

REPUBLIC OF KENYA



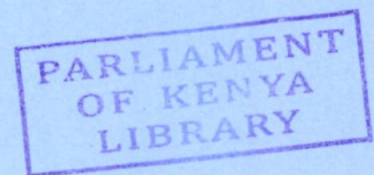
REPORT

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OF

THE AUDITOR-GENERAL

ON

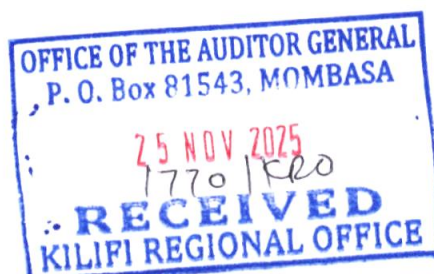


KILIFI COUNTY HEALTH SERVICES
IMPROVEMENT FUND

FOR THE YEAR ENDED
30 JUNE, 2025

PAPERS LAID	
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COUNTY GOVERNMENT OF KILIFI

**THE KILIFI COUNTY KILIFI HEALTH SERVICES IMPROVEMENT
FUND**

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2025**

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

The Kilifi County Health Services Improvement Fund
Annual Report and Financial Statements for the year ended June 30, 2025

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1. ACRONYMS AND DEFINITION OF KEY TERMS

A. Acronyms

AG	Attorney General
BOM/HMB	Board of Management / Hospital Management Board
CBK	Central Bank of Kenya
CECM	County Executive Committee Member
CHMT	County Health Management Team
CBO	Community-Based Organization
DFID	UK Dept. for International Development
EMR	Electronic Medical Records
FIF	Facility Improvement Fund
GEC	Girls' Education Challenge
KHSIF	Kilifi Health Services Improvement Fund
ICPAK	Institute of Certified Public Accountants of Kenya
IPSAS	International Public Sector Accounting Standards
IRIB	Information Resource Initiative for the Blind
KCB	Kenya Commercial Bank
KCG	Kilifi County Government
KPA	Kenya Ports Authority
MAC	Medical Advisory Committee
MBA	Master of Business Administration
MD	Doctor of Medicine
MoH/DHS	(County) Department of Health Services
NHIF	National Hospital Insurance Fund
OAG	Office of the Auditor-General
PFM Act	Public Finance Management Act, 2012
PMD Pro	Project Management for Development Professionals
PSASB	Public Sector Accounting Standards Board (Kenya)
PWD	Persons with Disabilities
SCHMT	Sub-County Health Management Team
SHIF	Social Health Insurance Fund (successor to NHIF)
SRC	Salaries and Remuneration Commission

B. Definition of Key Terms

Fiduciary Management- Members of Management directly entrusted with the responsibility of financial resources of the organization.

Comparative Year- Means the prior period.

The Fund / KHSIF County - Fund established by the Kilifi KHSIF Act (2016) to improve healthcare service delivery; owned by KCG and domiciled in Kenya.

Board of Trustees / Fund Administration Committee (“the Board”) - Governing organ providing oversight, resource mobilization, approvals, and prudent use of monies per the KHSIF Act.

Fund Administrator (Fund Manager) - Accounting officer for day-to-day administration, financial management, and implementation of Board decisions.

Key Management Team - Senior officers executing Board directives (e.g., Fund Administrator, Fund Accountant).

Fiduciary Oversight - Internal Audit, external audit by OAG, and internal control systems safeguarding public resources.

Registered Office - Official address for notices/records of the Fund.

Fund Bankers - Financial institutions holding the Fund’s bank accounts (KCB Kilifi Branch).

Independent Auditors - Office of the Auditor-General—constitutional external auditor of public entities.

Principal Legal Adviser / County Attorney - National/County legal counsel providing opinions and representation.

Principal Activities - Financing medical supplies & small-scale equipping, hospital decision autonomy, capacity building and quality improvement.

Hospital Management Board (HMB/BOM) - Facility-level governance board reporting to the Fund Board per the Act.

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EMR System - Digital platform capturing clinical and billing events to enhance revenue, accountability, and service quality.

Transfers from FIF Revenue - Hospital revenue collections transferred into KHSIF; recognized as non-exchange revenue.

Revenue—Non-Exchange - Inflows received without giving approximately equal value in return (e.g., transfers); recognized when control is obtained and measurable.

2. KEY ENTITY INFORMATION AND MANAGEMENT

a) Background information

The Kilifi Health Services Improvement Fund (KHSIF) was established in 2016 by County Assembly of Kilifi through the enactment of the Kilifi County Kilifi Health Services Improvement Fund Act. The Fund was established to improve health care service delivery.

The Act was gazetted on 19 September 2016. The Fund is wholly owned by the County Government of Kilifi and is domiciled in Kenya.

The Fund's objective is to improve the quality of health care services in the hospitals in the County Government of Kilifi.

b) Principal Activities

The principal activity of the Fund is to;

- a) Provide financial resources for medical supplies and small-scale equipping of Health Services in the county for basic operation and maintenance.
- b) Give decision making autonomy to hospitals to plan and manage the resources within their control.
- c) Support capacity building in the management of hospitals.
- d) Improve the quality of health care services in the hospitals.

c) Board of Trustees/Fund Administration Committee

Ref	Name	Position
1	Dr. Gome David Lenga	Chairman
2	Joyce Peshu	Deputy Chairperson
3	Zena Salim	Member
4	Sammy G. Charo	Member
5	Dr. David Mulewa	Member
6	Dr. Hassan Leli	Member
7	Racheal Bahati	Fund Administrator

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Key Entity and Management (Continued)

d) Key Management team

Ref	Name	Position
1	Racheal Bahati	Fund Manager/ Administrator
2	Fred Nzai	Fund Accountant

e) Fiduciary Oversight Arrangements

SN	Position	Name
1	Director Internal Audit	Keziah Wangui

f) Registered Offices

P.O. Box 9-80108
Kilifi County Health Offices
Kilifi County Hospital Road
Kilifi, KENYA

g) Fund Contacts

Telephone: (254) 0728818831

E-mail: health@kilifi.go.ke

Website: www.kilifi.go.ke

h) Fund Bankers

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

Key Entity and Management (Continued)

i) Independent Auditors

Auditor General
Office of the Auditor General
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
Nairobi, Kenya

j) Principal Legal Adviser

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

k) County Attorney

The County Attorney
Kilifi Plaza
Hospital Road
P.O. Box 519-80108
Kilifi, Kenya

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3. BOARD OF TRUSTEES/ FUND ADMINISTRATION COMMITTEE

Name	Details of qualifications and experience
	Dr. Gome David Lenga Date of Birth 10th April 1970 Chairperson Dr. Gome Lenga was appointed as KHSIF Board Chairman on 7th February 2023. He has over twenty-five years of experience in Medical Service and Management. He has held management positions in medical service provision in different organizations and currently works at Kenya Ports Authority as the Manager Medical Services. Dr. Gome Lenga has expertise in surgery, health planning and management and research. From 2022 he is serving as the Principal Surgeon of St John Ambulance Kenya and a Board Chairperson of Special Olympics Kenya. He is also the Chancellor of the Priory of Kenya of the most Venerable Order of the Hospital of St John of Jerusalem. He served as President of the Surgical Society of Kenya for a 2-year term, and as a Medical Advisory Committee (MAC) member for Special Olympics International for 6 years. He is a member of the Kenya Medical Association, Surgical Society of Kenya, International AIDS Society, International Cleft Palate Foundation, the Institute of Directors and the International Commission on Occupational Health.

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	Dr. Gome Lenga has a master's in business administration - Healthcare Management, Master's in Occupational Safety and Health a Master of Medicine in Surgery, and numerous certificates of advanced training from Kenyan and international institutions.
	Sammy G. Charo Date of birth 25 March 1956 Member Mr. Sammy Gona was appointed as KHSIF Board Member on 26th April 2022. Sammy Gona retired as a teacher from Mwandaza Primary School on June 30th, 2021. Mr. Sammy Gona has also been the director of the Information Resource Initiative for Blind (IRIB). A registered CBO for the visual impaired. As a board member Gona represents People with Disability (PWD). He holds PI Certificate Education from High ridge teacher's college Nairobi, Bachelor of Arts in Biblical Studies from Word Outreach Biblical College and also Community Nursing MTC Coast General.
	Zena Salim 20 April 1958 Member Zena Salim was appointed as KHSIF Board Member on 26th April 2022. She has been able to lead significant education and health projects over the past ten years as a philanthropist and public liaison officer, including the Girls Education Challenge (GEC),

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	which is funded by DFID, and Tackling Commercial Sexual Exploitation of Children (TCSEC), which is implemented in Kilifi and Kwale counties. She has extensive experience in managing public finances and has held leadership positions on a number of boards, including the Water Board, Kilifi North Land Control Board, and Kilifi Municipality Boards. She was given two Presidential Awards by the late H.E. Mwai Kibaki and the outgoing president H.E. Uhuru Kenyatta. She is one of the founders of Kesho Kenya, a non-governmental organization that empowers youngsters through education, entrepreneurship training and safeguarding in Kenya's coastal region. As a board member Zena Sallim represents the women. Zena Salim has Certificate in Child Counselling, Kenya Association of Professional Counsellors and a Diploma in Art and Craft, Nairobi.
	Ms. Joyce Peshu was appointed as KHSIF Board Member on 26th April 2022. Ms. Peshu is currently working in Kenya Wildlife Conservancies Association as a Programs Officer-Social inclusion and Gender. Her work focuses on inclusion of women, youth and men in the governance and management of conservancies. Joyce also takes a lead role of advocating gender responsive policy decisions in the convention for biological diversity. She has

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	previously worked with VSO for the last 5 years both in country and globally, she also has experience in supporting community-based organization towards actualizing their vision. As a board member Ms. Peshu represents the youth. She is currently pursuing a master's in project planning and management in University of Nairobi and Holds a Bachelor of Science in Microbiology from Moi University. Joyce has certification in project management for development professionals (PMD Pro)
	Dr. David Mulewa Date of birth 24 April 1973 Chief officer Medical Services and Sanitation. Dr David Mulewa was appointed as KHSIF Board Member in 26th April 2022. Dr. David Mulewa was the County Director of Health in the Department and is currently the Chief Officer of Medical Services and Sanitation. He worked in Lamu County since 2013 as Director of Health and later transferred to Kilifi in September 2019. Dr. Mulewa has over 15 years' professional experience in Ministry of Health. He holds MD Physician from Vinnitsa State Medical University Ukraine and a Master's Degree in Health System Management and Application from Kenyatta University.

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Dr. Hassan Leli

Date of birth 31st October 1987

Ag. County Director Health Services and Sanitation.

Dr Hassan Leli was appointed as a KHSIF Board Member on 26th April 2022. Dr. Hassan Leli is the Acting County Director of Health in the Department. Dr. Leli has over 10 years' professional experience in the County Department of Health. He holds a Doctor of Pharmacy degree from Gomal University Pakistan and a Master's Degree in Public Health from Pwani University.



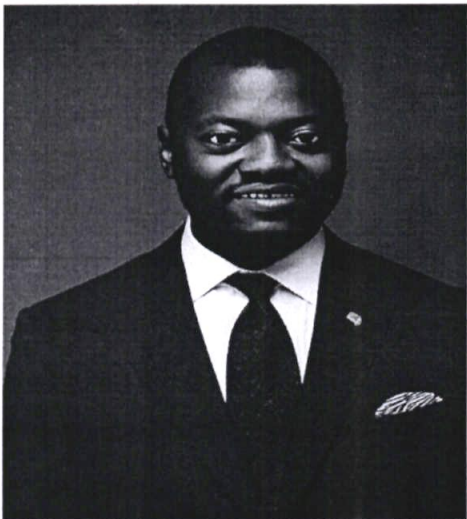
CPA Racheal Bahati

Date of birth 31 May 1984

Fund Administrator.

CPA Racheal Bahati was appointed as the Fund Administrator on 26th April 2022. Racheal is a Senior Accountant at County Government of Kilifi. She has over ten years' professional experience as an Accountant. She holds Bachelor of Commerce (Accounting) from The University of Nairobi and also a Certified Public Accountant (CPA). Racheal has MBA (Finance) from The University of Nairobi.

4. MANAGEMENT TEAM

Name	Details of qualifications and experience
	CPA Racheal Bahati Date of birth 31 May 1984 Fund Administrator. CPA Racheal Bahati was appointed as the Fund Administrator on 26th April 2022. Racheal is a Senior Accountant at County Government of Kilifi. She has over 10 years' professional experience as an Accountant. She holds Bachelor of Commerce (Accounting) from The University of Nairobi and also a Certified Public Accountant (CPA). Racheal has MBA (Finance) from The University of Nairobi.
	Fred Nzai Date of birth 20 April 1988 Fund Accountant Fred Nzai was appointed as the Fund accountant on 1 November 2022. Fred has more than 10 years' experience as an accomplished accountant with strong background in Tax and Tax health checks and Internal control systems, Fred is currently an accountant at the County Government of Kilifi. He holds a Masters of Business Administration (Finance Major) and also a Certified Public Accountant – Kenya.

The Kilifi County Health Services Improvement Fund
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5. BOARD CHAIRPERSON'S REPORT

It is my pleasure to present on behalf of the board Members, the KHSIF financial statements for the year ended 30 June 2025. The financial statements present the financial performance of the Fund over the past year.

Sustainability.

The Fund and its stakeholders are increasingly emphasizing the need to ensure sustainability for both its revenue collections and improvement of health service delivery in hospital with an objective of ensuring that the Fund's going concern is secured. The Fund has recently invested heavily in terms of procurement of equipment, health products and new infrastructure which will create adequate space for expansion of services. The newly established specialized services will not only boost the revenue but also tap in more resources from partners who are interested in investing and utilizing our facilities to facilitate research as well as promoting medical tourism.

The EMR system has been successfully installed at Kilifi Hospital and is being rolled out in phases. Other hospitals are in the process of ensuring they have the necessary hardware in place before the installation can proceed. In the meantime, hospitals are continuing to use their existing EMR systems to enhance revenue collection and maintain accountability for payments related to services provided. This will in turn have a ripple effect on sustainability of the Fund, since it is entirely dependent on payments for services rendered to clients both cash and risk pooling through Insurances.

Currently, the Fund has established hospital collections through MPESA Pay bill numbers and has gone cashless. The collection system has greatly improved revenue and assured the Fund of its long-term sustainability. Once the EMR system is fully rolled out to the other hospitals and integrated with the existing collection methods, revenue collection will not only improve but also become more reliable and secure. Every service provided will be captured in the system, ensuring that no service goes unregistered, and payment is automatically recorded once the service is logged.

BOARD CHAIRPERSON'S REPORT (CONTINUED)

Board and Management Changes

The County Department of Health Services is highly committed to establishing and maintaining effective management structures. This dedication is driven by the goal of promoting sound management practices that will ensure the sustainability of the hospitals. Among the key components of the Leadership and Governance framework is the County Kilifi Health Services Improvement Fund Board. The individuals serving on this board are officially appointed and serve renewable three-year terms.

During the specified period, there were no changes in the composition of the board.

Review of performance

Income

The total fund revenue earned for the FY2024/2025 amounted to Kshs. 772,011,736, which represents the revenue collected from hospitals during this period.

Expenditure

The total expenditure during the period amounted to Kshs. 625,606,560 out of which the administration expenses amounted to Kshs. 892,567 general expenses Kshs. 60,362,640 and transfer to the sub county hospitals 564,351,352 representing 0.14%, 9.47% and 90.39% of total expenditure respectively.

Future outlook

The outlook for the Fund in the upcoming fiscal year 2025/2026 appears optimistic. The Fund's primary objective is to enhance the delivery of healthcare services within hospitals while also allocating financial resources for the procurement of medical supplies and the small-scale equipping of County Health Services facilities to ensure basic operational capability and maintenance. Implementing accreditation systems and quality control measures can help in maintaining and improving the quality of healthcare services

The Fund's central focus is on establishing resilient and sustainable health facilities with a motivated workforce and efficient structures that will significantly enhance service delivery. The

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BOARD CHAIRPERSON'S REPORT (CONTINUED)

Fund anticipates ongoing support from the county government and development partners to fulfil its mission and mandate effectively.

Conclusion

I take this opportunity to express my sincere gratitude and appreciation to the county government, stakeholders, management, staff, and fellow board members for their continued support which made us achieve these results.

I look forward to your continued support in the future.

Name... **DR GOME LENGA** Signature...  Date... **24/11/25**

Chairperson of the Fund

**The Kilifi County Health Services Improvement Fund
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6. REPORT OF THE FUND ADMINISTRATOR

It is my pleasure to present the Kilifi Health Services Improvement Fund (KHSIF) financial statements for the year ended 30 June 2025. The financial statements present the financial performance of the Fund for the financial year 2024/2025.

The Fund was established on 19 September 2016. However, operationalization of the Fund commenced on 31 January 2020 after approval of the budget by the KHSIF board. The approved budget for the Fund in FY 2024/2025 was Kshs.509,214,150. During the financial year the Fund earned revenue of Kshs. 772,011,736 by the end of the financial year June 2025.

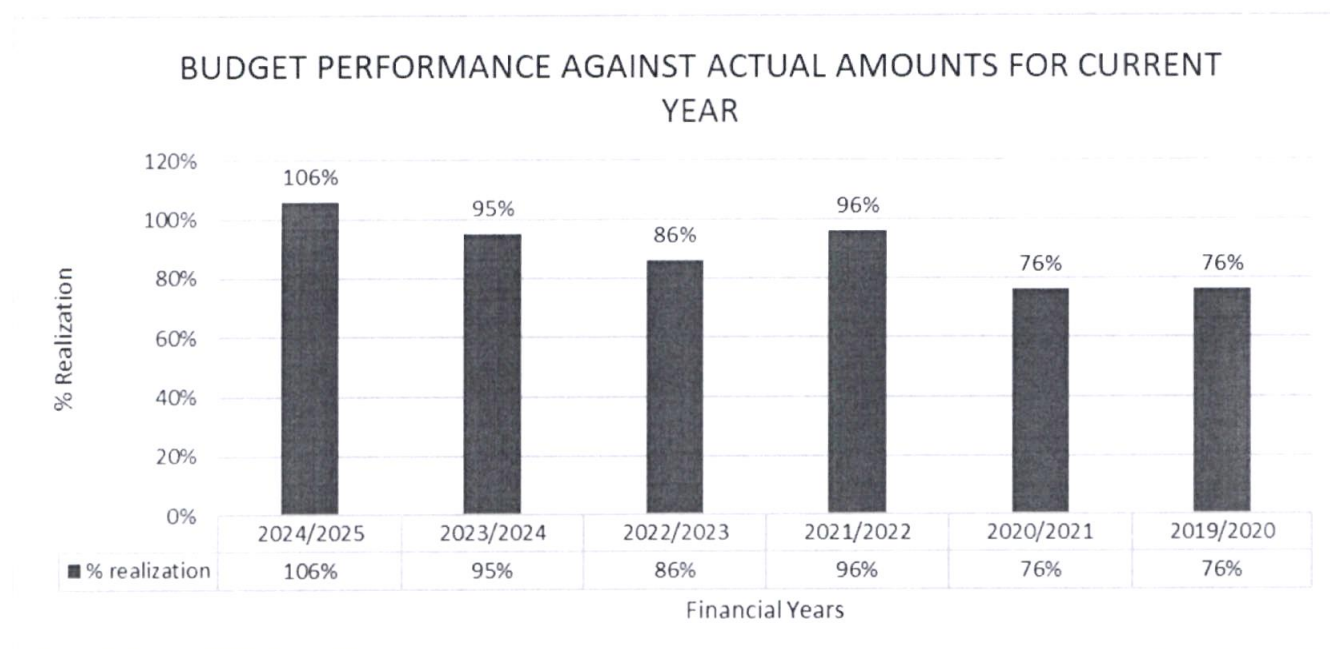
BUDGET ALLOCATION

In the year ended 30 June 2025, the Fund had projected revenues of Kshs 729,104,212 of which Kshs 772,011,736 was earned by Hospital collection revenue. This represented 106% revenue realization during the financial year.

Financial Year	Final budget	Actual revenue on comparable basis	Performance difference	% realization
2024/2025	729,104,212	772,011,736	42,907,524	106%
2023/2024	499,236,816	474,488,060	24,748,756	95%
2022/2023	487,026,687	419,539,632	67,487,055	86%
2021/2022	418,426,159	402,699,307	15,726,852	96%
2020/2021	197,346,442	150,000,000	47,346,442	76%
2019/2020	132,000,000	100,910,677	31,089,323	76%

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REPORT OF THE FUND MANAGER/ ADMINISTRATOR (CONTINUED)



Graphical representation of budget performance against actual amounts for current year and for cumulative.

Key Performance Highlights

Below is an overview of the financial performance for the year ended 30th June 2025 as reported in the detailed financial statements together with the commentary and comparative analysis against budget and prior year for the key items in the financial statements.

Financial Performance Summary

Current Year Performance against Prior Year

	FY2024/2025 KShs	FY2023/2024 KShs	Change	% Change
Total revenue	772,011,736	474,488,060	297,523,676	62.7%
Total expenses	625,606,560	474,434,565	151,171,995	31.9%

REPORT OF THE FUND MANAGER/ ADMINISTRATOR (CONTINUED)

Total receipts for FY2024/2025 increased by 62.7%, driven mainly by an increase in transfers from FIF revenue collections, as service volumes in the various hospitals increased as well as reimbursement from SHIF. Payments rose in tandem with program scale-up, increased funding and the carryover of cash balances from the prior year

Revenue

	Note	2024/2025	2023/2024		
		KShs	KShs	CHANGE	% CHANGE
Revenue from non-exchange transactions					
Transfers from FIF Revenue	1	772,011,736	474,488,060	297,523,676	62.7%
Total revenue		772,011,736	474,488,060	297,523,676	

A graphical representation of the revenue budget is as shown below:



The Fund received 100% of its revenue from FIF as depicted above.

Budget Utilization

The Fund spent Kshs. 625,606,560 against an approved budget of Kshs.729,104,212 representing absorption of 85%. Utilization of the budget was carried out through various activities (economic classifications) as shown in the chart below:

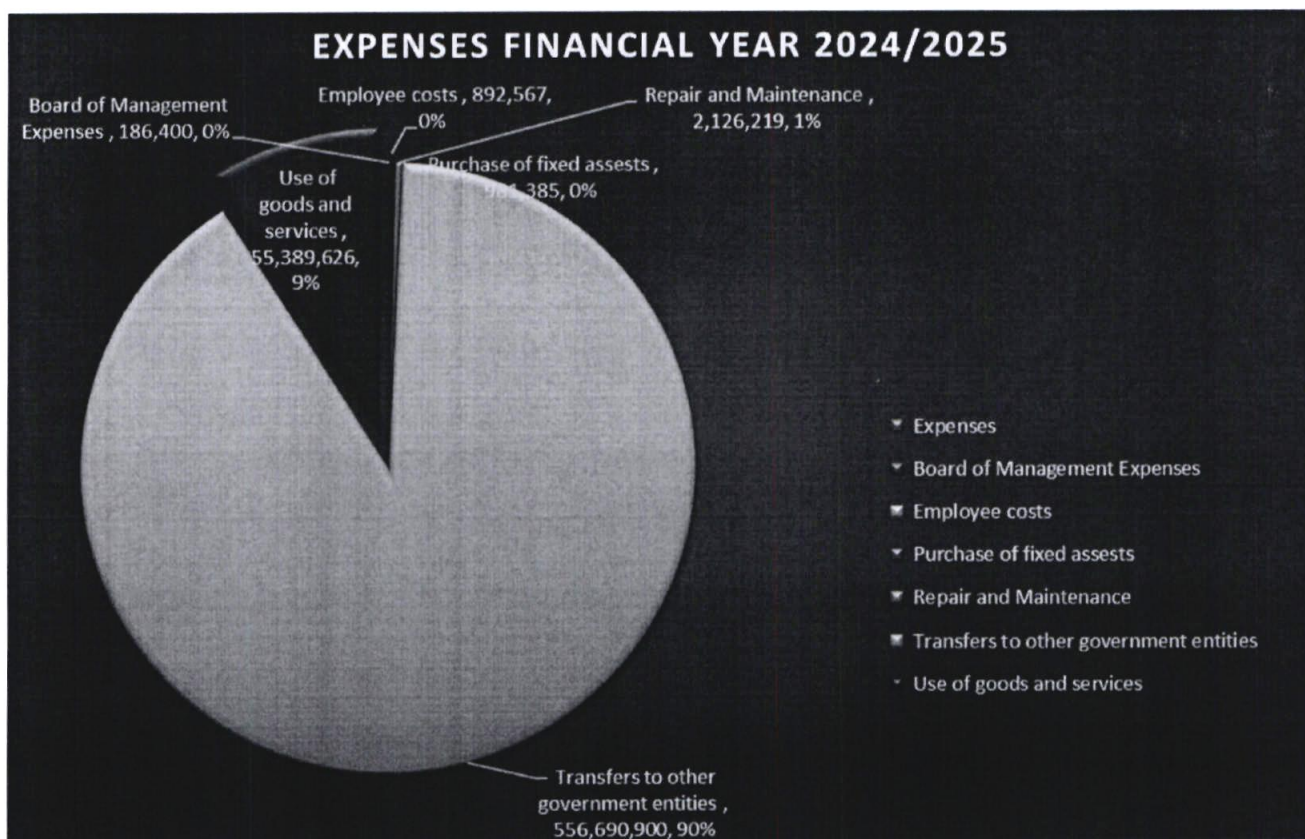
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REPORT OF THE FUND MANAGER/ ADMINISTRATOR (CONTINUED)

A tabular representation of budget utilization for FY 2024/2025

Description	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% Utilization
	Kshs	Kshs	Kshs	Kshs	Kshs	
	a	b	C=(a+b)	d	e=(c-d)	f=d/c*100
Budget carryovers from the previous year	-	-	3,088,457	-	-	-
Receipts						
Transfers from FIF Revenue	509,214,150	219,890,061	729,104,212	617,413,979	111,690,232	85%
Total income	509,214,150	219,890,061	729,104,212	617,413,979	111,690,232	85%
Expenses						
Board of Management Expenses	200,000	(12,000)	188,000	186,400	1,600	99%
Employee costs	373,000	522,000	895,000	892,567	2,433	100%
Purchase of fixed assests	2,950,000	(1,477,000)	1,473,000	981,385	491,615	67%
Repair and Maintenance	3,994,000	(1,865,524)	2,128,476	2,126,219	2,257	100%
Transfers to other government entities	471,647,009	197,375,471	669,022,481	556,690,900	112,331,580	83%
Use of goods and services	30,050,141	25,347,114	55,397,255	55,389,626	7,629	100%
Total expenditure	509,214,150	219,890,061	729,104,212	616,267,097	112,837,115	85%
Surplus for the period	0	0	0	1,146,882	(1,146,882)	

A graphical representation of expenditure for the financial year 24/25



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REPORT OF THE FUND MANAGER/ ADMINISTRATOR (CONTINUED)

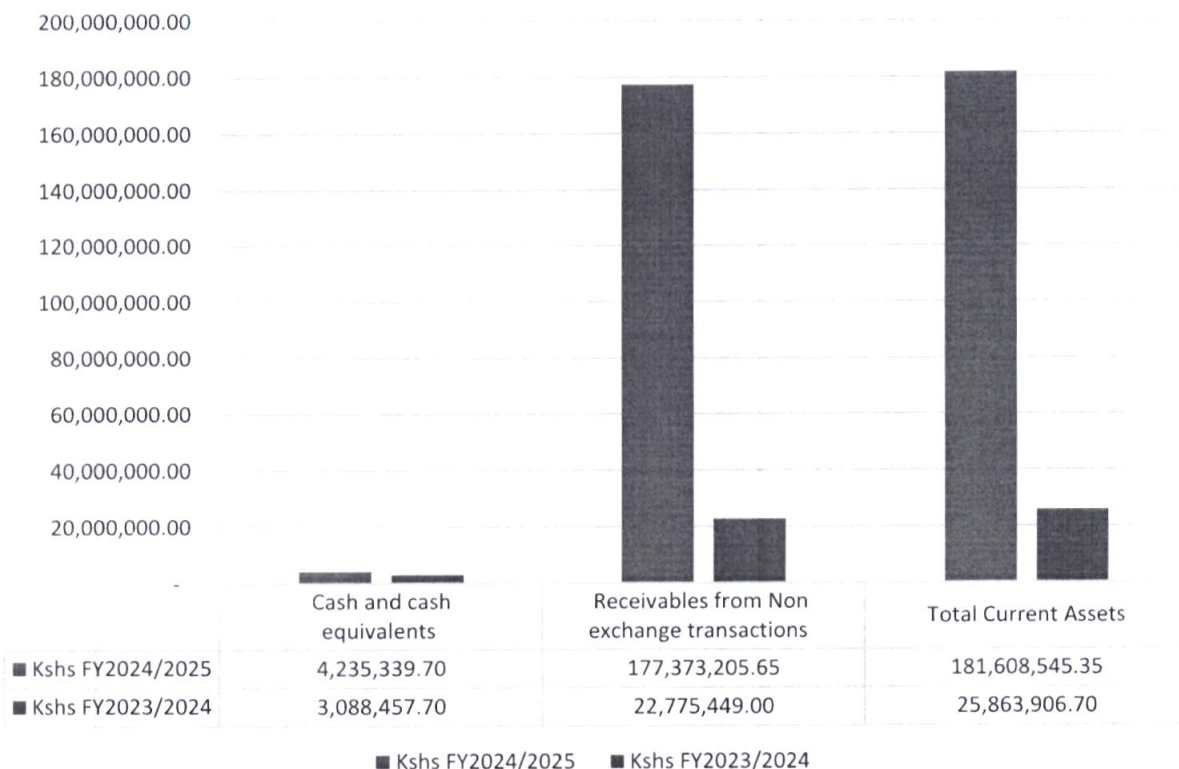
Financial Assets Summary

	Note	FY2024/2025 KShs	FY2023/2024 KShs	Change	% Change
Assets					
Current assets					
Cash and cash equivalents	8	4,235,339.70	3,088,457.70	1,146,882.00	37%
Receivables from Non exchange transactions	9	177,373,205.65	22,775,449.00	154,597,756.65	679%
Inventories	10	-	-	-	
Total Current Assets		181,608,545.35	25,863,906.70		

The percentage increase in the fiscal year 2024/2025 compared to 2023/2024 is as below, this due to the health facilities implementing enhanced revenue collection strategies, leading to higher bank balances by the end of the fiscal year. Revenue expected by 30th June 2024, FY2023/2024 was recognized in the current fiscal year, contributing to the higher receivables.

- Cash and cash equivalents increased by 37%.
- Receivables from non-exchange transactions increased by 679%

CURRENT ASSETS



REPORT OF THE FUND MANAGER/ ADMINISTRATOR (CONTINUED)

Value for Money Achievements

The Kilifi Health Services Improvement Fund (KHSIF) has demonstrated significant value-for-money achievements through various initiatives and investments. Some of these achievements include:

- **Enhanced Healthcare Access:** The fund has facilitated increased access to healthcare services for a larger portion of the population. This is achieved by improving and expanding healthcare infrastructure, including the construction of new health facilities and the refurbishment of existing ones. As a result, more people can receive essential medical care closer to their communities.
- **Efficient Resource Allocation:** The fund focused on optimizing the allocation of resources within the healthcare system. This includes efficient procurement practices, which have lowered the cost of medical supplies and equipment, ensuring that available funds are used effectively to benefit patients.
- **Financial Sustainability:** By implementing revenue enhancement strategies such as digitalization of hospital systems, the fund has helped health facilities become more financially sustainable. This enables them to generate revenue internally, reducing reliance on external funding sources.
- **Capacity Building:** The fund has invested in the training and development of healthcare professionals, leading to a more skilled and competent workforce. This not only improves the quality of care but also reduces the need to hire expensive external consultants or personnel.
- **Transparency and Accountability:** The fund has demonstrated a commitment to transparency and accountability in its operations. This ensures that funds are used efficiently and that there is a clear and open reporting mechanism for stakeholders to monitor progress and outcomes.

Overall, the Kilifi Health Services Improvement Fund (KHSIF) has demonstrated a strong commitment to achieving value for money by ensuring that every investment and initiative contributes to the improvement of healthcare services and outcomes for the population it serves.

REPORT OF THE FUND MANAGER/ ADMINISTRATOR (CONTINUED)

Implementation challenges of strategic objectives for the Kilifi Health Services

Improvement Fund (KHSIF) and the entity's future outlook

- **Resource Constraints:** Limited financial resources can hinder the effective implementation of strategic objectives. Expanding healthcare infrastructure, acquiring advanced medical equipment, and training healthcare personnel often require substantial investments.
- **Technology Adoption:** Implementing new healthcare technologies and systems, such as Electronic Medical Records (EMR) systems, can be complex and require extensive training for staff. Resistance to change from healthcare providers can also be a challenge
- **Policy and Regulatory Framework:** Adhering to and aligning with national and regional healthcare policies and regulations can pose challenges, especially if there are conflicting mandates or regulatory gaps.
- **Political and Administrative Changes:** Shifts in government leadership, policies, or administrative structures can impact the continuity and direction of healthcare projects.

Entity's Future Outlook:

The budget allocation for the upcoming fiscal year amounts to Kshs. 684,325,470 with a designated portion allocated to Health facilities. Our objective is to allocate 10% of this allocation towards renovating and maintaining buildings within the health facilities, aiming to enhance and uplift the overall structural condition of these healthcare facilities.

- **Sustainability:** Ensuring the long-term sustainability of the Kilifi Health Services Improvement Fund (KHSIF) will be a key focus. This involves exploring diverse funding sources and developing revenue-generating strategies within the healthcare system.
- **Technology Integration:** Continued investment in technology and data-driven healthcare solutions will be critical for improving patient care, streamlining operations, and enhancing efficiency.

**The Kilifi County Health Services Improvement Fund
Annual Report and Financial Statements for the year ended June 30, 2025**

REPORT OF THE FUND MANAGER/ ADMINISTRATOR (CONTINUED)

- **Public-Private Partnerships:** Exploring collaborations with the private sector and non-governmental organizations can expand the fund's capacity to deliver healthcare services and improve overall outcomes

Key risk management strategies for the Kilifi Health Services Improvement Fund include:

- **Internal Audit:** Regularly assess and identify potential risks to the fund's operations, including financial, operational, and strategic risks. This involves conducting comprehensive internal control and assessments to understand the nature and impact of various threats.
- **Diversification of Funding Sources:** Reduce reliance on a single funding source by diversifying revenue streams. This can include seeking support from government allocations, donor funding, grants, and private-sector partnerships to mitigate financial risks.
- **Legal Compliance:** Stay informed about relevant laws and regulations affecting healthcare operations and funding. Ensure compliance with all legal requirements to minimize legal and regulatory risks.
- **Capacity Building:** Invest in staff training and development to build the skills and expertise needed to identify, assess, and manage risks effectively. This includes training on risk management best practices.
- **Strategic Partnerships:** Collaborate with strategic partners, including government agencies, healthcare providers, and non-governmental organizations, to leverage expertise, resources, and support in risk management and mitigation.

Conclusion

The fiscal year 2024/2025 can be characterized as generally positive. Substantial progress was achieved, and this progress has set the stage for the Kilifi Health Services Improvement Fund (KHSIF) to maintain a path toward prosperity. We have identified specific areas for improvement, with a particular emphasis on the digitization of all hospitals through the acquisition and phased

The Kilifi County Health Services Improvement Fund
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installation of an Electronic Medical Records (EMR) system. This initiative is expected to enhance hospital revenue collection and elevate the quality-of-service delivery in the upcoming years.

**The Kilifi County Health Services Improvement Fund
Annual Report and Financial Statements for the year ended June 30, 2025**

**7. STATEMENT OF PERFORMANCE AGAINST THE COUNTY FUND'S
PREDETERMINED OBJECTIVES**

Introduction

Section 164 (2) (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting Officer, when preparing the financial statements of each County Government entity in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board, includes a statement of the county government entity's performance against predetermined objectives.

The key development objectives of the Kilifi Health Services Improvement Fund (KHSIF) 2024–2029 Strategic Plan are to:

- a) Provide financial resources for medical supplies and small-scale equipping of health services in the County for basic operation and maintenance.
- b) Give decision-making autonomy to hospitals to plan and manage the resources within their control.
- c) Support capacity building in the management of hospitals.
- d) Improve the quality of health care services in the hospitals.

Progress on attainment of Strategic development objectives

Below we provide the progress on attaining the stated objectives:

Program	Objective	Outcome	Indicator	Performance
Financial Resources	Provide financial resources for medical supplies and small-scale equipping of health services for basic operation and maintenance.	Increased availability of medical supplies and equipment; integration of electronic medical records (EMR).	- Budget allocation and expenditure on medical supplies and equipment. - Number of health facilities with EMR systems installed and in use.	Allocated funds were effectively utilized for medical supplies and equipment, ensuring optimal use and minimal wastage. EMR successfully installed at Kilifi County Referral Hospital, with phased rollout

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				planned for other hospitals.
Decision-Making Autonomy	Give decision-making autonomy to hospitals to plan and manage resources within their control.	Enhanced hospital autonomy in budgeting and resource management.	- Implementation of hospital-level budgeting and decision-making processes.	Hospitals exercised autonomy in resource allocation based on specific needs, priorities, and patient demographics, leading to improved efficiency.
Capacity Building	Support capacity building in the management of hospitals.	Improved managerial skills and adoption of best practices.	- Number of staff trained. - Implementation of new management practices.	Training programs enhanced staff competencies, resulting in improved management and application of best practices across hospitals.
Quality Improvement	Improve the quality of healthcare services in the hospitals.	Enhanced patient care and satisfaction, with reduced medical errors.	- Patient satisfaction survey results. - Reduction in error rates. - Results of clinical audits.	Patient care and service quality improved. Findings were reported to hospital boards, with accountability mechanisms established to address gaps.

**The Kilifi County Health Services Improvement Fund
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8. CORPORATE GOVERNANCE STATEMENT

The KHSIF was established by the County Assembly of Kilifi through the KHSIF Act, 2016, to improve healthcare service delivery in County hospitals, and to provide for the administration and governance of the Fund. The Act sets out the Fund's objectives (financing medical supplies and small-scale equipping; hospital decision autonomy; capacity building; and quality improvement), establishes the Fund Board, prescribes membership, tenure, termination, and defines the functions and responsibilities of the Board and Hospital Management Fund Boards.

**i. Appointment of Board members, Process of appointment and removal of directors,
The size, diversity, and demographics of the Board, Existence of the board charter**

Composition: As provided by the KHSIF Act, the Board comprises seven (7) members:

- Chairperson (appointed by the Governor)
- Chief Officer – Health Services
- Fund Administrator (appointed by County Treasury)
- County Director of Health Services
- Three (3) members appointed by the CECM for Health

Tenure & Removal: Members serve three (3) years, renewable once.

A member vacates office if they:

- (a) miss three consecutive meetings.
- (b) violate Chapter 6 of the Constitution.
- (c) cease to qualify by residence/work jurisdiction
- (d) resign.
- (e) are deceased.
- (f) are incapacitated by prolonged illness.

Size, Diversity & Demographics

The Board strives for balanced skills, gender, and stakeholder representation. As at 30 June 2025, the Board comprised [7] members: [3] female [4] male; disciplines include finance, health, administration.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board Charter:

The Board operates under a Board Charter outlining roles, conduct, meetings, committees, and decision-making protocols.

Changes in Composition:

None during the reporting year.

ii. Roles and functions of the board

The Fund Board shall: -

- a) Provide oversight of the administration of the money drawn from the Fund.
- b) Mobilize resources for the Fund.
- c) Provide guidance to the management Fund Boards on: -
 - i. Proposals on user fees where the management Fund Board seeks to propose new user fees or changes to the old fees structure.
 - ii. Disciplinary matters including but not limited to theft of funds, spending of revenue at source, spending without proper authorization, fraud, abuse of powers of exemptions and waivers.
 - iii. Monitor the performance of the hospital management Fund Boards.
 - iv. Receive reports from the management Fund Boards for its consideration and adoption.
 - v. Develop criteria for the granting of waivers and exemptions.

Responsibilities Of the Fund Board

In administering the Fund, the Fund Board shall have the following responsibilities: -

- a) Prepare, sign and transmit to the County Auditor in respect of each financial year and within three months after the end thereof, a statement of account relating to the Fund

The Kilifi County Health Services Improvement Fund
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CORPORATE GOVERNANCE STATEMENT (CONTINUED)

specifying all contributions to the Fund and the expenditure incurred from the Fund, and such details as the County Treasury may from time to time direct, in accordance with the provisions of the Public Audit Act.

- b) Furnish such additional information as may be required that is proper and sufficient for the purpose of examination and audit by the County Auditor in accordance with the provisions of the Public Audit Act.
- c) Develop the criteria for the allocation of funds for approval.
- d) Prepare annual distribution of resources by health Services.
- e) Impose conditions on the use of expenditure authorized and may impose any reasonable prohibition, restriction or other requirement concerning such use of expenditure.
- f) Institute prudent measures for the proper utilization for monies deposited in the Fund using suitable internal controls and appropriate mechanism for accountability including audit of accounts by internal auditors of the department responsible for matters relating to finance.
- g) Cause to be kept proper books of accounts and records relating to all receipts, payments, assets and liabilities of the Fund and to any other activities and undertakings financed by the Fund.

iii. Induction, training, and development

No induction was conducted in FY2024/2025 as there were no new board appointments. With current board terms nearing completion, KHSIF focused on transition preparedness: updating induction materials and governance toolkits, developing a phased orientation curriculum, and preparing handover templates to ensure continuity in oversight, internal controls, financial risk management, and service quality. The induction will be delivered once new boards are constituted in the subsequent period.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

iv. Board and members' performance

Internal Control

The board members are responsible for reviewing the effectiveness of the Fund's system of internal control, which is designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against unauthorized use or disposition and the maintenance of proper accounting records and the reliability of financial information used within the business or for publication. These controls are designed to manage rather than eliminate the risk of failure to achieve business objectives due to circumstances which may reasonably be foreseen and can only provide reasonable and not absolute assurance against material misstatement or loss.

Organization Structure

A clear organizational structure exists, detailing lines of authority and control responsibilities.

Internal Control Framework

The Fund continues to review its internal control framework to ensure it maintains a strong and effective internal control environment. Business processes and controls are reviewed on an ongoing basis.

Management Team

The management team headed by the Fund Administrator implements the board decisions through action plans. The team meets regularly to review these action plans to ensure that the board's objectives are achieved effectively and efficiently.

v. Number of Board meetings held and attendance to those meetings by members

The Board meets quarterly and may convene special meetings as needed. In FY 2024/2025, the Board held 4 scheduled meetings.

vi. Succession plan

While the Act does not expressly mandate a succession plan, continuity is maintained through staggered terms, timely appointment/gazettement, a maintained skills matrix, and documented handovers at term expiry.

The Kilifi County Health Services Improvement Fund
Annual Report and Financial Statements for the year ended June 30, 2025

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

vii. Policy to manage conflict of interest.

Members must declare interests before deliberations; declarations are minuted, conflicted members recuse from discussion/voting. (Anchored in Chapter 6 fitness requirements in Board appointments). No Conflicts were recorded in FY2024/2025

viii. Board remuneration

Remuneration complies with Salaries and Remuneration Commission (SRC) guidelines and County regulations, limited to sitting allowances, travel allowances and approved reimbursements, within budgeted provisions and applicable taxation controls.

ix. Ethics and Conduct

The Board adheres to Leadership and Integrity Act (2012) and the Public Service Code of Conduct and Ethics.

x. Governance audit

The Fund is audited annually by the Office of the Auditor-General and undertakes periodic governance audits/reviews to assess effectiveness, risk oversight, and compliance.

xi. Terms of Reference of Committees

No standing committees were constituted in FY2024/2025; the full Board discharged Audit & Risk, Finance & Resource Allocation, and HR & Governance matters.

9. MANAGEMENT DISCUSSION AND ANALYSIS

The Kilifi Health Services Improvement Fund (KHSIF) is established under the KHSIF Act, 2016 to improve healthcare service delivery in County hospitals through financing of medical supplies and small-scale equipping, enhancing hospital decision autonomy, capacity building, and quality improvement. In line with the Act, the Fund Board provides oversight of collections, allocations and utilization, sets allocation criteria, receives and reviews facility reports, and ensures prudent financial management and accountability.

The Fund's risk framework addresses revenue variability, liquidity, compliance, procurement, fraud/error, and operational disruptions. Controls include Board oversight, approved allocation criteria, budgetary and cash controls, segregation of duties, periodic internal audit, asset management, facility reporting, and strict conflict-of-interest declarations. Procurement follows PPADA; financial reporting complies with PFM and Public Audit requirements, with statements prepared on an IPSAS-accrual basis.

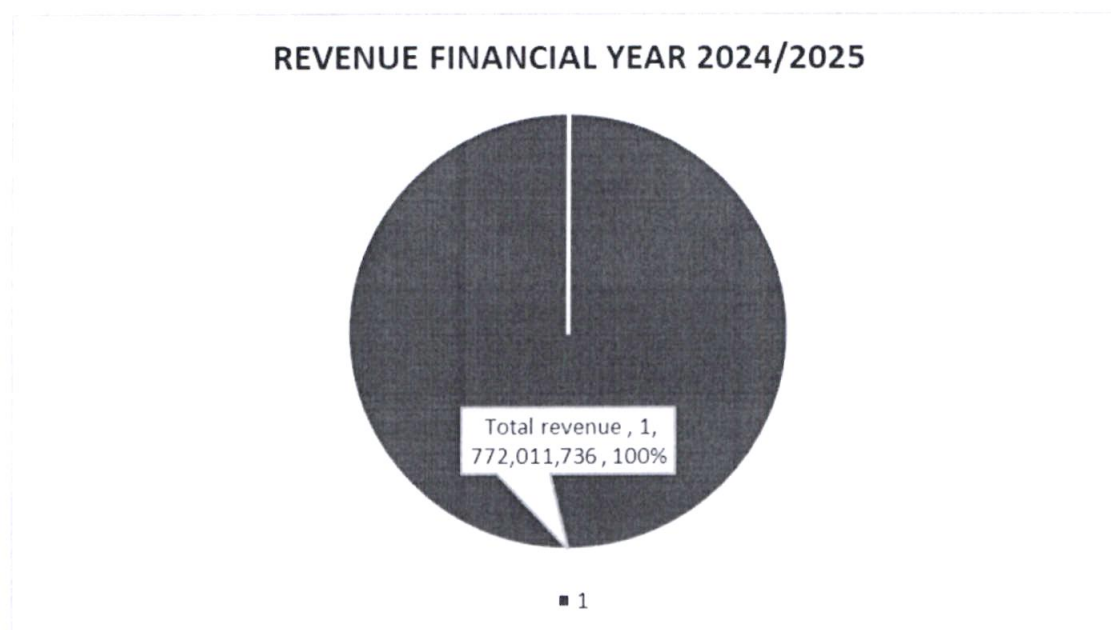
In accordance with the KHSIF Act, the Board ensures proper books of account are kept, statements are prepared and submitted to the County Auditor, and audit recommendations are implemented. The Fund continued to strengthen documentation, reconciliations, and governance practices to safeguard public resources.

Revenue

The Fund earned revenues amounting to Kshs 772,011,736 from the Hospitals collection. The board and management of the Fund are looking to its funding from the Hospitals revenue collection while also engaging other development partners to ensure its sustainability and success.

The Kilifi County Health Services Improvement Fund
Annual Report and Financial Statements for the year ended June 30, 2025

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)



Major risks facing the Fund

1. **Fluctuations in Revenue:** The fund's income may fluctuate due to variations in user fee collection and reimbursement rates from SHIF, impacting its financial stability and ability to support healthcare initiatives consistently.
2. **Economic Downturn:** Economic downturns can lead to decreased affordability of healthcare services for individuals, potentially reducing user fee collection and SHIF reimbursements.
3. **Technological Challenges:** Rapid technological advancements in healthcare may require significant investments in new technologies, posing financial and operational challenges for the fund.
4. **Sustainability:** Ensuring that healthcare improvement projects remain sustainable and continue to deliver benefits in the long term can be challenging.

Conclusion

We express our gratitude for the continuous support received from the board members, management, staff, the County Government, development partners, and all essential stakeholders.

The Kilifi County Health Services Improvement Fund
Annual Report and Financial Statements for the year ended June 30, 2025

We anticipate ongoing collaboration and cooperation in areas of shared interest throughout the financial year 2025/2026.

10. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

The Fund exists to transform lives as it plays a key role in achieving universal health coverage. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy, putting the citizens first, delivering quality healthcare services, and improving operational excellence. Below are the Fund's highlights.

Sustainability strategy and profile

The Fund is keen on achieving universal healthcare for the population of Kilifi County. In the period under review the Fund improved financial management and fiscal transparency of hospital staff in budgeting, resource tracking and budget advocacy.

Environmental performance

The hospitals under the fund have invested in biosafe methods of medical waste disposal. Public health units have established waste segregation, shredding, disinfection and incineration to eliminate negative exposure to the environment.

Market place practices

The Kilifi Health Services Improvement Fund maintains good business practices and treats its suppliers responsibly by adhering to several key principles:

- **Fair and Competitive Procurement:** The fund upholds a fair and competitive procurement process. Suppliers are chosen based on pre-qualified criteria, cost considerations, reliability, and their commitment to Public Procurement. This approach ensures equitable treatment of suppliers and fosters healthy competition among them.
- **Compliance with Regulations:** The fund complies with all relevant laws and regulations governing procurement and supplier relationships. This includes adherence to anti-corruption laws and ethical business conduct.

11. REPORT OF THE BOARD

The Board submit their report together with the financial statements for the year ended June 30, 2025 which show the state of the Fund affairs.

Principal activities

The principal activities of the Fund are to;

- a) Provide financial resources for medical supplies and small-scale equipping of Health Services in the county for basic operation and maintenance.
- b) To give decision making autonomy to hospitals to plan and manage the resources within their control.
- c) To support capacity building in the management of hospitals.
- d) The Fund's objective is to improve the quality of health care services in the hospitals.

Results

The results of the Fund for the year ended June 30, 2025, are set out on page 1 to 29

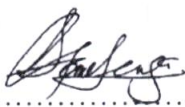
Fund Board

The Board members of the Fund who served during the year 2024/2025 are shown on page viii to xii.

Auditors

The Auditor General is responsible for the statutory audit of the Fund in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board



Dr. Gome Lenga

Chair of the Board

Date:24/11/25.....

The Kilifi County Health Services Improvement Fund
Annual Report and Financial Statements for the year ended June 30, 2025

12. STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

Section 167 of the Public Finance Management Act 2012 requires that, at the end of each financial year, the Fund Administrator of Kilifi County Kilifi Health Services Improvement Fund (KHSIF) Act 2016 shall prepare financial statements for the Fund in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board.

The Fund Administrator of the Kilifi County Kilifi Health Services Improvement Fund (KHSIF) is responsible for the preparation and presentation of the Fund's financial statements, which give a true and fair view of the state of affairs of the Fund for and as at the end of the financial year ended on June 30, 2025. This responsibility includes:

- a. maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period.
- b. maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Fund.
- c. 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.
- d. safeguarding the assets of the Fund.
- e. selecting and applying appropriate accounting policies
- f. making accounting estimates that are reasonable in the circumstances.

The Fund Administrator of the Kilifi County Kilifi Health Services Improvement Fund (KHSIF) accepts responsibility for the Fund'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 and the Kilifi County Kilifi Health Services Improvement Fund (KHSIF) Act 2016. The Administrator of the Fund is of the opinion that the Fund's financial statements give a true and fair view of the state of Fund's transactions during the financial year ended June 30, 2025, and of the

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES (CONTINUED)

Fund's financial position as at that date. The Fund Administrator further confirms the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the Fund's financial statements as well as the adequacy of the systems of internal financial control.

In preparing the financial statements, the Fund Administrator of the Kilifi County Kilifi Health Services Improvement Fund (KHSIF) has assessed the Fund's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements. Nothing has come to the attention of the Fund Administrator to indicate that the Fund 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 Fund's financial statements were approved by the Board on 24/11/25 2025 and

COUNTY GOVERNMENT OF KILIFI
signed on behalf of:
DEPARTMENT OF HEALTH SERVICES
KHSIF FUND
ADMINISTRATOR
DATE: 24/11/25
SIGN: Racheal Bahati
CPA Racheal Bahati

KHSIF Administrator

REPUBLIC OF KENYA

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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 KILIFI COUNTY HEALTH SERVICES IMPROVEMENT FUND FOR THE YEAR ENDED 30 JUNE, 2025

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 Kilifi County Health Services Improvement Fund set out on pages 1 to 29, which comprise of the statement of

financial position as at 30 June, 2025 and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, 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 Kilifi County Health Services Improvement Fund as 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 Kilifi Health Services Improvement Fund Act, 2016 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccurate Revenue from Facility Improvement Fund (FIF)

The statement of financial performance reflects revenue from transfers from Facility Improvement Fund (FIF) totalling Kshs.772,011,736 as disclosed in Note 1 to the financial statements. Review of revenue records revealed that the amount includes Kshs.5,206,317 in respect of Public Health and Kshs.766,805,419 in respect of revenue collected by Level 4 Hospitals. However, the financial statements of Level 4 Hospitals reflect total revenue from rendering services of Kshs.452,071,188 resulting to unexplained variance of Kshs.314,734,231 as tabulated below:

	Amount is the HSIF financial statements (Kshs)	Amount in level 4 hospital financial statements (Kshs)	Unexplained Variance (Kshs)
	Kshs	Kshs	Kshs
Kilifi	311,137,062	129,057,359	182,079,703
Mariakani	105,718,619	71,494,443	34,224,176
Malindi	210,050,477	142,553,744	67,496,733
Jibana	3,891,128	2,675,840	1,215,288
Bamba	20,099,042	22,174,596	- 2,075,554
Rabai	33,605,466	32,555,399	1,050,067
Mtwapa	58,867,849	36,457,003	22,410,846
Gede	6,153,939	4,763,004	1,390,935
Marafa	17,281,837	10,339,800	6,942,037
Total	766,805,419	452,071,188	314,734,231

In the circumstances, the accuracy and completeness of the revenue from FIF totalling Kshs.772,011,736 could not be confirmed.

2. Unsupported Expenditure on Fuel, Oil and Lubricants

The statement of financial performance reflects expenditure on use of goods and services totalling Kshs.55,389,626 as disclosed in Note 3 to the financial statements. Included in this amount is expenditure on fuel oil and lubricants totalling Kshs.11,749,500. However, the procurement records were not provided and review of payment vouchers and fuel register revealed that Kshs.10,353,447 was not supported with detailed orders and the supplier statements of account.

In the circumstances, the accuracy and completeness of the expenditure on fuel, oil and lubricants totalling Kshs.11,749,500 could not be confirmed.

3. Inaccurate and Unsupported Receivables from Non-Exchange Transactions Balance

The statement of financial position reflects receivables from non-exchange transactions balance of Kshs.177,373,206 as disclosed in Note 9 to the financial statements. Included in the balance is an amount of Kshs.150,991,908 owed to nine (9) Level 4 Hospitals by the Social Health Authority (SHA) as at 30 June, 2025. However, the outstanding claims were not supported by a breakdown of unpaid patient invoices. In addition, the Receiver of Revenue statement of financial position and Note 29 to the revenue statements reflects a balance of Kshs.229,300,849 in respect of receivables from FIF resulting in unexplained variance of Kshs.78,309,942 with the balance of Kshs.150,991,908 owed to the Level 4 Hospitals.

In the circumstances, the accuracy and completeness of the receivables from non-exchange transactions balance of Kshs.177,373,206 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kilifi County Health Services Improvement Fund 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.

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.729,104,212 and Kshs.617,413,979 respectively resulting to an under-funding of Kshs.111,690,233 or 15% of the budget. Similarly, the Fund spent an amount of Kshs.616,267,097 against actual receipts of Kshs.617,413,979 resulting to an under-utilization of Kshs.1,146,882 or 0.19%.

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

My opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. 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. The issue was on inaccurate property, plant and equipment balance. Review of the status during audit of the Fund in 2024/2025 revealed that the matter remained unresolved.

Other Information

The Management is responsible for the other information set out on page v to xxxix which comprise of Key Entity Information and Management, The Board of Trustees/Fund Administration Committee, Management Team, Report of the Fund Administrator, Statement of Performance Against County Fund's Predetermined Objectives, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Board and Statement 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 Fund'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 Expenditure on Use of Goods and Services

The statement of financial performance reflects expenditure on use of goods and services totalling to Kshs.54,845,047 as disclosed in Note 3 to the financial statements. Review of records revealed that included in this expenditure is expenditure on hospitality, supplies and services totalling to Kshs.7,852,472 out of which Kshs.7,372,972 was paid to various officers as imprests. In addition, the expenditure on use of goods and services included expenditure on domestic travel and subsistence totalling to Kshs.21,450,880 which related to payments to various officers mainly on claims for meetings on budget, procurement, Council of Governors, preparation of financial statements, performance contract targets and cascading workshop, Board meeting allowances among other activities. However, review of records did not provide justification for use of imprest to pay for goods and services while the supporting documents for travelling and accommodation revealed unjustifiable and over payments of subsistence allowances. This was contrary to Regulation 91(1) of the Public Finance Management (County Governments) Regulations, 2015 which states that an imprest is a form of cash advance or a float which the Accounting Officer may authorize to be issued to officers who in the course of duty are required to make payments which cannot conveniently be made through the cash office of a government entity or bank account.

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

2. Inaccurate Disclosure of Board Information and Unsupported Expenditure

The statement of board of trustee/fund administration committee reflects a board committee composed of seven (7) members appointed under Section 6 of the Kilifi County Health Services Improvement Fund Act, 2016. However, review of personal files revealed that except for the board chair, appointment letters did not indicate the period the members were to serve on the board, the board members did not sign the appointment letters as a confirmation of the appointment, the board operated without a board calendar in the year under review and the payment of sitting allowances to the chairperson at the rate of Kshs.16,800 and members at the rate of Kshs.10,000 per member was higher than the rates of Kshs.12,000 for chairperson and Kshs.8,000 for a member approved by Salaries and Remuneration Commission (SRC) in the compendium of remuneration and benefits for public service of December, 2022.

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

3. Unapproved Health Services Fund Regulations

It was noted that draft Health Services Fund Regulations were published in the year 2023 which included criteria for granting exemptions and waivers, gazettement of Hospitals that are to receive monies from the Fund and proposed user fees and charges. However, the regulations are yet to be approved by the County Assembly.

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

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

Lack of Risk Management Plan

Review of records revealed that a draft risk management plan was developed by Management in September 2023. However, the risk management plan has not yet been approved by the board to date.

In the circumstances, the effectiveness of the 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 Fund'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 Fund'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

The Kilifi County Health Services Improvement Fund
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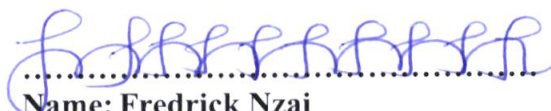
14. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30TH JUNE 2025

	Note	2024/2025	2023/2024
		KShs	(Restated)KShs
Revenue from non-exchange transactions			
Transfers from FIF Revenue	1	772,011,736	474,488,060
Total revenue		772,011,736	474,488,060
Expenses			
Employee costs	2	892,567	1,193,765
Use of goods and services	3	55,389,626	36,434,810
Board of Management Expenses	4	186,400	173,000
Depreciation And Amortization Expense	5	2,660,396	809,333
Repair and Maintenance	6	2,126,219	1,004,105
Transfers to other government entities	7	564,351,352	434,819,552
Total expenses		625,606,560	474,434,565
Surplus/(deficit) for the period		146,405,176	53,495

The notes set out on pages 10 to 27 form an integral part of these Financial Statements

COUNTY GOVERNMENT OF KILIFI
DEPARTMENT OF HEALTH SERVICES
HSIF FUND
ADMINISTRATOR
ATE: 29/11/25
IGN: Racheal Bahati

Name: Racheal Bahati
Administrator of the Fund
ICPAK Member Number: 21112



Name: Fredrick Nzai
Fund Accountant
ICPAK Member Number: 30736

The Kilifi County Health Services Improvement Fund
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15. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2025

Description	Note	2024/2025	2023/2024
		KShs	(Restated)KShs
Assets			
Current Assets			
Cash and Cash Equivalents	8	4,235,340	3,088,458
Receivables from Non exchange transactions	9	177,373,206	22,775,449
Inventories	10	-	-
Total current assets		181,608,545	25,863,907
Non-Current Assets			
Property, Plant and Equipment	11	4,367,644	6,046,655
Total non- current assets		4,367,644	6,046,655
Total Assets (A)		185,976,189	31,910,562
Liabilities			
Current Liabilities			
Trade and Other Payables from Exchange Transactions	12	32,717,638	25,057,186
Total current liabilities		32,717,638	25,057,186
Non-Current Liabilities			
			-
Total Liabilities (B)		32,717,638	25,057,186
Net Assets (A-B)		153,258,551	6,853,376
Represented By:			
Accumulated Surplus		153,258,551	6,853,375
Net Assets		153,258,551	6,853,375

Disclosure Notes in the Statement of Financial Position (Restatement of June 2024 Figures)

Note: Prior Period Error Correction (IPSAS 3 Compliance)

During the preparation of the current period's financial statements, a material error was identified in the June 2024 comparative figures, relating to the understatement of depreciation expense on Property, Plant, and Equipment (PPE).

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Nature of the Error

- The original depreciation expense for June 2024 was recorded as Kshs 87,300, but the correct amount should have been Kshs 809,333.
- The error arose due to incomplete inclusion of depreciation for certain qualifying assets.

Impact of the Correction

The restatement had the following effects on the June 2024 financial statements:

Item	Originally Reported (Kshs)	Restated (Kshs)	Adjustment (Kshs)
Depreciation Expense	87,300	809,333	+722,033
Total Expenses	473,712,532	474,434,565	+722,033
Surplus for the Period	775,528	53,495	-722,033
Accumulated Surplus	7,575,408	6,853,375	-722,033
PPE (Net Carrying Amount)	6,768,688	6,046,655	-722,033

Basis for Restatement

- The correction aligns with IPSAS 3 (Accounting Policies, Changes in Estimates, and Errors), which requires retrospective restatement of prior period errors.
- The adjustment only affects the 2023/2024 comparative figures and has no impact on the current period.

Reconciliation of PPE Restatement

The Property, Plant, and Equipment (Note 11) balance was restated as follows:

Description	Kshs
Originally Reported PPE (June 2024/2025)	6,768,688
Less: Additional Depreciation	(722,033)
Restated PPE (June 2023/2024)	6,046,655

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Conclusion

- The correction ensures compliance with IPSAS and improves the reliability of comparative financial information.
- Management has strengthened controls over depreciation calculations to prevent recurrence.

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 24/11/ 2025

and signed by



Name: Racheal Bahati

Administrator of the Fund

ICPAK Member Number: 21112

A handwritten signature in blue ink, likely belonging to Fredrick Nzai.

Name: Fredrick Nzai

Fund Accountant

ICPAK Member Number: 30736

The Kilifi County Health Services Improvement Fund
Annual Report and Financial Statements for the year ended June 30, 2025

16. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30TH JUNE 2025

	Accumulated surplus	Total
	KShs	KShs
Balance as at 1 July 2023	6,799,880	6,799,880
Adjustments		
Surplus/(deficit) for the period	53,495	53,495
Balance as at 30th June 2024 (Restated)	6,853,375	6,853,375
		0
Balance as at 1 July 2024 (Restated)	6,853,375	6,853,375
Surplus/(deficit) for the period	146,405,176	146,405,176
Balance as at 30th June 2025	153,258,551	153,258,551

The Kilifi County Health Services Improvement Fund
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17. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2025

	Note	2024/2025	2023/2024
		KShs	KShs
Cash flows from operating activities			
Receipts			
Transfers from FIF Revenue	1	617,413,979	470,485,920
Total Receipts		617,413,979	470,485,920
Payments			
Employee costs	2	892,567	1,193,765.00
Board of Management Expenses	4	186,400	173,000.00
Use of goods and services	3	55,389,626	36,434,810.15
Repair and Maintenance	6	2,126,219	1,004,105.00
Transfers to other government entities	7	556,690,900	426,600,190
Total Payments		615,285,712	465,405,870
Net cash flows from operating activities		2,128,267	5,080,050
Cashflow from investing activities			
purchase of fixed assests	11	(981,385)	(3,592,095)
Net cashflow from investing activities		(981,385)	(3,592,095)
Net increase/(decrease) in cash and cash equivalents		1,146,882	1,487,955
Cash and cash equivalents at 1 JULY 2024		3,088,457	1,600,502
Cash and cash equivalents at 30th June 2025	8	4,235,340	3,088,457

Note: The Statement of Cashflow has been prepared under the Direct method. The Net cash flows from operating activities have been reconciled with the Indirect Method as disclosed in Note 13.

Reconciliation of Transfers from FIF Revenue – Statement of Financial Performance vs. Cash Flow Statement

The Statement of Financial Performance reports transfers from the FIF Revenue of Kshs. 772,011,736, while the Cash Flow Statement reports transfers of Kshs. 617,413,979. The variance of Kshs. 154,597,757 arises from timing differences between accrual and cash accounting treatment.

- On the accrual basis (IPSAS), revenue is recognized when earned and receivable, including outstanding transfers at year-end.
- On the cash basis, only actual receipts into the Fund's bank account are reported.

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The difference is attributable to receivables from the KCG Health Revenue Collection Account, amounting to Kshs. 177,373,206 as at 30th June 2025 (2024: Kshs. 22,775,449). These receivables represent transfers due but not yet received in cash at the reporting date.

The Kilifi County Health Services Improvement Fund
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18. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD 2025

Description	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% Utilization
	Kshs	Kshs	Kshs	Kshs	Kshs	
	a	b	C=(a+b)	d	e=(c-d)	f=d/c*100
Budget carryovers from the previous year	-	-	3,088,457	-	-	-
Receipts						
Transfers from FIF Revenue	509,214,150	219,890,061	729,104,212	617,413,979	111,690,232	85%
Total income	509,214,150	219,890,061	729,104,212	617,413,979	111,690,232	85%
Expenses						
Board of Management Expenses	200,000	(12,000)	188,000	186,400	1,600	99%
Employee costs	373,000	522,000	895,000	892,567	2,433	100%
Purchase of fixed assets	2,950,000	(1,477,000)	1,473,000	981,385	491,615	67%
Repair and Maintenance	3,994,000	(1,865,524)	2,128,476	2,126,219	2,257	100%
Transfers to other government entities	471,647,009	197,375,471	669,022,481	556,690,900	112,331,580	83%
Use of goods and services	30,050,141	25,347,114	55,397,255	55,389,626	7,629	100%
Total expenditure	509,214,150	219,890,061	729,104,212	616,267,097	112,837,115	85%
Surplus for the period	0	0	0	1,146,882	(1,146,882)	

Budget notes

1. In accordance with IPSAS 24.29, the changes in the budget amounting to Kshs. 219,890,061 was attributed to reallocation and increase of revenue from other entities.
2. Actual receipts amounted to Kshs 617,413,979 against a final budget of Kshs 729,104,212, resulting in an under-collection of Kshs 111,690,233 (15%). The shortfall arose mainly from delayed and partially settled SHIF reimbursements, which constitute a major component of FIF revenue. While the Statement of Financial Performance reports revenue earned of Kshs 772,011,736 this includes accrued FIF receivables still outstanding at year-end. The Statement of Comparison of Budget and Actual Amounts is prepared on a cash basis, therefore only cash received is reflected, resulting in the lower realization against the approved budget.

3. Purchase of fixed assets is at 67% utilization, the variance arises because part of the planned capital expenditure was redirected to catering utensils (spoons, forks, cups, trays) that do not meet Property, Plant and Equipment (PPE) recognition criteria and were therefore recognized as inventories in accordance with IPSAS 12.

Budget Reconciliation

	Description of Particulars	Amount in Kshs
	Actual Surplus Amounts as per the statement of Budget	1,146,882
1	Opening Cash and cash equivalent as at 1st July 2024	3,088,457
	Closing Cash and Cash Equivalent as per the statement of Cash flows	4,235,340

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19. NOTES TO THE FINANCIAL STATEMENTS

Significant Accounting Policies

1. General Information

Kilifi Health Services Improvement Fund (KHSIF) is established by and derives its authority and accountability from 2016 KHSIF Act. The entity is wholly owned by the Kilifi County Government and is domiciled in Kenya.

2. Statement of compliance and basis of preparation

The Fund's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Fund. The accounting policies have been consistently applied to all the years presented. The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis.

3. Adoption of new and revised standards

(i) New and amended standards and interpretations in issue but not yet 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: Leases	Applicable 1st January 2025 The standard sets out the principles for recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cashflows of an Entity. The new standard requires entities to recognize, measure and present information on right of use assets and lease liabilities.

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	There was no Impact of the amendment to IPSAS 43 with respect to the current financial report
IPSAS 44: Non- Current Assets Held for Sale and Discontinued Operations	<i>Applicable 1st January 2025</i> The Standard requires, Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value, less costs to sell and the depreciation of such assets to cease and: Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance. There was no Impact of the amendment to IPSAS 44 with respect to the current financial report
IPSAS 45: Property Plant and Equipment	<i>Applicable 1st January 2025</i> 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 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 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. There was no Impact of the amendment to IPSAS 45 with respect to the current financial report
IPSAS 46: Measurement	<i>Applicable 1st January 2025</i> The objective of this standard was to improve measurement guidance across IPSAS by:

The Kilifi County Health Services Improvement Fund
Annual Report and Financial Statements for the year ended June 30, 2025

	i. Providing further detailed guidance on the implementation of commonly used measurement bases and the circumstances under which they should be used. ii. Clarifying transaction costs guidance to enhance consistency across IPSAS. iii. Amending where appropriate guidance across IPSAS related to measurement at recognition, subsequent measurement and measurement related disclosures. The standard also introduces a public sector specific measurement base called the current operational value. There was no Impact of the amendment to IPSAS 46 with respect to the current financial report
IPSAS 47: Revenue	<i>Applicable 1st January 2026</i> 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. There was no Impact of the amendment to IPSAS 47 with respect to the current financial report
IPSAS 48: Transfer Expenses	<i>Applicable 1st January 2026</i> 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 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.

The Kilifi County Health Services Improvement Fund
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	There was no Impact of the amendment to IPSAS 48 with respect to the current financial report
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. There was no Impact of the amendment to IPSAS 49 with respect to the current financial report
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. There was no Impact of the amendment to IPSAS 50 with respect to the current financial report

(i) Early adoption of standards

The Entity did not early – adopt any new or amended standards in the financial year 2024/2025

The Kilifi County Health Services Improvement Fund
Annual Report and Financial Statements for the year ended June 30, 2025

4. Summary of Significant Accounting Policies

a) Revenue recognition

i. Revenue from non-exchange transactions

Transfers from other government entities

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

ii. Revenue from exchange transactions

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 each period.

b) Budget information

The original budget for FY 2024-2025 was approved by the County Fund Board on 5th 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. Accordingly, the Fund recorded additional appropriations of Kshs.219,890,061 on the FY 2024-2025 budget following the Fund board approval.

The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

Summary of Significant Accounting Policies (Continued)

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial cash flows has been presented.

c) Property, plant and equipment

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

d) 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 Company'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.

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Summary of Significant Accounting Policies (Continued)

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.

Financial liabilities

Classification

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

e) 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 of 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 of cost and 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.

Summary of Significant Accounting Policies (Continued)

f) Contingent liabilities

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

Contingent assets

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

g) Nature and purpose of reserves

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

h) Changes in accounting policies and estimates

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

i) Related parties

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

The Kilifi County Health Services Improvement Fund
Annual Report and Financial Statements for the year ended June 30, 2025

Summary of Significant Accounting Policies (Continued)

j) Cash and cash equivalents

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

k) Comparative figures

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

5. Significant judgments and sources of estimation uncertainty

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

State all judgements, estimates and assumptions made e.g.

a) 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.

Summary of Significant Accounting Policies (Continued)

b) 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

The Kilifi County Health Services Improvement Fund
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Notes To the Financial Statements Continued

1. Transfer from FIF Revenue

Description	2024/2025 KShs	2023/2024 KShs
Transfers from FIF & HSIF Revenue - HSIF Q1	221,188,877	73,990,716
Transfers from FIF & HSIF Revenue - HSIF Q2	254,333,250	110,335,007
Transfers from FIF & HSIF Revenue - HSIF Q3	111,305,516	121,616,720
Transfers from FIF & HSIF Revenue - HSIF Q4	185,184,093	168,545,617
Total	772,011,736	474,488,060

2. Employee Costs

Description	2024/2025 KShs	2023/2024 KShs
Salaries, wages, and allowances	823,447	1,125,575
Employer Contributions to Compulsory National Social Insurance	69,120	68,190
Total	892,567	1,193,765

3. Use of Goods and Services

Description	2024/2025 KShs	2023/2024 KShs
Utilities, Supplies and Services	6,671,619.00	-
Communication, Supplies and Services	2,405,870	2,369,148
Office and General Supplies and Services	1,781,025	1,684,454
Domestic Travel and Subsistence, and Other Transportation	21,450,880	21,475,600
Training Expenses	483,600	761,961
Hospitality Supplies and Services	7,852,472	7,501,610
Specialised Materials and Supplies	38,000	67,000
Fuel Oil and Lubricants	11,891,112	287,000
Other Operating Expenses	58,085	86,788
Purchase of Household Furniture and Institutional Equipment	478,813	428,419
Printing, Advertising and Information Supplies and Services	2,278,150	1,772,830
Total	55,389,626	36,434,810

4. Board of Management Expenses

Description	2024/2025 KShs	2023/2024 KShs
Sitting allowance	186,400	173,000
Total	186,400	173,000

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5. Depreciation And Amortization Expense

Description	2024/2025	2023/2024
	KShs	(Restated) KShs
Property, plant and equipment	2,660,396	809,333
Total	2,660,396	809,333

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6. Repair and Maintenance

Description	2024/2025	2023/2024
	KShs	KShs
Routine Maintenance - Vehicles	2,049,599	328,500
Routine Maintenance - Other Assets	76,620	675,605
Total	2,126,219	1,004,105

7. Transfers to other government entities

Description	2024/2025	2023/2024
	KShs	KShs
Transfers to Level 4 Hospitals	564,351,352	434,819,552
Total	564,351,352	434,819,552

8. Cash and cash equivalents

Description	2024/2025	2023/2024
	KShs	KShs
Current account	4,235,340	3,088,458
Others	-	-
Total cash and cash equivalents	4,235,340	3,088,458

Detailed analysis of the cash and cash equivalents are as follows:

Description	Account number	2024/2025	2023/2024
		KShs	KShs
Current account			
Co-Operative Bank			
KCG CGK COUNTY HEALTH MANAGEMENT HSIF	1272367622	151,374	60,310.50
KCG-HSIF EXPENDITURE ACCOUNT	1270272071	4,083,966	3,028,147.20
Grand total		4,235,340	3,088,457.70

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9. Receivables from exchange transactions

Description	2024/2025	2023/2024
	KShs	KShs
Current Receivables		
Standing Imprest	-	-
Transfers from KCG Health Revenue Collection Account	177,373,206	22,775,449
Total receivables from non-exchange transactions	177,373,206	22,775,449

10. Inventories

Description	2024/2025	2023/2024
	KShs	KShs
Consumable stores		-
Spare parts and meters		-
Catering	-	-
Total Inventories	-	-

Detailed disclosures on inventories

	2024/2025	2023/2024
	KShs	KShs
Opening balance	-	-
Additional Inventory in the year		-
Inventory expensed in the year	-	-
Write-downs in the year	-	-
Closing balance	-	-

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11. Property, plant, and equipment

Description	Furniture, fittings, and office equipment	ICT Equipment	Other Assets	Total
	12.50%			
Cost	Shs	Shs	Shs	Shs
Depreciation Rate	12.50%	30%		
At 1st July 2022	-	3,191,395	-	3,191,395
Additions	1,016,720	1,568,150	-	2,584,870
At 30th June 2023	1,016,720	4,759,545	-	5,776,265
At 1 st July 2023	1,016,720	4,759,545	-	5,776,265
Additions	1,183,500	2,408,595	-	3,592,095
At 30th JUNE 2024	2,200,220	7,168,140	-	9,368,360
At 1 st July 2024	2,200,220	7,168,140	-	9,368,360
Additions	136,995	641,450	202,940	981,385
At 30th JUNE 2025	2,337,215	7,809,590	202,940	10,349,745
Depreciation and impairment				
At 1st July 2022	-	957,419	-	957,419
Depreciation for the year	127,090	1,427,864	-	1,554,954
At 30 June 2023	127,090	2,385,282	-	2,512,372
At 1st July 2023	127,090	2,385,282	-	2,512,372
Depreciation for the Year	26,794	60,506	-	87,300
Depreciation on Assets B/F as at 2022/2023	127,090	594,943		722,033
At 30th JUNE 2024	280,974	3,040,731	-	3,321,705
At 1st July 2024	280,974	3,040,731	-	3,321,705
Depreciation for the year	292,152	2,342,877	25,368	2,660,396
At 30th June 2025	573,126	5,383,608	25,368	5,982,101
Net book values				
At 30 th June 2023	889,630	2,374,263	-	3,263,893
At 30th JUNE 2024	1,919,246	4,127,409	-	6,046,655
At 30th March 2025	1,764,089	2,425,982	177,573	4,367,644

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12. Trade and other payables from non - exchange transactions

Description	2024/2025 KShs	2023/2024 KShs
Trade payables	-	-
Refundable deposits	-	-
Accrued expenses	32,717,638	25,057,186
Other payables	-	-
Total trade and other payables	32,717,638	25,057,186
Ageing analysis (Trade and other payables)	2024/2025	% of the Total
		FY
Under one year	32,717,638	100%
1-2 years	-	%
2-3 years	-	%
Over 3 years	-	%
Total (tie to above total)	32,717,638	-

13. Cash generated from operations.

	2024/2025 KShs	2023/2024 (Restated) KShs
Surplus for the year before tax	146,405,176	53,495
Adjusted for:		
Depreciation	2,660,396	809,333
Working Capital adjustments		
Increase in inventory	0	-
Increase in receivables	(154,597,757)	(4,002,140)
Increase in payables	7,660,452	8,219,362
Net cash flow from operating activities	2,128,267	5,080,050

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14. Related party balances

a) Nature of related party relationships

Entities and other parties related to the Fund include those parties who have 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. The fund/scheme is related to the following entities:

- a) The County Government.
- b) The Parent County Government Ministry.
- c) Key management.
- d) Board of Trustees; etc.

b) Related party transactions

a) Related party transactions	2024/2025	2023/2024
	KShs	KShs
Transfers from HSIF	772,011,736	474,488,060

c) Key management remuneration

b) Key management remuneration	2024/2025	2023/2024
	KShs	KShs
Board of Members allowances	186,400	173,000
Total	186,400	173,000

15. Financial risk management

The Fund's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Fund's overall risk management programme focuses on 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 Fund 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 Fund's financial risk management objectives and policies are detailed below:

a) Credit risk

The Fund 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 entity's management based on prior experience and their assessment of the current economic environment. The carrying amount of financial assets recorded in the financial

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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 Kshs	Fully performing Kshs	Past due Kshs	Impaired Kshs
At 30 June 2025				
Receivables From Non-Exchange Transactions	177,373,206	177,373,206	-	-
Bank Balances	4,235,340	4,235,340	-	-
Total	181,608,545	181,608,545	-	-
At 30 June 2024				
Receivables From Non-Exchange Transactions	22,775,449	22,775,449	-	-
Bank Balances	3,088,458	3,088,458	-	-
Total	25,863,907	25,863,907	-	-

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 entity has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The board of trustees sets the Fund's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

b) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Fund Administrator, who has 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.

The table below represents cash flows payable by the Fund under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Description	Less than 1 month Kshs	Between 1-3 months Kshs	Over 5 months Kshs	Total Kshs
At 30 June 2025				
Trade Payables	32,717,638	-	-	32,717,638
Provisions	-	-	-	-
Employee Benefit Obligation	-	-	-	-
Total	32,717,638	-	-	32,717,638
At 30 June 2024				
Trade Payables	25,119,231	-	-	25,119,231
Total	25,119,231	-	-	25,119,231

c) Capital risk management.

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

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Description	2024/2025	2023/2024
	Kshs	(Restated) Kshs
Accumulated surplus	153,258,551	6,853,375
Total funds	153,258,551	6,853,375
Total borrowings	0	0
Less: cash and bank balances	(4,235,340)	(3,088,458)
Net debt/(excess cash and cash equivalents)	149,023,212	3,764,917
Gearing	97%	55%

16. Events after the reporting period

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

17. Ultimate and Holding Entity

The entity is a Kilifi County Kilifi Health Services Improvement Fund established by section 167 Act of the Public Finance Management (PFM) Act 2012. Its ultimate parent is the County Government of Kilifi.

18. Currency

The financial statements are presented in Kenya Shillings (Kshs)

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20. ANNEXES

Annex I: Progress on Follow Up Of Prior Year Auditor's Recommendations

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor.

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)
1	1. Inaccurate Property, Plant and Equipment Balance The statement of financial position and Note 13 to the financial statement reflects property, plant and equipment balance of Kshs.4,678,467 as disclosed in Note 13 to the financial statements. Included in this balance is additions for the year of Kshs.2,600,350 in respect of furniture, fittings and office equipment. However, an amount of Kshs.1,416,850 which was incurred on purchase of computers was included in the furniture, fittings and office equipment instead of ICT Equipment. Further, additions amounting to Kshs.2,356,650 were acquired in June, 2024 but were depreciated for a whole year. The depreciation was not supported by a depreciation policy. In the circumstances, the accuracy and completeness of property, plant and equipment balance of Kshs.4,678,467 could not be confirmed.	Detailed explanations to observation given in the Audit response	Matter presented to county assembly for final resolution Letter reference :CG/KLF/FIN/ADG/1/VOL.1 (53) dated 18 th March 2025	

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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)
2.	Budgetary Control and Performance The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.499,236,816 and Kshs.474,488,060 respectively resulting to an under-funding of Kshs.24,748,756 or 5% of the budget. Similarly, the Fund spent an amount of Kshs.475,821,366 against actual receipts of Ksh.474,488,060 resulting to an over-utilization of Kshs.1,333,306 or 0.28%. The under-funding affected the planned activities and may have impacted negatively on service delivery to the public.	Detailed explanations to observation given in the Audit response	Matter presented to county assembly for final resolution Letter reference :CG/KLF/FIN/ADG/1/VOL.1 (53) dated 18 th March 2025	

CPA. RACHEAL BAHATI
COUNTY GOVERNMENT OF KILIFI
FUND ADMINISTRATOR
DEPARTMENT OF HEALTH SERVICES
HSIF FUND
ADMINISTRATOR

DATE: 24/11/25
SIGN: Racheal

Date: 24/11/25