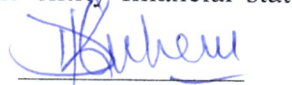
6. STATEMENT OF CASHFLOW FOR THE YEAR ENDED 30 JUNE 2021

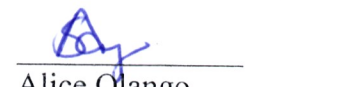
		2020/21	2019/20	2019/2020 RESTATED
	Note	KShs	KShs	Kshs
Receipts for operating activities				
Transfer from Government entities	9.1	-	-	-
Proceeds from domestic and foreign grants	9.2	-	-	-
Miscellaneous receipts	9.3	-	831,380	831,380
Payments for operating activities				
Compensation of employees	9.4	-	-	-
Purchase of goods and services	9.5	-	-	-
Social security benefits	9.6	-	-	-
Transfers to other government entities	9.7	-	-	-
Other grants and transfers	9.8	-	-	-
Adjustments during the year		-	-	-
Net cash flow from operating activities		-	831,380	831,380
CASHFLOW FROM INVESTING ACTIVITIES				
Acquisition of Assets	9.6	-	-	-
Net cash flows from Investing Activities		-	-	-
CASHFLOW FROM BORROWING ACTIVITIES				
Loan from external development partners	9.2	-	-	-
Proceeds from Foreign Borrowings		-	-	-
Net cash flow from financing activities		-	-	-
NET INCREASE IN CASH AND CASH EQUIVALENT		-	831,380	831,380
Cash and cash equivalent at BEGINNING of the year		1,247,228	658,291,115	415,848
Cash and cash equivalent at END of the year		1,247,228	659,122,495	1,247,228

4The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on _____

2021 and signed by:


 Susan Mochache, CBS
 Principal Secretary
 Date


 David G. Kariuki
 Project Coordinator
 Date 9/12/21



 Alice Olango
 Project Accountant
 Date 9/12/2021


KENYA HEALTH SECTOR SUPPORT PROJECT (HEALTH SECTOR SERVICES FUND)
Reports and Financial Statements
For the year ended June 30, 2021


7. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2021

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	A	b	c=a+b	D	e=c-d	f=d/c %
Receipts						
Transfer from Government entities	-	-	-	-	-	
Proceeds from domestic and foreign grants	-	-	-	-	-	
Proceeds from borrowings	-	-	-	-	-	
Miscellaneous receipts			-	-	-	
Total Receipts	-		-	-	-	
Payments						
Compensation of employees	-	-	-	-	-	-
Purchase of goods and services	-	-	-	-	-	-
Social security benefits	-	-	-	-	-	-
Acquisition of non-financial assets	-	-	-	-	-	-
Transfers to other government entities	-		-	-	-	
Other grants and transfers				-	-	
Total Payments	-		-	-	-	

Note: The significant budget utilisation/performance differences in the last column are explained in **Annex 1** to these financial statements.


 Susan Mochache, CBS
 Principal Secretary
 Date


 David G. Kariuki
 Project Coordinator
 Date 9/12/21


 Alice Olango
 Project Accountant
 ICPAK Member No: 15259
 9/12/2021

8. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

8.1. Basis of Preparation

8.1.1. Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with Cash-basis IPSAS financial reporting under the cash basis of Accounting, as prescribed by the PSASB and set out in the accounting policy note below. This cash basis of accounting has been supplemented with accounting for; a) receivables that include imprests and salary advances and b) payables that include deposits and retentions.

The financial statements comply with and conform to the form of presentation prescribed by the PSASB.

The accounting policies adopted have been consistently applied to all the years presented.

8.1.2. Reporting entity

The financial statements are for the Project - under National Government of Kenya. The financial statements encompass the reporting entity as specified in the relevant legislation PFM Act 2012 .

8.1.3. Reporting currency

The financial statements are presented in Kenya Shillings (Kshs), which is the functional and reporting currency of the Project and all values are rounded to the nearest Kenya Shilling.

8.2. Significant Accounting Policies

a) Recognition of receipts

The Project recognises all receipts from the various sources when the event occurs and the related cash has actually been received by the Government.

- **Transfers from the Exchequer**

Transfer from Exchequer is be recognized in the books of accounts when cash is received. Cash is considered as received when payment instruction is issued to the bank and notified to the receiving entity.

- **External Assistance**

External assistance is received through grants and loans from multilateral and bilateral development partners.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donations and grants

Grants and donations shall be recognized in the books of accounts when cash is received. Cash is considered as received when a payment advice is received by the recipient entity or by the beneficiary. In case of grant/donation in kind, such grants are recorded upon receipt of the grant item and upon determination of the value. The date of the transaction is the value date indicated on the payment advice.

Proceeds from borrowing

Borrowing includes Treasury bill, treasury bonds, corporate bonds, sovereign bonds and external loans acquired by the Project or any other debt the Project may take on will be treated on cash basis and recognized as a receipt during the year they were received.

Undrawn external assistance

These are loans and grants at reporting date as specified in a binding agreement and relate to funding for the Project currently under development where conditions have been satisfied or their ongoing satisfaction is highly likely and the project is anticipated to continue to completion. An analysis of the Project's undrawn external assistance is shown in the funding summary

• **Other receipts**

These include Appropriation-in-Aid and relates to receipts such as proceeds from disposal of assets and sale of tender documents. These are recognized in the financial statements the time associated cash is received.

b) Recognition of payments

The Project recognises all payments when the event occurs and the related cash has actually been paid out by the Project.

• **Compensation of employees**

Salaries and Wages, Allowances, Statutory Contribution for employees are recognized in the period when the compensation is paid.

• **Use of goods and services**

Goods and services are recognized as payments in the period when the goods/services are consumed and paid for. If not paid for during the period where goods/services are consumed, they shall be disclosed as pending bills.

• **Interest on borrowing**

Borrowing costs that include interest are recognized as payment in the period in which they incurred and paid for.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

- **Repayment of borrowing (principal amount)**

The repayment of principal amount of borrowing is recognized as payment in the period in which the repayment is made. The stock of debt is disclosed as an annexure to the consolidated financial statements.

- **Acquisition of fixed assets**

The payment on acquisition of property plant and equipment items is not capitalized. The cost of acquisition and proceeds from disposal of these items are treated as payments and receipts items respectively. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration and the fair value of the asset can be reliably established, a contra transaction is recorded as receipt and as a payment.

A fixed asset register is maintained by each public entity and a summary provided for purposes of consolidation. This summary is disclosed as an annexure to the consolidated financial statements.

c) In-kind donations

In-kind contributions are donations that are made to the Project in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the Project includes such value in the statement of receipts and payments both as receipts and as payments in equal and opposite amounts; otherwise, the contribution is not recorded.

d) Cash and cash equivalents

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

Restriction on cash

Restricted cash represents amounts that are limited/restricted from being used to settle a liability for at least twelve months after the reporting period. This cash is limited for direct use as required by stipulation. Amounts maintained in deposit bank accounts are restricted for use in refunding third part deposits

SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Accounts receivable

For the purposes of these financial statements, imprests and advances to authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year is treated as receivables. This is in recognition of the government practice where the imprest payments are recognized as payments when fully accounted for by the imprest or AIE holders. This is an enhancement to the cash accounting policy. Other accounts receivables are disclosed in the financial statements.

f) Pending bills

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they recorded as 'memorandum' or 'off-balance' items to provide a sense of the overall net cash position of the Project at the end of the year. When the pending bills are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

g) Budget

The budget is developed on a comparable accounting basis (cash basis), the same accounts classification basis (except for accounts receivable - outstanding imprest and clearance accounts and accounts payable - deposits, which are accounted for on an accrual basis), and for the same period as the financial statements. The Project's budget was approved as required by Law and National Treasury Regulations, as well as by the participating development partners, as detailed in the Government of Kenya Budget Printed Estimates for the year. The Development Projects are budgeted for under the MDAs but receive budgeted funds as transfers and account for them separately. These transfers are recognized as inter-entity transfers and are eliminated upon consolidation.

A high-level assessment of the Project's actual performance against the comparable budget for the financial year/period under review has been included in an annex to these financial statements.

h) Third party payments

Included in the receipts and payments, are payments made on its behalf by to third parties in form of loans and grants. These payments do not constitute cash receipts and payments and are disclosed in the payment to third parties' column in the statement of receipts and payments.

During the year Kshs - billion being loan disbursements were received in form of direct payments from third parties.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the Project operates, Kenya Shillings. Transactions in foreign currencies during the year/period are converted into the functional currency using the exchange rates prevailing at the dates of the transactions. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statements of receipts and payments.

j) Comparative figures

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

k) Subsequent events

There have been no events subsequent to the financial year/period end with a significant impact on the financial statements for the year ended June 30, 2020

l) Errors

Material prior period errors shall be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by: i. Restating the comparative amounts for prior period(s) presented in which the error occurred; or ii. If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.

KENYA HEALTH SECTOR SUPPORT PROJECT (HEALTH SECTOR SERVICES FUND)
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9. NOTES TO THE FINANCIAL STATEMENTS (Continued)

9.1 TRANSFERS FROM OTHER GOVERNMENT ENTITIES

During the year, there were no transfers funds to reporting government entities as shown below:

	FY 2020/21			Restated FY 20019/20	Cumulative to- date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		
	KShs	KShs	KShs	KShs	KShs
Transfers From Other Government Entities					
Cumulative Bal B/F					279,002,150
Counterpart funds Q1					88,000,000
Counterpart funds Q2					610,000,000
Counterpart funds Q3					350,000,000
Counterpart funds Q4	-	-	-	-	1,440,000,000
* TOTAL					<u>2,767,002,150</u>

KENYA HEALTH SECTOR SUPPORT PROJECT (HEALTH SECTOR SERVICES FUND)

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For the year ended June 30, 2021

TES TO THE FINANCIAL STATEMENTS (Continued)

9.2 LOANS FROM EXTERNAL DEVELOPMENT PARTNERS

During the year, there was no funding from development partners in form of loans negotiated by the National Treasury donors as detailed in the table below:

Name of Donor	Date received	Amount in loan currency	Loans Received in cash	Loans Received as direct payments	Total amount in Kshs.		Cumulative To Date
					FY 2020/21	Restated FY 2019/20	
			Kshs	Kshs	Kshs	Kshs	Kshs
INTERNATIONAL DEVELOPMENT AGENCY		-	-	-	-	-	4,468,802,793
Total		-		-		-	4,468,802,793

KENYA HEALTH SECTOR SUPPORT PROJECT (HEALTH SECTOR SERVICES FUND)
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9.3 MISCELLANEOUS RECEIPTS

	FY 2020/21			Restated FY 2019/20	Cumulative to- date
	Receipts controlled by the entity in Cash	Receipts controlled by third parties	Total Receipts		
	KShs	KShs	KShs		
Property income	-	-	-	-	-
Sales of goods and services	-	-	-	-	-
Administrative fees and charges	-	-	-	-	-
Fines, penalties and forfeitures	-	-	-	-	-
Voluntary transfers other than grants		-	-	-	-
Other receipts not classified elsewhere	-	-		831,380	1,458,862,477
	=	=		<u>831,380</u>	<u>1,458,862,477</u>

9.4 COMPENSATION OF EMPLOYEES

	FY 2020/21			Restated FY 2019/20	Cumulative to- date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		
	KShs	KShs	KShs	KShs	KShs
-					
Basic salaries of permanent employees	-	-	-	-	-
Basic wages of temporary employees	-	-	-	-	1,671,781,715
Personal allowances paid as part of salary	-	-	-	-	-
Personal allowances paid as reimbursements	-	-	-	-	-
Personal allowances provided in kind	-	-	-	-	-
Pension and other social security contributions	-	-	-	-	-
Compulsory national social security schemes	-	-	-	-	-
Compulsory national health insurance schemes	-	-	-	-	-
Social benefit schemes outside government	-	-	-	-	-
Other personnel payments	-	-	-	-	-
Total	=	=	=	=	<u>1,671,781,715</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9.5 PURCHASE OF GOODS AND SERVICES

	FY 2020/21			Restated FY 2019/20	Cumulative to- date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		
	KShs	KSh s	KS hs	KShs	KShs
Utilities, supplies and services	-	-	-	-	189,910,868
Communication, supplies and services	-	-	-	-	91,891,356
Domestic travel and subsistence	-	-	-	-	881,020,127
Foreign travel and subsistence	-	-	-	-	-
Printing, advertising and – information supplies & services	-	-	-	-	172,332,118
Rentals of produced assets	-	-	-	-	-
Training payments	-	-	-	-	48,385,456
Hospitality supplies and services	-	-	-	-	262,615,117
Insurance costs	-	-	-	-	-
Specialized materials and services	-	-	-	-	643,857,768
Other operating payments(Bank charges)	-	-	-	-	450
Routine maintenance – vehicles and other transport equipment	-	-	-	-	59,127,758
Routine Maintenance					786,430,774
Routine maintenance- – other assets	-	-	-	-	308,941,990
Exchange rate losses/gains (net)	-	-	-	-	-
Total	=	=	=	=	<u>3,444,513,782</u>

KENYA HEALTH SECTOR SUPPORT PROJECT (HEALTH SECTOR SERVICES FUND)
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

9.6 ACQUISITION OF NON FINANCIAL ASSETS

	FY 2020/21			Restated FY 2019/20	Cumulative to-date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		
	KShs	KShs	KShs	KShs	KShs
Purchase of Office Furniture & General Equipment					38,734,029
Construction of Civil Works	-	-	-	-	78,620,559
Purchase of Specialized Plant, Equipment & Machinery	-	-	-	-	60,166,357
Total	=	=	=	=	<u>177,520,945</u>

9.7 TRANSFERS TO OTHER GOVERNMENT ENTITIES

During the year, there was no transfer of funds to reporting government entities as shown below:

	FY 2020/21			Restated FY 2019/20	Cumulative to- date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		
	KShs	KShs	KShs	KShs	KShs
Transfers to National Government entities					
SWAP		-		-	13,000,000
EMMS		-		-	350,000,000
Transfers to County Government	=	=		=	=
22 Counties					489,464,997
47 Counties	-	-	-	-	561,334,348
MIN OF HEALTH					215,125,000
21 Counties	-	-	-	-	1,105,285,165
TOTAL	=	=	=	=	<u>2,734,209,510.00</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

KENYA HEALTH SECTOR SUPPORT PROJECT (HEALTH SECTOR SERVICES FUND)
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9.8 OTHER GRANTS AND TRANSFERS AND PAYMENTS

	FY 2020/21			Restated FY 2019/20	Cumulative to-date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		
	KShs	KShs	KShs	KShs	KShs
Grants for scholarships	-	-	-	-	-
Transfers to lower levels of government e.g schools	-	-	-	-	-
Miscellaneous payments – World bank		-		-	8,350,655.45
Total		=		=	8,350,655.45

KENYA HEALTH SECTOR SUPPORT PROJECT (HEALTH SECTOR SERVICES FUND)
Reports and Financial Statements
For the year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9.9 CASH AND CASH EQUIVALENTS

	2020/21	Restated 2019/20
	KShs	KShs
Bank accounts (Note 8.13A)	1,247,228.3	1,247,228
Cash in hand (Note 8. 13B)	-	-
Cash equivalents (short-term deposits) (Note 8.13C)	-	-
Total	<u>1,247,228.3</u>	<u>1,247,228</u>

The project has one project account within the project implementation area and one foreign currency designated account managed by the National Treasury as listed below:

9.9 A Bank Accounts

Project Bank Accounts

	20120/21	Restated 2019/20
	KShs	KShs
Foreign Currency Accounts		
Central Bank of Kenya [1000187131]	-	-
Kenya Commercial Bank [A/c No.....]	-	-
Co-operative Bank of Kenya [A/c No.....]	-	-
Others (<i>specify</i>)	-	-
	-	-
Total Foreign Currency balances	=	=
Local Currency Accounts		
Central Bank of Kenya [A/c No.....]	1,247,228.30	1,247,228
Kenya Commercial Bank [A/c No.....]	-	-
Co-operative Bank of Kenya [A/c No.....]	-	-
Others (<i>specify</i>) KCB, NBK, EQUITY, FIRST COMM BANK		657,875,266
Total local currency balances	<u>1,247,228.30</u>	<u>659,122,494</u>
Total bank account balances	1,247,228.30	=

Note that the amount of Kshs 657,875,266 was disbursed to counties in 2013/14 and was treated as expenditure in the year's F/S and therefore should not form part of the Cash Balances. The funds have already been utilized by the counties. The bank balance has been restated to Kshs.1,247,228.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Special Deposit Accounts

The balances in the Project's Special Deposit Account(s) as at 30 June 2021 are not included in the Statement of Financial Assets since they are below the line items and are yet to be drawn into the Exchequer Account as a voted provision.

Below is the Special Deposit Account (SDA) movement schedule which shows the flow of funds that were voted in the year. These funds have been reported as loans/grants received in the year under the Statement of Receipts and Payments.

Special Deposit Accounts Movement Schedule

	2018/19	2017/18
	KShs	KShs
(i) A/c Name [A/c No 02120134337800]		
Opening balance	-	12,117,332.69
Total amount deposited in the account	-	-
Total amount withdrawn (as per Statement of Receipts & Payments)	-	12,117,332.69
Closing balance (as per SDA bank account reconciliation attached)	=	=
(ii) A/c Name [A/c No 02120134337800]		
Opening balance (as per the SDA reconciliation)	-	12,117,332.69
Total amount deposited in the account	-	-
Total amount withdrawn (as per Statement of Receipts & Payments)	-	12,117,332.69
Closing balance (as per SDA bank account reconciliation attached)	=	=

The Special Deposit Account(s) reconciliation statement(s) has (have) been attached as *Appendix xx* support these closing balances.

KENYA HEALTH SECTOR SUPPORT PROJECT (HEALTH SECTOR SERVICES FUND)
Reports and Financial Statements
For the year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9.10 FUND BALANCE BROUGHT FORWARD

	2020/21	Restated 2019/20
	KShs	KShs
Bank accounts	1,247,228.30	415,848
Cash in hand	-	
Surplus	-	831,380
Outstanding imprests and advances	-	
Total	1,247,228.30	1,247,228

KENYA HEALTH SECTOR SUPPORT PROJECT (HEALTH SECTOR SERVICES FUND)

Reports and Financial Statements

For the year ended June 30, 2021

10. 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.

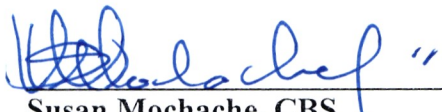
Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>Unsupported Bank Balance As had been reported in the previous year and as disclosed in Note 8.11 B to the financial statements, the statement of financial assets and liabilities reflects bank balances of Kshs 659,122,494 as at 30 June 2020. However, the management did not avail supporting documents by way of bank confirmation certificates, bank reconciliation statements and cash books to account for an amount of Kshs 657,875,266 which is indicated as being held in forty-seven (47) counties. Further, a review of the audit carried out by the Independent Integrated Fiduciary Review Agent (IIFRA) indicated that supporting documents for a total of Kshs 518,080,255 was availed resulting to unsupported cash balance of Kshs 139,795,011 from twelve (12) counties. However, no explanation has been given for failing to avail these documents for audit review. In addition, Management has not adjusted the balances in the books of accounts. Consequently, the validity, completeness and accuracy of bank balances of Kshs 659,133,494 as at 30 June</p>	<p>It is true that documents for unsupported cash balance amounting to Kshs. 139,795,011 had not been availed and that the balances had not been adjusted in the books of accounts. The anomaly dates back 7 years ago when disbursements to Health Facilities in the 47 Counties were treated as expenditure and at the same time the Health Facilities bank balances reported in the books of accounts. It has since been established that there are no bank</p>	<p>Management, Project Accountant</p>	<p>Process is on going</p>	

KENYA HEALTH SECTOR SUPPORT PROJECT (HEALTH SECTOR SERVICES FUND)


Reports and Financial Statements

For the year ended June 30, 2021

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal person to resolve the issue and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	2020 could not be confirmed.	balances in the facilities and some accounts have also been closed. Accounts have been restated from FY 2014/15 to date in the current Financial Year correcting the error.			


 Susan Mochache, CBS
 Principal Secretary

 Date


 David G. Kariuki
 Project Coordinator

9/12/21

 Date

ANNEX I - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS

	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization	Comments on Variance
	a	b	c=a-b	d=b/a %	
Receipts					
Transfer from Government entities	-	-	-	-	None was received.
Proceeds from domestic and foreign grants	-	-	-	-	No funds were received during the year
Proceeds from borrowings	-	-	-	-	
Miscellaneous receipts	-	-	-	-	
Total Receipts	-	-	-	-	
Payments					
Compensation of employees	-	-	-	-	No activities were undertaken
Purchase of goods and services	-	-	-	-	
Social security benefits	-	-	-	-	
Acquisition of non-financial assets	-	-	-	-	
Transfers to other government entities	-	-	-	-	
Other grants and transfers	-	-	-	-	
Total payments	-	-	-	-	

Explain all variance below 90% and above 100%

- (i) -
- (ii) -
- (iii) -

*KENYA HEALTH SECTOR SUPPORT PROJECT (HEALTH SECTOR SERVICES FUND)
Reports and Financial Statements
For the year ended June 30, 2021*

APPENDICES

- i. Bank Reconciliations
- ii. Bank Statements
- iii. Certificate of Balance