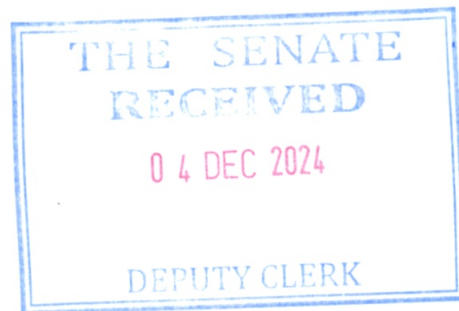
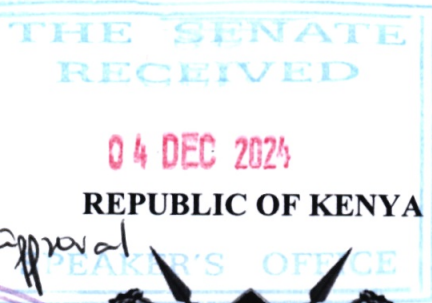


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THE SENATE

THIRTEENTH PARLIAMENT - THIRD SESSION

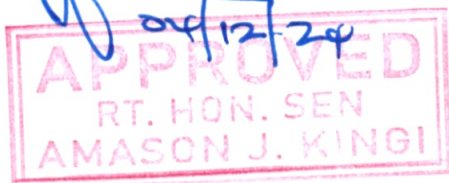
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for approval for tabling  
04/12/2024

**REPORT OF THE SELECT COMMITTEE ON COUNTY PUBLIC INVESTMENTS  
AND SPECIAL FUNDS ON THE CONSIDERATION OF THE AUDIT REPORTS OF  
THE FOLLOWING COUNTY HOSPITALS FOR THE FINANCIAL YEAR 2021/2022  
(1<sup>st</sup> JULY, 2021 TO 30<sup>th</sup> JUNE, 2022):**

| NO. | HOSPITAL                           | COUNTY |
|-----|------------------------------------|--------|
| 1.  | KAPSABET COUNTY REFERRAL HOSPITAL  | NANDI  |
| 2.  | KARATINA SUB COUNTY HOSPITAL       | NYERI  |
| 3.  | KILIFI HEALTH IMPROVEMENT FUND     | KILIFI |
| 4.  | KINANGO SUB-COUNTY HOSPITAL        | KWALE  |
| 5.  | KWALE SUB COUNTY HOSPITAL          | KWALE  |
| 6.  | LONGISA COUNTY REFERRAL HOSPITAL   | BOMET  |
| 7.  | LUNGA LUNGA SUB COUNTY HOSPITAL    | KWALE  |
| 8.  | MIGORI COUNTY LEVEL 4 HOSPITAL     | MIGORI |
| 9.  | MSAMBWENI SUB-COUNTY HOSPITAL      | KWALE  |
| 10. | MT. KENYA SUB COUNTY HOSPITAL      | NYERI  |
| 11. | MUKURWEINI SUB COUNTY HOSPITAL     | NYERI  |
| 12. | OTHAYA SUB COUNTY LEVEL 4 HOSPITAL | NYERI  |

VOLUME X

Clerk's Chambers  
The Senate  
P.O. Box 41842-00100  
Nairobi



**Rt. Hon. Speaker**  
You may approve for tabling  
J. M. Nyegonye, C.B.S.,  
Clerk of the Senate/Secretary, PSC  
Date: 04/12/24

|                    |            |
|--------------------|------------|
| DATE               | 5/12/24    |
| TABLED BY          | Sen. Ojien |
| COMMITTEE          | -          |
| CLERK AT THE TABLE | Angela     |



Mr. Hon. Speaker,  
You are invited to the  
J. A. McLaughlin  
Lecture on the  
History of the  
University of  
Illinois



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## **ACRONYMS/ABBREVIATION**

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



## DEFINITION OF TERMS

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



## **PREFACE**

**Hon. Speaker,**

Parliamentary Committees are a creation of the Constitution through Article 124(1) of the Constitution which empowers each House of Parliament to establish Committees and make Standing Orders (SO) for the orderly conduct of its proceedings, including the proceedings of its Committees. The Select Committee on County Public Investments and Special Funds is established pursuant to Standing Order No. 194 of the Senate Standing Orders and is mandated to-

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



## **COMMITTEE MEMBERSHIP**

**Hon. Speaker,**

The membership of the Committee comprises of the following Senators-

- |                                              |                           |
|----------------------------------------------|---------------------------|
| 1. Sen. Godfrey Atieno Osotsi, MP            | - <b>Chairperson</b>      |
| 2. Sen. (Prof.) Tom Odhiambo Ojienda, SC, MP | - <b>Vice-Chairperson</b> |
| 3. Sen. Ledama Olekina, MP                   |                           |
| 4. Sen. William Kipkemoi Kisang, MP          |                           |
| 5. Sen. Paul Karungo Thangwa, MP             |                           |
| 6. Sen. Miraj Abdillahi Abdulrahman, MP      |                           |
| 7. Sen. Eddy Gicheru Oketch, MP              |                           |
| 8. Sen. Hamida Kibwana Ali, MP               |                           |
| 9. Sen. Maureen Tabitha Mutinda, MP          |                           |

## **COMMITTEE SECRETARIAT**

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

## ESTABLISHMENT OF THE COMMITTEE

**Hon. Speaker,**

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

**Hon. Speaker,**

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

## **EXECUTIVE SUMMARY**

In the execution of its mandate, the Committee relied on the reports of the Auditor-General on audited Accounts of the hospitals for the Financial year 2021/2022 (1<sup>st</sup> July, 2021 to 30<sup>th</sup> June, 2022) as the primary documents for the investigations. The Committee invited the Governors as the Chief Executive Officers of their respective County Governments pursuant to Article 179(4) as witnesses to respond to the audit queries raised in the reports under consideration.

The Committee received both written and oral evidences from the Governors in response to the various audit queries raised by the Auditor-General in the reports under consideration on various dates. The Committee considered and concluded its inquiry onto the reports of the Auditor-General on the Financial Operations of the hospitals for the Financial Year 2021/2022.

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

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

**CHAPTER ONE** is a record of the audit queries raised in the report of the Auditor-General for Kapsabet County Referral Hospital for the Financial Year 2021/22 and observations and recommendations of the Committee on each audit query.

**CHAPTER TWO** is a record of the audit queries raised in the report of the Auditor-General for Karatina Sub County Hospital for the Financial Year 2021/22 and observations and recommendations of the Committee on each audit query.

**CHAPTER THREE** is a record of the audit queries raised in the report of the Auditor-General for Kilifi Health Improvement Fund for the Financial Year 2021/22 and observations and recommendations of the Committee on each audit query.

**CHAPTER FOUR** is a record of the audit queries raised in the report of the Auditor-General for Kinango Sub-County Hospital for the Financial Year 2021/22 and observations and recommendations of the Committee on each audit query.



**CHAPTER FIVE** is a record of the audit queries raised in the report of the Auditor-General for Kwale Sub County Hospital for the Financial Year 2021/22 and observations and recommendations of the Committee on each audit query.

**CHAPTER SIX** is a record of the audit queries raised in the report of the Auditor-General for Longisa County Referral Hospital for the Financial Year 2021/22 and observations and recommendations of the Committee on each audit query.

**CHAPTER SEVEN** is a record of the audit queries raised in the report of the Auditor-General for Lunga Lunga Sub County Hospital for the Financial Year 2021/22 and observations and recommendations of the Committee on each audit query.

**CHAPTER EIGHT** is a record of the audit queries raised in the report of the Auditor-General for Migori County Level 4 Hospital for the Financial Year 2021/22 and observations and recommendations of the Committee on each audit query.

**CHAPTER NINE** is a record of the audit queries raised in the report of the Auditor-General for Msambweni Sub-County Hospital for the Financial Year 2021/22 and observations and recommendations of the Committee on each audit query.

**CHAPTER TEN** is a record of the audit queries raised in the report of the Auditor-General for Mt. Kenya Sub County Hospital for the Financial Year 2021/22 and observations and recommendations of the Committee on each audit query.

**CHAPTER ELEVEN** is a record of the audit queries raised in the report of the Auditor-General for Mukurweini Sub County Hospital for the Financial Year 2021/22 and observations and recommendations of the Committee on each audit query.

**CHAPTER TWELVE** is a record of the audit queries raised in the report of the Auditor-General for Othaya Sub County Level 4 Hospital for the Financial Year 2021/22 and observations and recommendations of the Committee on each audit query.

## GENERAL OBSERVATIONS

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



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

## **GENERAL RECOMMENDATIONS**

The Committee recommends that-

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



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

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

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

## ACKNOWLEDGEMENTS

**Hon. Speaker,**

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

**Hon. Speaker,**

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

SIGNED: .....

DATE: .....04/12/2024.....

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

**CHAIRPERSON**

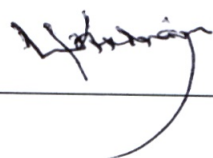
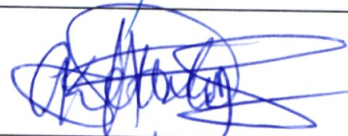
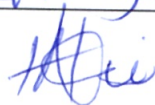


**ADOPTION OF THE REPORT OF THE SENATE SELECT COMMITTEE ON  
COUNTY PUBLIC INVESTMENTS AND SPECIAL FUNDS ON THE  
CONSIDERATION OF THE AUDIT REPORTS OF TWELVE COUNTY  
HOSPITALS FOR THE FINANCIAL YEAR 2021/2022**

| NO. | HOSPITAL                           | COUNTY |
|-----|------------------------------------|--------|
| 1.  | KAPSABET COUNTY REFERRAL HOSPITAL  | NANDI  |
| 2.  | KARATINA SUB COUNTY HOSPITAL       | NYERI  |
| 3.  | KILIFI HEALTH IMPROVEMENT FUND     | KILIFI |
| 4.  | KINANGO SUB-COUNTY HOSPITAL        | KWALE  |
| 5.  | KWALE SUB COUNTY HOSPITAL          | KWALE  |
| 6.  | LONGISA COUNTY REFERRAL HOSPITAL   | BOMET  |
| 7.  | LUNGA LUNGA SUB COUNTY HOSPITAL    | KWALE  |
| 8.  | MIGORI COUNTY LEVEL 4 HOSPITAL     | MIGORI |
| 9.  | MSAMBWENI SUB-COUNTY HOSPITAL      | KWALE  |
| 10. | MT. KENYA SUB COUNTY HOSPITAL      | NYERI  |
| 11. | MUKURWEINI SUB COUNTY HOSPITAL     | NYERI  |
| 12. | OTHAYA SUB COUNTY LEVEL 4 HOSPITAL | NYERI  |

We, the undersigned Members of the Select Committee on County Public Investments and Special Funds, do hereby append our signatures to adopt this report.

| No. | Name                                                                  | Signature                                                                             |
|-----|-----------------------------------------------------------------------|---------------------------------------------------------------------------------------|
| 1.  | Sen. Godfrey Atieno Osotsi, MP ( <i>Chairperson</i> )                 |  |
| 2.  | Sen. (Prof.) Tom Odhiambo Ojienda, SC, MP ( <i>Vice-Chairperson</i> ) |                                                                                       |
| 3.  | Sen. Ledama Olekina, MP                                               |                                                                                       |

|    |                                      |                                                                                     |
|----|--------------------------------------|-------------------------------------------------------------------------------------|
| 4. | Sen. William Kipkemoi Kisang, MP     |  |
| 5. | Sen. Paul Karungo Thangwa, MP        |                                                                                     |
| 6. | Sen. Miraj Abdillahi Abdulrahman, MP |  |
| 7. | Sen Eddy Gicheru Oketch, MP          |  |
| 8. | Sen. Hamida Kibwana Ali, MP          |  |
| 9. | Sen. Maureen Tabitha Mutinda, MP     |  |

## CHAPTER ONE

### **REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR KAPSABET COUNTY REFERRAL HOSPITAL FOR THE FINANCIAL YEAR 2021/2022**

The Governor for Nandi County, Hon. Stephen Sang, EGH, appeared before the Committee on Monday, 1<sup>st</sup> July, 2024, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Kapsabet County Referral Hospital for the financial year 2021/2022. The Governor was accompanied by:

1. Mr. Hillary Serem - CECM-Finance
2. Mrs. Ruth Koech - CECM-Health
3. Mr. Fredrick Kiptum - Chief Officer-Health
4. Mr. Fredrick Kemboi - County Health Accountant

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

The Auditor-General rendered a **qualified opinion** on the Financial Statements of the Kapsabet County Referral Hospital for the period under review on the following basis-

#### **1. Inaccuracies in Property, Plant and Equipment**

The statement for financial position reflects a balance of Kshs. 3,850,875 under property, plant and equipment as at 30<sup>th</sup> June, 2022 and as disclose in Note 31 to the financial statements. However, the register of fixed assets provided for audit reveals that the hospital owns several assets which have not been valued and disclosed under the section on summary of fixed assets.

In the circumstances, the accuracy and completeness of property, plant and equipment balance of Kshs. 3,850.875 could not be confirmed.

#### **Management Response**

The assets disclosed under Property, Plant and equipment of Kshs. 3,850.875 comprised of assets acquired during the financial year under review. However, as indicated above the hospital owns other assets like Land, Medical equipment and Motor vehicles which were not disclosed in the current Financial statements. This is because all equipment and Motor vehicles procured over the years by the County Executive, were contained in PPEs for County Executive and were reported under the financial statements for the County Executive.



The remaining assets which are not captured like Land and assets inherited from the National Government are in the process of being valued (this is spearheaded by IGTRC) and will be captured in the financial statements for the financial year 2023/2024. The County Government has already engaged a Government Valuer and the process is ongoing.

### **Committee Observations**

The Committee observed that-

- i. the Land, Medical equipment and Motor vehicles were excluded from the fixed asset register of the entity since they were procured by the County Executive thus were reported under the financial statements for the County Executive.
- ii. Some of the assets including land, were inherited from the National Government although the process of transfer of ownership to the Hospital is yet to be completed.

### **Committee Recommendations**

The Committee recommends that—

- i. **Within 6 months of the adoption of this report the Governor should ensure that the hospital assets are registered in favour of the hospital and thereafter, the hospital puts in place an updated asset register in the format prescribed by the Public Sector Accounting Standards Board pursuant to section 104(1)(h) of the Public Finance Management Act 2012, failure to which the penalties under section 199 of the Act shall apply;**
- ii. **the Accounting Officer of the hospital should maintain and update the fixed asset register as required by section 149(2)(o) of the Public Finance Management Act, 2012 and in the format prescribed by the Public Sector Accounting Standards Board pursuant to section 104(1)(h) of the Public Finance Management Act 2012, failure to which the penalties under section 199 of the Act shall apply; and**
- iii. **the Governor of Nandi County ensures that the hospital has an independent budget in the subsequent financial year to facilitate independent procurement processes and ensure proper financial tracking and accountability in accordance to section 20 of the Facilities**

**Improvement Financing Act 2023. Further, the budget must comply with Section 164(2) a) of Public Finance Management Act, CAP 412A with respect to disclosures on appropriated funds, failure to which penalties under section 199 of the Public Finance Management Act shall apply.**

## **2. Inaccuracies in the Statement of Comparison of Budget and Actual Amounts**

The statement comparison of budget and actual amounts reflects Nil balance in respect to total budgeted revenue while the actual revenue of reflect Ksh. 110,130,170. Similarly, the Hospital spent Ksh. 92,702,789 against Nil budget. Therefore, it was not possible to indicate revenue shortfall and the under- expenditure and this may have affected planned activities which negatively impacted on service delivery to the public.

In the circumstance, Management did not comply with the Public Sector Accounting Standards.

### **Management Response**

The actual hospital revenue and expenditure budget for the FY 2021/22 was Ksh. 120,130,170. This was the budget drawn from the departmental recurrent main budget at the County Executive and expended at the Hospital. The omission has since been effected has shown below;

| <b>Description</b>                          | <b>Original budget</b> | <b>Adjustments</b> | <b>F i n a l Budget</b> | <b>Actual on Comparable Basis</b> | <b>Performance Difference</b> | <b>% o f utilization</b> |
|---------------------------------------------|------------------------|--------------------|-------------------------|-----------------------------------|-------------------------------|--------------------------|
| <b>Revenue</b>                              | <b>a Kshs.</b>         | <b>B Kshs.</b>     | <b>C=(a+b) Kshs.</b>    | <b>D Kshs.</b>                    | <b>E=(c-d) Kshs.</b>          | <b>F=d/c %</b>           |
| Transfers from the County Government        | -                      | -                  | -                       | -                                 | -                             | -                        |
| Grants from donors and development partners | -                      | -                  | -                       | -                                 | -                             | -                        |
| Transfers from other Government Entities    | -                      | -                  | -                       | -                                 | -                             | -                        |

|                                                            |                         |          |                         |                         |                   |           |
|------------------------------------------------------------|-------------------------|----------|-------------------------|-------------------------|-------------------|-----------|
| P u b l i c<br>contribution<br>s a n d<br>donations        | -                       | -        | -                       | -                       | -                 | -         |
| Rendering of<br>services-<br>Medical<br>services<br>income | 120,130,1<br>70         | -        | 120,130,1<br>70         | 110,130,1<br>70         | 10,000,000        | 92        |
| R e v e n u e<br>from rent of<br>facilities                | -                       | -        | -                       | -                       | -                 | -         |
| Finance/inter<br>est income                                | -                       | -        | -                       | -                       | -                 | -         |
| O t h e r<br>r e c e i p t s<br>(specify)                  | -                       | -        | -                       | -                       | -                 | -         |
| <b>T o t a l<br/>income</b>                                | <b>120,130,1<br/>70</b> | <b>-</b> | <b>120,130,1<br/>70</b> | <b>110,130,1<br/>70</b> | <b>10,000,000</b> | <b>92</b> |
|                                                            |                         |          |                         |                         |                   |           |
| <b>Expenses</b>                                            |                         |          |                         |                         |                   |           |
| Medical/clin<br>ical costs                                 | 108,147,6<br>96         |          | 108,147,6<br>96         | 86,121,31<br>5          | 22,026,381        | 80        |
| Employee<br>costs                                          | -                       | -        | -                       | -                       | -                 | 0         |
| Remuneratio<br>n o f<br>Directors                          | -                       | -        | -                       | -                       | -                 | 0         |
| Repairs and<br>maintenance                                 | 4,401,000               | -        | 4,401,000               | -                       | 4,401,000         | 0         |
| Grants and<br>subsidies                                    | -                       | -        | -                       | -                       | -                 | 0         |
| G e n e r a l<br>expenses                                  | 7,581,474               | -        | 7,581,474               | 6,581,474               | 1,000,000         | 87        |
| F i n a n c e<br>costs                                     | -                       | -        | -                       | -                       | -                 | 0         |
| Refunds                                                    | -                       | -        | -                       | -                       | -                 | 0         |



|                                  |                    |   |                    |                   |                   |           |
|----------------------------------|--------------------|---|--------------------|-------------------|-------------------|-----------|
| <b>Surplus for the period</b>    | -                  | - | -                  | -                 | -                 | 0         |
| <b>C a p i t a l Expenditure</b> | <b>120,130,170</b> | - | <b>120,130,170</b> | <b>92,702,789</b> | <b>27,427,381</b> | <b>77</b> |
|                                  |                    |   |                    | 17,427,381        | 17,427,381        | 15        |

### **Committee Observations**

The Committee observed that the hospital's nil balances were a result of omissions caused by its budget being included under the County Executive's budget.

### **Committee Recommendations**

**The Committee recommends that—**

- i. the Governor of Nandi County ensures that the hospital has an independent budget for proper financial tracking and accountability in accordance with section 20 of the Facilities Improvement Financing Act 2023, failure to which penalties under section 28 of this Act shall apply this Act; and**
- ii. the Accounting Officer ensures strict compliance with section 15(a) and (b) of the Facilities Improvement Financing Act, Cap.277 with regards to preparation of the annual hospital work plan and budget failure to which penalties under section 28 of this Act shall apply.**

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

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

### **1. Lack of Assets Register**

During the year under review, the Hospital did not maintain a fixed assets register contrary to the provisions of Regulation 136(1) of the Public Finance Management (County Governments) Regulations, 2015 which provides that the Accounting Officer

shall be responsible for maintaining a register of assets under his or her control or possession as prescribed by the relevant laws.

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

### **Management response**

The Hospital did not maintain a fixed assets register because it was being maintained centrally by the County Executive. The identification and separation of the hospital assets from the County Executive assets has been done and the Hospital assets captured as per the fixed assets register provided, however, the valuation process is on-going.

### **Committee Observations**

The Committee observed that the Hospital did not maintain a fixed assets register because it was being maintained centrally by the County Executive.

### **Committee Recommendations**

The Committee recommends that—

- i. **the Accounting Officer ensures that the Hospital maintains an up-to-date asset register in the format prescribed by the Public Sector Accounting Standards Board pursuant to section 104(1)(h) of the Public Finance Management Act 2012, failure to which penalties under section 199 of the Public Finance Management Act shall apply;**
- ii. **the Governor of Nandi County prepares an independent budget to ensure proper financial tracking and accountability and the Hospital Management Team ensures strict compliance with section 15(a) and (b) of the Facilities Improvement Financing Act, Cap.277 with regards to preparation of the annual hospital work plan and budget failure to which penalties under section 28 of this Act shall apply; and**
- iii. **the Auditor-General to undertake physical verification of all assets of the Hospital and provide a status report to the Committee in the subsequent audit cycle.**

### **2. Failure to Conduct Annual Stock Taking**

During the year under review, the Hospital did not carry annual stock contrary to Section 162(2) of the Public Procurement and Assets Disposal Act 2015 which states that the

head of Procurement function shall arrange for occasional visits of inspection to the stores, at least quarterly in each calendar of the year and conduct quarterly and annual inventory and stock taking in order to ensure compliance with all respective governing laws and submit the report to the accounting officer.

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

### **Management response**

The department usually manages its stock/inventory using bin cards which record receipts and issuance of the commodities. In the year under review closing quantities were recorded but the costing of the same was not done. However, going forward stock taking will be done to include both the quantities and value in accordance with the required Accounting standards.

### **Committee Observations**

The Committee observed that the Hospital did not carry annual stock contrary to Section 162(2) of the Public Procurement and Assets Disposal Act 2015.

### **Committee Recommendations**

**The Committee recommends that the Accounting Officer ensures strict compliance with the provisions of Section 162(2) of the Public Procurement and Assets Disposal Act 2015, with regards to quarterly and annual inventory and stock taking, failure to which penalties under section 177 of this Act shall apply.**



## CHAPTER TWO

### **REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR KARATINA SUB-COUNTY HOSPITAL FOR THE FINANCIAL YEAR 2021/2022**

The Governor of Nyeri County, Hon. Edward Mutahi Kahiga, EGH, appeared before the Committee on Monday, 23<sup>rd</sup> September, 2024 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Karatina Sub County Hospital for the financial year 2021/2022. He was accompanied by –

- i). Mr. Robert Thuo Mwangi - CECM Finance
- ii). Dr. Joseph Maina Kiragu - CECM Health
- iii). Mr. Ibrahim Adan - Chief Officer Health
- iv). Mr. Peter Munyua - Medical Superintendent

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

The Auditor-General rendered a **qualified opinion** on the financial statements of the Karatina Sub-County Hospital for the period under review on the following basis-

#### **1. Inaccuracies in liabilities**

The statement to financial position reflects non-current liabilities balance of Kshs 10,029.450 instead of Nil balance resulting in an unexplained variance of Kshs 10,029.450. Further the statement reflects total liabilities balances of Ksh 21,884,141 instead of a balance of Ksh 10,029.450 resulting in an unexplained variance of Ksh 11,814,691.

#### **Management response**

The management takes note of observation by the auditor of the inaccuracies in the liabilities, this was occasion by wrong posting of figures in the financial statement, the correct position is Nil balance in non-current liabilities, and Ksh 10,029,450 for current liabilities hence a resultant total liability of Ksh 10,029,450.

The erroneous entries have been rectified and necessary adjustment made in the financial statement.

#### **Committee Observation**

The Committee observed that management acknowledged the inaccuracies, attributing them to incorrect postings in the financial statements which have since been rectified pending verification by the Auditor-General.

## **Committee Recommendations**

### **The Committee recommends that-**

- i. the Accounting Officer to take appropriate administrative action on responsible officers within the Accounts and Finance department who fail to keep complete financial records in accordance with section 156(1) of the Public Finance Management Act, Cap.412A and in line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- ii. the Accounting Officer should comply with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- iii. the National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties;**
- iv. the Accounting Officer should strengthen internal audit controls and ensure proper record keeping in line with section 155 of the Public Finance Management Act, Cap.412A and submit a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply; and**
- v. the Accounting Officer should enhance the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.**

## **2. Inaccuracies in Cash and Cash Equivalents**

The statement of financial position reflects cash and cash equivalent balance of Kshs. 1,216,189 whereas Note 17 to the financial statement which reflects Kshs. 1,223,017 resulting in an unexplained variance of Kshs. 123,017.

### **Management response**



The management notes the auditor's observation on the variance in the Note 17 on cash and cash equivalent the correct position of cash and cash equivalent is Kshs. 1,216,189 resulting to a variance of 6,828. The variance of Kshs. 6,828 related to cash revenue collected in the evening of 30<sup>th</sup> June 2022 that was banked into the Health sector revenue account on 1<sup>st</sup> July 2022. The variance has been corrected and the financial statement amended accordingly. Attached find bank slip and bank reconciliation statement.

### **Committee Observations**

The Committee observed that –

- i). the management clarified that the actual variance was Kshs 6,828, attributed to cash revenue collected on the evening of 30<sup>th</sup> June 2022 and banked on 1<sup>st</sup> July 2022 and the same was verified by the Auditor-General;
- ii). the variance had been corrected and the financial statements amended accordingly but the same had not been verified by the Auditor-General.

### **Committee Recommendations**

The Committee recommends that-

- i). **the Auditor-General to verify the amendments done to the financial statements by the management and provide a status update in the subsequent audit cycle;**
- ii). **the Accounting Officer to take appropriate administrative action on responsible officers within the Accounts and Finance department who fail to keep complete financial records in accordance with section 156(1) of the Public Finance Management Act, Cap.412A and in line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- iii). **the Accounting Officer should comply with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**



- iv). **the National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties;**
- v). **the Accounting Officer should strengthen internal audit controls and ensure proper record keeping in line with section 155 of the Public Finance Management Act, Cap.412A and submit a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply; and**
- vi). **the Accounting Officer should enhance the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in Integrated Hospital Management System (IHMS) to enhance efficiency and improve the accuracy of financial statements.**

### **3. Non-Compliance with Public Sector Accounting Standards Board requirement**

Review of financial statement revealed that the statement of changes in net assets was not prepared. This was contrary to the requirement of the guidelines of the reporting template issued by the Public sector accounting standards boards (PSASB).

#### **Management Response**

The management notes the auditor's observation on preparation of statement of changes in the net assets; this was occasion by lack of ownership documentation and valuation of the hospital asset, as such, the correctness of asset value could not be ascertained for reporting. This being the first year of transition from cash basis to accrual basis of reporting. The hospital has embarked on a process of valuation of asset to future year annual financial statement and report.

#### **Committee Observation**

The Committee observed that-

- i). **the management failed to prepare the statement of changes in net assets as required by the reporting template guidelines issued by the Public Sector Accounting Standards Boards (PSASB);**

- ii). the hospital did not have ownership documents of its assets;
- iii). valuation of assets in the year under review was not done and therefore the value of assets in the financial statements was not fairly stated

### **Committee Recommendations**

**The Committee recommends that-**

- i). the County Executive Committee Member responsible for finance should ensure compliance with section 105(1)(d) and (g) of the Public Finance Management Act, Cap. 412A with respect to enforcement of compliance by county entities with all applicable norms or standards regarding accounting practices as prescribed by the Accounting Standards Board, failure to which the penalties under section 199 of the Act shall apply;
- ii). the Accounting Officer responsible for the hospital should ensure total compliance with section 164(1) of the Public Finance Management Act, Cap. 412A with respect to preparation of financial statements, failure to which the penalties as per section 199 of the Act shall apply; and
- iii). the Governor should ensure that, within 60 days of the adoption of this report, the hospital has full ownership of all its assets, the assets are valued, and the Accounting Officer maintains an accurate up to date asset register line with section 149(2)(o) of the Public Finance Management Act, Cap. 412A and submit the same to Auditor-General for verification failure to which penalties under section 199 of the Public Finance Management Act shall apply.

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

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

#### **1. Non-compliance with Universal Health care requirements**

Audit review of service output from the Kenya Health Information System (KHIS) against the basic essential healthcare services that Karatina Sub County Hospital offers revealed that the Hospital does not offer some of the services accredited to a Level 4



hospital. In overall, the hospital fails to actualize its role in universal health care through offering primary services. There is need therefore for the Hospital to re-examine its service delivery pillars. The attached table shows the services offered against the expected services of a level 4 hospital.

### **Management Response**

The management takes note of observation by the auditor on services not offered at Karatina Sub County Hospital Namely Intensive care unit service, High dependency unit care and renal dialysis services. Whereas it is the desire of the hospital management to offer the services, the management is faced with limitation in resources i.e. human resource (wages bill), infrastructure and Equipment.

The management ensures highest standard of health to patients seeking these services by timely referring them to County Government Health facility (County Referral Hospital - Nyeri PGH) that the County has designated as the referral facility and equipped it to offer those specialised services. An elaborate referral system is available to ensure that patients seeking these services are promptly referred. This ensures economies of scale and optimal utilization hence achieving Value for money on the investment by County Government.

The following improvement are earmarked in the Financial Year 2023-24.

#### **a) Infrastructure**

The County Government has allocated Kshs 43 million towards completion of a stall building towards addressing infrastructure challenges. This will provide adequate space for progress expansion of service such as ICU, HDU and Renal services.

#### **b) Staffing**

In the Financial year 2023-24, two (2) out of the four (4) medical officers on training will be completing their training and resuming back to the facilities, these include a general surgeon and pediatrician.

The management will progressively address the identified gaps i.e. staffing, equipment and infrastructure towards achievement of UHC goal.

### **Committee Observation**

The Committee observed that-



- i). the hospital is not compliant with the requirements of universal healthcare as it does not offer some services expected of a Level 4 hospital, such as ICU, HDU, and renal dialysis services; and
- ii). this non-compliance impacts the hospital's role in providing primary healthcare services under the Kenya Health Information System (KHIS)

### **Committee Recommendations**

#### **The Committee recommends that-**

- i). the Governor prioritizes availing of adequate funding and resource allocation for essential services like ICU, HDU, and renal dialysis among others to enable Karatina Sub County Hospital to offer all the required services under the UHC;
- ii). the Governor should encourage the ongoing training and prioritize new recruitments to fill gaps in medical personnel, ensuring specialized services can be offered in-house;
- iii). the Governor should expedite the completion of infrastructure projects to provide adequate space and facilities for the new services; and
- iv). the Accounting Officer should implement a robust system for monitoring service delivery as per Level 4 hospital standards to ensure continuous improvement;

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

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

#### **1. Use of casual Employee in management of Health management information system**

Karatina Sub-County Hospital is operating a Health Management Information System. The software is used for three major purposes in the hospital namely, Point of sale in the hospital which is for receipting of patients, Clerking of patients and Billing of the inpatient at the point of discharge in the hospital. Audit examination revealed that the hospital relies on a casual employee who has been managing the system since July 2021

and has no single permanent employee in the IT department. The casual employee is bestowed with the responsibility of managing both hardware and software in the hospital.

### **Management Response**

The hospital management takes note of the matter raised in the audit. The hospital relies on County Department ICT domicile at County Headquarter for any major ICT needs, however the officers are inadequate necessitating the hospital to hire a casual to support minor troubleshooting occurrences who is supervised by the ICT department.

In recognition of the critical role played by ICT in improvement of service delivery, the hospital commits to embark on the following: -

1. Seek necessary approval from County Public Service Board to engage an ICT officer on a contractual basis at the facility level in the short run.
2. Engage the ICT department to post a permanent staff at the facility level to handle ICT matters in the long run.

### **Committee Observation**

The Committee observed that the hospital did not have a single permanent employee in the IT department for the purpose of managing both hardware and software in the hospital and that the responsibility was bestowed upon casual employees, posing a risk to the security of the system and sensitive data.

### **Committee Recommendations**

**The Committee recommends that-**

- i). **the Governor to immediately terminate engagement of casuals in handling sensitive data within the hospital and ensure that the hospital either prioritizes obtaining approval from the County Public Service Board to on-board competent ICT personnel to manage the system on contractual basis or engages the County Department ICT to post a permanent IT staff member at the hospital to ensure continuous and reliable IT support; and**
- ii). **the Governor to ensure that, within 60 days of the adoption of this report, a system audit is undertaken to assess the soundness of the system as well as check for any form of breach of the law with respect to data protection;**

## **2. Lack of a Risk Management Policy**



Karatina Sub County Hospital does not have a risk management policy in place. In the absence of the approved risk management policy, we could not confirm how the hospital carried out a risk assessment on key risky areas like expenditure contrary to Regulation 165 (1)(a), (b) contrary to the Public Finance Management National Government Regulations 2015.

Section 165 (1) of the Public Finance Management Act-National Government Regulations 2015 states that the Accounting Officer shall ensure that;(a) the National government entity develops risk management strategies, which include fraud prevention mechanism; and (b) the National government entity develops a system of risk management and internal control that builds robust business operations.

#### **Management Response.**

The observation of the auditor is noted, the Hospital has not developed a Risk management policy for purpose of assessing and mitigating risk. The hospital being a county institution is guiding by available county risk policy, the hospital commits to develop a policy for adoption by the Hospital Board, in consultation with available county risk policy.

#### **Committee Observation**

The Committee observed that the hospital operates without its own risk management policy and relied on the risk management policy by the County Government.

#### **Committee Recommendations**

**The Committee recommends that, within 90 days of the adoption of this report, the Accounting Officer responsible for the hospital should put in place a Risk Management Policy in line with regulation 158(1) of the Public Finance Management (County Government) Regulation, 2015. The policy should be adopted by the hospital board and evidence of the same submitted to the Auditor-General for verification. The Auditor-General to provide a status update on the matter in the subsequent audit cycle.**

### **3. Lack of Internal Audit Function**

Karatina Sub County Hospital has not established an internal audit department and no internal audit reviews were carried out contrary to Section 160(1) of the Public Finance Management (National Government) Regulations, 2015 that stipulates the role of the internal audit as reviewing and evaluating budgetary performance, financial management,



transparency and accountability mechanisms and processes in county government entities.

### **Management Response**

The hospital has not established an internal audit department as the function of the internal audit is domiciled in the County Department of Finance; hence, the hospital relies on the County Internal audit department for periodic internal audit.

During the period under review, the Internal Audit Department had been carried out an audit in the Month of April 2022 and a further audit in the month of February 2023. The management letter for both internal audits were shared with facility and responded to. However, the audit report was only shared with the Chief Officer and Director Health Service. The Hospital management has since obtained the latest internal Audit report and will strive to implement the recommendation of the Internal Auditor.

### **Committee Observation**

The Committee observed that the hospital did not have its internal audit function and that it relied on function of the internal audit is domiciled in the County Department of Finance.

### **Committee Recommendations**

**The Committee recommends that, within 90 days of the adoption of this report, the Accounting Officer responsible for the hospital should put in place an internal audit function in the hospital in line with section 155 of the Public Finance Management Act, Cap. 412A and ensure that it is adequately resourced to undertake its functions in accordance with regulation 153 of the Public Finance Management (County Government) Regulations, 2015. The Accounting Officer to submit evidence of the same to the Auditor-General for verification. The Auditor-General to provide a status update on the matter in the subsequent audit cycle.**

## CHAPTER THREE

### REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR KILIFI HEALTH SERVICES IMPROVEMENT FUND FOR THE FINANCIAL YEAR 2021/2022

The Governor for Kilifi County, Hon. Gideon Maitha Mung'aro, OGW, appeared before the Committee on Monday, 2<sup>nd</sup> September, 2024 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Kilifi Health Services Improvement Fund for the financial year 2021/2022. The Governor was accompanied by the following officers:

- |                      |   |               |
|----------------------|---|---------------|
| 1. Mr. Peter Mwamogo | - | CECM-Health   |
| 2. Mr. Raymond Ngala | - | CECM-Finance  |
| 3. Recheal Bahati    | - | Fund Manager  |
| 4. Binyanya Benjamin | - | Legal Advisor |

### REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered an **unqualified opinion** on the financial statements of the Kilifi Health Services Improvement Fund for the financial year on the following basis—

#### Other Matter

#### 1. Budgetary Controls and Performance

The statement of comparison budget and actual amounts reflects final revenue budget and actual on comparable basis of kshs. 418,426,159 and Kshs, 402,699,307 respectively resulting in an under-funding of kshs. 15,726,852 or 4% of the budget. Similarly, the fund expended Kshs, 398,019,314 against an approved budget of Kshs, 418,426, 159, resulting in an under-expenditure of Kshs. 20,406,845 or 5% of the budget.

#### Management Response

The County Executive hereby concurs with the auditors' observations and makes clarifications as below:

- The budget amounting to Kshs. 418,426,159 was a projected budget and was dependent on the performance in revenue collection from the hospitals. It's worth noting that the actual revenue collection didn't match the projected budget.

#### Committee Observations



The Committee observed that—

- i. The fund had an under-funding of Kshs. 15,726,852 or 4% of the budget during the financial year under review.
- ii. The fund failed to absorb Kshs. 20,406,845 or 5% of its budget during the financial year under review.

### **Committee Recommendations**

The Committee recommends that—

- i. **the Accounting Officer should ensure strict compliance with section 149(2)(h) and (i) of the Public Finance Management Act, Cap. 412A and the standards prescribed by the Public Sector Accounting Standard Board under IPSAS 24 on the presentation of budget information in the financial statements for an entity that prepares financial statements under the accrual basis of financial reporting, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply; and**
- ii. **the Accounting Officer should comply with regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply.**

## **2. Unresolved Prior Year Matters**

Various prior year audit issues remain unresolved as at 30th June,2022. Management did not provide reasons for the delay in resolving the prior year audit issues.

### **Management Response**

The fund management is still waiting for invitation.

### **Committee Observations**

The Committee observed that the management of the Fund did not take action in resolving the queries raised in the report of the Auditor-General for the financial year 2020/2021.

### **Committee Recommendations**



**The Committee recommends that—**

- i. the Accounting Officer should resolve any issues resulting from an audit that remains outstanding as required by section 149(2)(l) of the Public Finance Management Act, Cap. 412A, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply; and**
- ii. the Auditor-General provides a status update on the progress made on the matter in the subsequent audit cycle upon review of the progress report.**

## CHAPTER FOUR

### REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR KINANGO SUB-COUNTY HOSPITAL FOR THE FINANCIAL YEAR 2021/2022

The Governor for Kwale County, Hon. Fatuma Mohamed Achani, appeared before the Committee on Monday, 2<sup>nd</sup> September, 2024, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Kinango Sub-County Hospital for the financial year 2021/2022. The Governor was accompanied by:

1. Dr. Francis Gwama - CECM Health Services
2. Ms. Sylvia Chidodo - County Secretary
3. Mr. Salim Suleiman - County Attorney

### REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **qualified opinion** on the Financial Statements of the Kinango Sub-County Hospital for the period under review on the following basis-

#### 1. Non-Disclosures in Financial statements

##### 1.1 Property, Plant and Equipment

The statement of financial position as disclosed in Note 25 to the financial statements reflect property, plant and equipment amounting to Kshs 578,757 which relates to household appliances, office furniture and medical equipment procured during the year. However, review of Hospitals list of assets provided for audit revealed that the Hospital owns valuable assets which include Land and Buildings, Specialized and non-specialized medical equipment, furniture and fittings, Motor vehicles and ICT equipment which have not been disclosed in the financial statements. Further the assets historical costs, depreciation charges, accumulated depreciation and net book values, conditions, useful lives and disposal dates. It was therefore not possible to ascertain fixed assets values as at 30<sup>th</sup> June 2022.

#### Management Response

Valuation report of these assets was done in 2018, However some of them have depreciated fully, therefore a fresh valuation needs to be done which is ongoing for them to be included in the financial reports FY 2023-2024. A detailed Asset register is available.

### **Committee Observations**

The Committee observed that the management failed to disclose assets including Land and Buildings, Specialized and non-specialized medical equipment, furniture and fittings, Motor vehicles and ICT equipment within the hospital's financial statements.

### **Committee Recommendations**

**The Committee recommends that—**

- i. the Accounting Officer in charge of the hospital should maintain and update the fixed asset register as required by section 149(2)(o) of the Public Finance Management Act, 2012 and in the format prescribed by the Public Sector Accounting Standards Board pursuant to section 104(1)(h) of the Public Finance Management Act 2012, failure to which penalties under section 199 shall apply; and**
- ii. the Auditor-General to verify that the queried assets are disclosed within the financial statements in the financial year 2022/2023, in accordance to section 164(2)(a) of the Public Finance Management Act, of the subsequent Financial Year and provide a status update on the same to the Senate during the subsequent audit cycle.**

### **1.2 Inventories**

The Hospital operates equipped stores for pharmaceuticals, non-pharmaceuticals, kitchen and nutrition department, cleaning and laboratory items and equipment. However, no evidence was provided to show that stock taking exercise was conducted as at the end of the financial year. As a result, Management was not in position to identify, separate and account for the value of expired drugs as at 30 June 2022 and inventories were not disclosed in the financial year.

### **Management Response**

The management has taken note of the Auditors recommendations and since this was the first time the Hospital was audited independently all stock take will be done and closing stock disclosed in the FY 2023-2024 financial reports.

### **Committee Observations**

The Committee observed that the management failed to conduct stock-taking during the financial year under review. Further, the hospital's inventory was not disclosed within the financial statements.



## **Committee Recommendations**

**The Committee recommends that—**

- i. the Accounting Officer ensures compliance with the provisions of Section 162(2) of the Public Procurement and Assets Disposal Act 2015, with regards to quarterly and annual inventory and stock taking, failure to which penalties under section 177 of this Act shall apply;**
- ii. the Accounting Officer to take appropriate administrative action on responsible officers within the Accounts and Finance department who fail to keep complete financial records in accordance with section 156(1) of the Public Finance Management Act, Cap.412A and in line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- iii. the Accounting Officer should comply with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- iv. the National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties;**
- v. the Accounting Officer should strengthen internal audit controls and ensure proper record keeping in line with section 155 of the Public Finance Management Act, Cap.412A and submit a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply; and**
- vi. the Accounting Officer should enhance the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting**

**Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.**

### **1.3 Revenue**

During the financial year 2021/2022, the hospital collected revenue from rendering of services- medical fees amounting to Kshs. 9,274,986 and rental revenue from facilities of Kshs. 66,400. However, these revenues were not disclosed in the financial statements.

#### **Management Response**

The rental houses are under the Ministry Housing and the revenue of Kshs 66,400 is not a county revenue. The revenue collected at the Hospital is reported centrally at the County receiver of revenue.

#### **Committee Observations**

The Committee observed that—

- i. The management clarified that the rental revenue of Kshs. 66,400 was not county revenue as the facilities are owned by the Ministry of Lands, Housing and Urban Development.
- ii. the management clarified that the revenue of Kshs. 9,274,986 was not disclosed in the hospital's financial statements as the revenue is centrally reported at the County Receiver of Revenue. However, the amount could not be traced in Kwale County CRF or ROR financial statements.

#### **Committee Recommendations**

The Committee recommends that—

- i. **the Governor, in collaboration with the County Assembly should within 6 months of the adoption of this report develop a Facility Improvement Fund (FIF) to ring-fence the hospital's revenue; and**
- ii. **the Auditor-General to monitor the implementation of this recommendation and provide a status update in the subsequent audit cycle.**



#### **1.4 Contribution in-kind under the UHC Programme**

In the year 2020, the National Government rolled out the implementation of UHC programme where county Governments were allocated rights in form of support in procurement of pharmaceuticals and non-pharmaceuticals supplies and employment of medical staff to their health facilities through the Ministry of Health. During the year under review, the Hospital benefited from the programme by receiving pharmaceuticals and non-pharmaceuticals supplies worth Kshs 799,886 through KEMSA and seven (7) medical personnel paid for by the Ministry. However, Management has not disclosed in the financial statements the financial benefits accrued during the financial year 2021/2022.

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

#### **Management Response**

This was corrected in the financial statements.

#### **Committee Observations**

The Committee observed that the management failed to disclose the financial benefits accrued through the UHC programme in the financial statements of the Hospital.

#### **Committee Recommendations**

**The Committee recommends that—**

- i. the Auditor-General to verify that the financial benefits are disclosed within the financial statements in accordance with section 164(2)(a) of the Public Finance Management Act, of the subsequent Financial Year and provide a status update on the same to the Senate during the subsequent audit cycle;**
- ii. the Accounting Officer to take appropriate administrative action on responsible officers within the Accounts and Finance department who fail to keep complete financial records in accordance with section 156(1) of the Public Finance Management Act, Cap.412A and in line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- iii. the Accounting Officer should comply with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act,**



**Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**

- iv. the National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties;**
- v. the Accounting Officer should strengthen internal audit controls and ensure proper record keeping in line with section 155 of the Public Finance Management Act, Cap.412A and submit a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply; and**
- vi. the Accounting Officer should enhance the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.**

## **2. Unsupported Procurements**

### **2.1 Employee costs**

The statement of financial performance and Note 9 to the financial statements reflect salaries and wages amounting to Kshs. 185,742,040. Review of the payroll, revealed that during the financial year 2021/2022, two staffs working for the Hospital were paid a total of Kshs. 1,056,447 as salary arrears. However, Management did not provide explanations or provide document to support the payments.

In the circumstances, validity accuracy and completeness of Kshs. 1,056,447 on salary arrears could not be confirmed.

### **Management Response**

The figure of Kshs. 1,056,447 was not only arrears but Regular monthly payments and arrears of two officers for the month of June 2022. They were paid Regular monthly payments of Kshs. 197,000 and Kshs. 73,320. Their arrears was Kshs. 748,285.70 and

Kshs 37,842.60. Documents to support the arrears payments are available. The arrears arose due to the fact that these were new officer who were waiting payroll numbers for them to be paid.

### **Committee Observations**

The Committee observed that whereas the supporting documentation for the payments amounting to Kshs. 1,056,447 were provided and verified by the Auditor-General, and the query marked as addressed, the submission was done outside the timelines contemplated under the Public Audit Act, Cap.412B and constitutes an offence under section 62(2) of the Act.

### **Committee Recommendations**

**The Committee recommends that the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9 (1) (e) and section 47(1) of the Public Audit Act, Cap.412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62 (2) of the Public Audit Act, Cap.412B in the subsequent audit cycle.**

## **2.2 Patients' Food Rations**

The statement of financial performance and Note 8 to the financial statements reflect Kshs. 39,950,574 on medical and clinical costs incurred during the financial year. Included in this amount is Kshs. 8,534,046 with respect to patients' food rations and catering expenses. Review of payment records revealed that payments amounting to Kshs. 7,642, 947 were not supported with procurement records such as request for quotations, quotation opening register, minutes of quotation opening and evaluation, quotations evaluation reports, inspection and acceptance reports on goods delivered.

### **Management Response**

The suppliers for food and ratios for Hospitals were selected through a competitive IFMIS system procurement prequalification process where open tender RFQ were invited.15 bidders responded and 8 suppliers were selected. All procurement documents are available also inspection and acceptance reports are available.

### **Committee Observations**



The Committee observed that whereas the procurement documents to support payments amounting to Kshs. 7,642,947 were provided and verified by the Auditor-General, and the query marked as addressed, the submission was done outside the timelines contemplated under the Public Audit Act, Cap.412B and constitutes an offence under section 62(2) of the Act.

### **Committee Recommendations**

**The Committee recommends that the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9 (1) (e) and section 47(1) of the Public Audit Act, Cap.412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62 (2) of the Public Audit Act, Cap.412B in the subsequent audit cycle.**

### **2.3 Repair and Maintenance**

The statement of financial performance and Note 12 to the financial statements reflect Kshs. 2,902,464 on repair and maintenance expenditure incurred during the financial year. However, payments amounting to Kshs. 1,366,090 were not supported with procurement records such as request for quotations, quotation opening register, minutes of quotation opening and evaluation, quotations evaluation reports, inspection and acceptance reports on goods delivered.

In the circumstances, validity, accuracy and completeness expenditure amounting Kshs. 1,366,090 on payments for repair and maintenance could not be confirmed.

### **Management Response**

The breakdown of the payments in question were eight. Two were services for the service of Laboratory machines who are the authorized dealers by the Manufacturers of these machines. Two were services for the Hospital generator done by car and general who are also the authorized dealer for the manufacturers of the generator. The other supplies procurement records available.

### **Committee Observations**

The Committee observed that whereas the procurement documents to support payments amounting to Kshs. 1,366,090 were provided and verified by the Auditor-General, and the query marked as addressed, the submission was done outside the timelines contemplated under the Public Audit Act, Cap.412B and constitutes an offence under section 62(2) of the Act.



## **Committee Recommendations**

**The Committee recommends that the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9 (1) (e) and section 47(1) of the Public Audit Act, Cap.412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62 (2) of the Public Audit Act, Cap.412B in the subsequent audit cycle.**

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

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

### **1. Non-Compliance with the Budgeting Process**

Management did not prepare budget estimates of revenue and expenditure differentiating between recurrent and development expenditure of the Hospital for the year ended 30 June, 2022 contrary to Article 220(1)(a) of the Constitution of Kenya, 2010.

Management prepared 2021/2022 Annual Work Plan which covered the hospital activities during the year excluding the financial component of revenue and expenditure targets. However, the plan provided for audit review did not indicate the authority responsible for its preparation and there was no evidence that the plan was forwarded to the Hospital Board of Management, the County Department of Health and the County Treasury for review, recommendations and approval contrary to The National Treasury Circular No. No. 15/2016 of 19 August, 2016 which required all Accounting Officers to submit their budget estimates to the Parent Ministry/Departments for their comments and recommendations and approval.

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

### **Management Response**

A fully budgeting process is followed.

## **Committee Observations**

The Committee observed that—

- i. the management failed to prepare budget estimates of revenue and expenditure differentiating between recurrent and development expenditure of the Hospital contrary to Article 220(1)(a) of the Constitution of Kenya, 2010.
- ii. The management failed to provide evidence showing that the budget estimates of the Hospital were forwarded to the Hospital Board of Management, the County Department of Health and the County Treasury approval contrary to The National Treasury Circular No. No. 15/2016 of 19 August, 2016.

## **Committee Recommendations**

The Committee recommends that—

- i. the Accounting Officer ensures strict compliance with the provisions of Article 220(1)(a) of the Constitution of Kenya, 2010 with regards to preparation of budget estimates of revenue and expenditure differentiating between recurrent and development expenditure;
- ii. the Accounting Officer to ensure strict compliance with The National Treasury Circular No. No. 15/2016 of 19 August, 2016 with regards to submission of budget estimates to the Parent Ministry/Departments for their comments and recommendations and approval;
- iii. the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9 (1) (e) and section 47(1) of the Public Audit Act, Cap.412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62 (2) of the Public Audit Act, Cap.412B in the subsequent audit cycle; and
- iv. the Accounting Officer should ensure strict compliance with section 149(2)(h) and (i) of the Public Finance Management Act, Cap. 412A and the standards prescribed by the Public Sector Accounting Standard Board under IPSAS 24 on the presentation of budget information in the financial statements for an entity that prepares financial statements under the accrual basis of financial reporting, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply;



## **2. Failure to Prepare Procurement Plan**

During the financial year 2021/2022, Management did not prepare and submit its annual procurement plan to the County Department of Health and Medical Services for review and consolidation contrary to the requirements of Regulation 40 of the Public Procurement and Asset Disposal Act Regulations, 2020.

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

### **Management Response**

Procurement plan was available.

### **Committee Observations**

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

### **Committee Recommendations**

**The Committee recommends that the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9(1)(e) and section 47(1) of the Public Audit Act, Cap.412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62 (2) of the Public Audit Act, Cap.412B in the subsequent audit cycle.**

## **3. Non-Competitive Procurements**

The statement of financial performance and Note 8 to the financial statements disclosed Kshs. 39,950,574 as medical and clinical cost incurred during the year under review. Included in this amount is Kshs. 8,534,046 incurred on patients' food rations and catering expenses. Review of payment records revealed that out of payments amounting to Kshs. 8,534,046 incurred on patients' food rations, items costing Kshs. 7,605,447 (or 89%) were procured from one supplier contrary to Section 106(2b) of the Public Procurement and Asset Disposal Act, 2015 on effective competitiveness on procurement.

In the circumstances, the effectiveness of competition on procurement could not be confirmed and Management was in breach of the law.

## **Management Response**

The Department of Health prequalified 8 suppliers through competitive IFMIS system procurement process. Out of the 8 suppliers two did not had price schedules for Kinango Hospital i.e Mulani enterprises and Shekem General Supplies. Four were engaged in other facilities ;

Wilsors Company Ltd-Kwale Hospital

Kejswar Consultants Ltd-Msambweni Hospital

Jomo Aquaculture Farm Ltd-Lunga Lunga Hospital.

Nemo Investments-Samburu Hospital

Out of the remaining two suppliers the Hospital engaged Lily consultancy and General supplies on the basis that the suppliers is under youth category and situated at Samburu which is nearer to the Hospital to cater for emergency food supplies which the hospital order based on need basis.

## **Committee Observations**

The Committee observed that the hospital procured patients' food rations and items amounting to Kshs. 7,605,447 (89%) from one supplier contrary to Section 106(2)(b) of the Public Procurement and Asset Disposal Act, Cap.412C.

## **Committee Recommendations**

**The Committee recommends that the Accounting Officer ensures compliance with the provisions of Section 106(2)(b) of the Public Procurement and Asset Disposal Act, on effective competitiveness on procurement, failure to which penalties under section 177 of this Act shall apply.**

## **4.Compensation of Employees**

### **4.1 Officers Earning Less than One-third of the Basic Pay**

The statement of financial performance and Note 9 to the financial statements disclose salaries and wages amounting to Kshs. 185,742,040. Review of the payroll revealed that five (5) staff working in the Hospital earned net salaries which were less than one third of their basic pay contrary to Section 19 (3) of Employment Act 2007.

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



## **Management Response**

We concur audit findings; This may be contributed by factors beyond control like fluctuating of banks interests, unforeseen employees' deductions e.g the Housing levies e.t.c However this will be looked at to ensure compliance in future.

## **Committee Observations**

The Committee observed that the Hospital had five (5) employees earning below a third of their basic salary, contrary to Section 19(3) of the Employment Act No.11 of 2007.

## **Committee Recommendations**

**The Committee recommends that the Accounting Officer to comply with the provisions of section 19 (3) of the Employment Act, 2007 with regard to the one third rule on the deductions on the basic salary failure to which penalty under section 19(5) of the Act shall apply.**

## **4.2 Non-Deduction of NSSF Contributions**

The statement of financial performance and Note 9 to the financial statement reflect salaries and wages amounting to Kshs. 185,742,040. Review of the payroll revealed that ninety nine (99) staff working in the Hospital were not being deducted nor remittance done of their NSSF contributions contrary to Section 20 (1) of the National Social Security Fund Act, 2013.

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

## **Management Response**

All NSSF contributions were deducted and remitted to the relevant body. A detailed schedule and sample of employees pay slips are available. The payment was done for all the health employees for the month of June 2022 a total of Kshs 637,700 through EFT NO. FT221802XW2Q.

## **Committee Observations**

The Committee observed that whereas evidence to show that NSSF contributions were deducted and remitted was provided and verified by the Auditor-General, and the query marked as addressed, the submission was done outside the timelines contemplated under the Public Audit Act, Cap.412B and constitutes an offence under section 62(2) of the Act.

## Committee Recommendations

The Committee recommends that—

- i. the Accounting Officer in charge of hospital to adhere to Sections 19(1) and 20(1) of the National Social Security Fund Act, 2013 which requires every employer who, under a contract of service, employs one employee or employees, as members of the Fund and pay to the Pension Fund in respect of each employee in his or her employment, failure to which the penalty under section 19(5) of the Employment Act shall apply; and
- ii. the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9 (1) (e) and section 47(1) of the Public Audit Act, Cap.412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62 (2) of the Public Audit Act, Cap.412B in the subsequent audit cycle.

### 4.3 Understaffing of Medical Personnel

Review of staff establishment records and interviews of the Management revealed an understaffing of forty-four (44) after comparing the standard requirements and the actual personnel engaged by the Hospital as indicated below.

| Cadre             | L e v e l 4<br>Standard | In Post | Shortfall |
|-------------------|-------------------------|---------|-----------|
| Medical officers  | 16                      | 3       | 13        |
| Anesthesiologists | 2                       | 0       | 2         |
| General surgeons  | 2                       | 1       | 1         |
| Gynecologists     | 2                       | 1       | 1         |
| Pediatrics        | 2                       | 1       | 1         |
| Radiologists      | 2                       | 0       | 1         |
| Kenya Registered  | 75                      | 50      | 25        |



|                                    |  |  |    |
|------------------------------------|--|--|----|
| C o m m u n i t y<br>Health nurses |  |  |    |
|                                    |  |  | 44 |

A sample of staff interviewed raised concerns on staff fatigue, exhaustion and lack of morale due to overwhelming duties and responsibilities.

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

### **Management Response**

This is the capacity the Hospital has been allocated to accommodate due to budgetary constraints. However, staffing needs are communicated by the Chief Officer Health to the County Secretary for the County public service board to recruit.

### **Committee Observations**

The Committee observed that the hospital was understaffed which adversely affected the current employees who raised concerns on staff fatigue, exhaustion and lack of morale due to overwhelming duties and responsibilities.

### **Committee Recommendations**

**The Committee recommends that within sixty (60) days from the adoption of this report, the Governor and the Accounting Officer submit a comprehensive plan outlining the specific measures being taken to address the hospital's staffing shortages. The measures should include both short-term and long-term solutions, focusing on optimizing existing resources, improving employee welfare, and ensuring sustainable staffing levels moving forward.**

### **5. Non-Compliance on Biomedical Waste Management**

The Hospital Board of Management has an Environment and Infection, Prevention and Control Committee. The audit established that non-sensitive Hospital waste is accumulated at a dump site adjacent a non-functioning incinerator where it is later burnt while the sensitive biomedical waste is accumulated and transported to Msambweni Sub County Hospital for disposal. However, it was not demonstrated on how Management has

complied with NEMA Waste Management Regulations, 2006 on biomedical waste management specifically on:

- a) Requirement for Environmental Impact Assessment from Biomedical Waste generator
- b) Approval of Biomedical waste generating activity
- c) Monitoring by a lead agency
- d) Requirement for environmental audits.

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

### **Management Response**

The hospital has a functional burning chamber but the County Government has already set aside some funds in FY 2024-2025 for the construction of an incinerator.

### **Committee Observations**

The Committee observed that the management failed to demonstrate how the Hospital has complied with NEMA Waste Management Regulations, 2006 on biomedical waste management. However, the County Government has set aside some funds in FY 2024-2025 for the construction of an incinerator.

### **Committee Recommendations**

**The Committee recommends that—**

- i. **the Governor of Kwale County prepares and submits a comprehensive plan outlining the specific measures being taken to comply with the provisions of the NEMA Waste Management Regulations, 2006 and provide a status update within 60 days from the adoption of this report; and**
- ii. **the Auditor-General to verify the status on the construction of the incinerator and report to the committee in the subsequent audit cycle.**

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

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



## **1. Expired Tenure of Board of Management**

The Hospital's Board of Management had nine (9) members during the year ended 30 June, 2022. However, review of board file provided for audit revealed that the tenure of the members expired in May, 2021 as per their appointment letters. However, there was no evidence that their contracts were ever renewed contrary to the Governance Parameter 1.5 (1) of Mwongozo Guidelines on Board of Management for public entities.

In addition, the board minutes are neither signed by the Chairman, Secretary nor any board member.

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

### **Management Response**

The period for BOM members was extended. Copy of the extension document attached.

### **Committee Observations**

The Committee observed that members of the Board of Management of the Hospital continued to perform their duties despite the expiration of their tenure.

### **Committee Recommendations**

**The Committee recommends that—**

- i. the County Executive Committee Member (CECM) for Health ensures strict compliance with section 9(j) of the Facilities Improvement Financing Act, Cap. 277, regarding the appointment of Board of Management members; and**
- ii. the CECM should ensure that all appointments are conducted in accordance with the law and that no Board member serves beyond the three-year term as prescribed by section 19 of the Facilities Improvement Financing Act.**

## **2. Lack of Risk Management Framework**

During the year under review the Hospital operated without a documented risk management policy framework. In addition, the audit and risk committee of the Board of Management did not complement the process of risk identification, risk assessment and evaluation of likely hood of risk occurrence and its impact on entities' operation.

Failure by public sector entity to effectively manage risks negatively impacts the attainment of the entities strategic, operational, reporting and compliance objectives at different entity levels

#### **Management Response**

The Hospital has adopted the County Risk Management framework.

#### **Committee Observations**

The Committee observed that the Hospital operated without a risk management policy framework in place during the financial year under review.

#### **Committee Recommendations**

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

### **3. Lack of an Approved Disaster Recovery Plan**

The Hospital operates an IT system called Revenue Management System-E claim which is responsible in capturing, storing and processing fees. In addition, the hospital is responsible for custody of sensitive medical data of the population seeking its services alongside other operational data such as pharmaceutical and non-pharmaceutical inventory management activities. However, it was noted that the Hospital has no approved IT continuity plan and disaster recovery plan and therefore in the event of disaster the hospital may lose data and could not be able to recover from the disaster. Further, the Hospital doesn't have an IT steering and risk management committee. In the circumstances, it could not be ascertained how the Hospital would achieve its IT strategic objectives.

#### **Management Response**

The county has a data recovery centre in the department of ICT.



### **Committee Observations**

The Committee observed that the Hospital operated without an approved IT continuity plan and disaster recovery plan during the financial year under review.

### **Committee Recommendations**

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

#### **4. Failure to Establish Internal Audit Unit and Audit Committee**

The Hospital has not established an audit committee and internal audit function contrary to Regulation 167(1) of the Public Finance Management (County Governments) Regulations, 2015 which requires County Government entities to establish audit committees in accordance with prescribed regulations to monitor the entities governance process, accountability process and control systems, offer objective advice on issues concerning risk, control, regulatory requirements and governance.

In the circumstances, Management can override controls and cases of fraud and errors may not be detected and corrected in a timely manner.

### **Management Response**

The Hospital has adopted the County Audit Committee.

### **Committee Observations**

The Committee observed that the Hospital operated without an audit committee and internal audit function during the financial year under review contrary to Regulation 167(1) of the Public Finance Management (County Governments) Regulations, 2015.

### **Committee Recommendations**

**The Committee recommends that the Board of Management ensures that the Hospital puts in place all internal control systems such as the Internal Audit Committee as provided under section 155(5) of the Public Finance Management Act,**

**2012, among others to guide the internal operations of the Hospital. Further, the management to submit evidence of the same to the Auditor-General for verification.**



## CHAPTER FIVE

### REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR KWALE SUB-COUNTY HOSPITAL FOR THE FINANCIAL YEAR 2021/2022

The Governor for Kwale County, Hon. Fatuma Mohamed Achari, appeared before the Committee on Monday, 2<sup>nd</sup> September, 2024, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Kwale Sub-County Hospital for the financial year 2021/2022. The Governor was accompanied by:

1. Dr. Francis Gwama - CECM Health Services
2. Ms. Sylvia Chidodo - County Secretary
3. Mr. Salim Suleiman - County Attorney

### REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **qualified opinion** on the Financial Statements of the Kwale Sub-County Hospital for the period under review on the following basis-

#### 1. Inaccuracies of In-Kind Contributions from County Government

The statement of financial performance and as disclosed in note 7 to the financial statement reflects in-kind contributions from the county government of Ksh. 232,843,448. However, the amount excludes pharmaceuticals and non-pharmaceuticals from Kenya Medical Supplies Authority (KEMSA) and Mission for Essential Drugs and Supplies (MEDS) worth Ksh. 16,776,091 paid for by the County Government and free Global fund commodities to fight Tuberculosis, HIV and Malaria amounting to ksh.17,555,447.

In the circumstances, the accuracy and completeness of the in-kind contributions from the county Government amounting to ksh.232, 843,448 could not be confirmed.

#### Management response

The pharmaceutical and non-pharmaceutical from Kenya Medical Supply (KEMSA) and Mission for essential Drugs and supplies (MEDS) worth ksh 16,776,091 paid for by county government and the free Global fund Commodities for the fight against tuberculosis, HIV and Malaria worth ksh 17,555,447 were not captured in our financial statement. This error was noted and has since been corrected.

## **Committee Observations**

The Committee observed that the management failed to disclose pharmaceutical and non-pharmaceutical from Kenya Medical Supplies Authority (KEMSA) and Mission for essential Drugs and supplies (MEDS) worth Kshs. 16,776,091 within the financial statements of the hospital during the financial year under review.

## **Committee Recommendations**

**The Committee recommends that—**

- i. the Accounting Officer of the hospital ensures that all donations either in-kind or in cash are disclosed in accordance to section 164(2)(a) of the Public Finance Management Act, with their accompanying monetary value in the financial statements of the hospital, failure to which penalties under section 199 shall apply;**
- ii. the Accounting Officer ensures that the pharmaceuticals and non-pharmaceuticals amounting to Kshs. 16,776,091 and free Global fund commodities to fight Tuberculosis, HIV and Malaria amounting to Kshs 17,555,447 are disclosed within the financial statements of the subsequent financial year and the Auditor-General to provide a status update on the same during the subsequent audit cycle;**
- iii. the Accounting Officer to take appropriate administrative action on responsible officers within the Accounts and Finance department who fail to keep complete financial records in accordance with section 156(1) of the Public Finance Management Act, Cap.412A and in line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- iv. the Accounting Officer should comply with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- v. the National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties;**



- vi. **the Accounting Officer should strengthen internal audit controls and ensure proper record keeping in line with section 155 of the Public Finance Management Act, Cap.412A and submit a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- vii. **the Accounting Officer should enhance the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements; and**
- viii. **the Accounting Officer ensures that supporting documents are availed to the Auditor during audit as required under section 9(1)(e) of the Public Audit Act, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit in the subsequent audit cycle.**

## **2. Undisclosed Revenue from Exchange Transactions**

The statement of financial performance and as disclosed in note 11 to the financial statements reflects a nil amount under medical service income from rendering of services. However, review of documents provided for audit reflects revenue collection of ksh. 6,022,139 through Mpesa pay bill account under the same source of income. Further, review of documents reveal that the hospital procured drugs from Kenya Medical Supplies Authority (KEMSA) and Mission for Essential Drugs and Supplies (MEDS) which the hospital pharmacy dispenses at a fee. The payments were made through the Hospital's Mpesa paybill account. However, the prices of sampled one hundred and forty (140) medicines costing ksh. 4,087,820 were not captured in the Mpesa paybill statements.

In the circumstances, the accuracy and completeness of nil amount of general expenses could not be confirmed.

### **Management response**

The nil balance to the financial statement on note 11 is due to the below explanations;

The mandate to collect revenue in Kwale County is vested on the department of Finance and economic planning, revenue section. Collection of revenue is done centrally by the Finance department.

The Mpesa paybill account used to collect the monies in relation to Kwale Hospital transactions belong to the finance and economic planning department under revenue section. No monies realized from the hospital transactions ever goes to the hospital Bank account.

The hospital revenue collected are purely under the revenue collection section and are reported as revenue collected by the same section.

Reporting the same revenue in Kwale Hospital will affect the consolidated revenue collection figure at the county level as same revenue will have been reported twice. However, with the coming of the Facility Improvement Financing (FIF) law which will take effect from July 2024, the facility will collect and bank revenues for all Hospital transactions and report the revenue realized in the financial statements.

The sampled medicines costing kshs. 4,087,820 not captured by Mpesa pay bill statement were medicines issued free to people living with disabilities, prisoners, epileptic patients and emergency cases.

### **Committee Observations**

The Committee observed that the nil balance in relation to revenues was due to the Hospital's revenue being collected by the Kwale County - Department of Finance and economic planning.

### **Committee Recommendations**

**The Committee recommends that the County Executive Committee Member (CECM) – Health ensures the effective collection and retention of revenue by the Hospital in line with section 9(a) of the Facilities Improvement Financing Act, Cap, failure to which penalties under section 28 of this Act shall apply.**

### **3. Undisclosed Receivable from Exchange Transactions**

The statement of financial position and note 28 reflects a nil balance under receivables from exchange transactions. However, review of documents reveal that the hospital prepared National Hospital Insurance fund (NHIF) claims amounting to kshs. 8,129,500 and was refunded an amount of kshs. 7, 282,400, resulting into a shortfall of kshs.



847,100 in respect to receivables from NHIF. Further, the contract agreement between the Hospital and the NHIF indicating the terms and conditions of operations was not provided for audit.

In the circumstances, the accuracy and completeness of nil balance of receivables from exchange transactions could not be confirmed.

### Management response

The revenue from NHIF claims is also collected centrally by the department of Finance and Economic planning, revenue section, hence it was not treated as revenue by the hospital since it will be double reporting of the same revenue.

We have made a follow up with the revenue section on the shortfall in NHIF claims payment of ksh 847,100 and they gave us the below response.

“The unpaid amounts of kshs. 847,100 were included in arrears statement of the Receiver of Revenue Report FY 2021/22 as per table below.

### Statement of Arrears of Revenue as At 30th June 2022

| Classification of Receipts<br><br>(Indicate As Applicable) | Balance as at 1 <sup>st</sup> July 2021 | Arrears received during the year | Additions in arrears for the current year to June 30, 2022 | Total arrears as at 30 June 2022 | Measures taken to recover the arrears | Assessment to the recoverability of arrears |
|------------------------------------------------------------|-----------------------------------------|----------------------------------|------------------------------------------------------------|----------------------------------|---------------------------------------|---------------------------------------------|
| Cess                                                       | 7,700,259.39                            | (2,321,200.00)                   | 1,434,200.00                                               | 6,813,259.39                     |                                       |                                             |
| Land/Poll Rate                                             | 9,529,579.00                            | (9,529,579.00)                   |                                                            | -                                |                                       |                                             |
| Single/Business Permits                                    |                                         |                                  |                                                            | -                                |                                       |                                             |
| Property Rent                                              | 1,478,100.00                            | (271,851.00)                     | 760,651.00                                                 | 1,966,900.00                     |                                       |                                             |
| Parking Fees                                               |                                         |                                  |                                                            | -                                |                                       |                                             |

|                          |                             |                               |                             |                             |  |  |
|--------------------------|-----------------------------|-------------------------------|-----------------------------|-----------------------------|--|--|
| Market Fees              |                             |                               |                             | -                           |  |  |
| Advertising              | 4,598,600.00                | (4,598,600.00)                |                             | -                           |  |  |
| Hospital Fees            | 21,138,890.00               | (21,138,890.00)               | 14,249,150.00               | 14,249,150.00               |  |  |
| <b>T o t a l Arrears</b> | <b><u>44,445,428.39</u></b> | <b><u>(37,860,120.00)</u></b> | <b><u>16,444,001.00</u></b> | <b><u>23,029,309.39</u></b> |  |  |

Further, out of the arrears amount, a claim amounting to Shs. 54,400 was later returned, kshs. 269,720 was paid in the financial year 2022/2023 and Shs.522, 980 which was unpaid by NHIF at the time of audit was latter paid.

Below kindly find details of the returned claim and the paid arrears.

#### Returned claim

| Name | Member Number | Visit Type | C l a i m Number | Claim Amount | Return Reason | Date Added | D a t e Returned |
|------|---------------|------------|------------------|--------------|---------------|------------|------------------|
|------|---------------|------------|------------------|--------------|---------------|------------|------------------|



|            |                                                                                   |              |                   |
|------------|-----------------------------------------------------------------------------------|--------------|-------------------|
| 11.10.2022 | H O S P I T A L<br>I N S U R A N C E F U N D                                      | FT22284CM4X5 | 3,140.00          |
| 11.10.2022 | Salary Payment<br>N A T I O N A L<br>H O S P I T A L<br>I N S U R A N C E F U N D | FT22284CZMDY | 26,540.00         |
| 24.08.2022 | Salary Payment<br>220812778 0004<br>B A N K<br>FT22236TR40G                       | FT22236TR40G | 2,260.00          |
| 16.01.2023 | Salary Payment<br>221210322 0005<br>B A N K<br>FT23016QDF39                       | FT23016QDF39 | 6,240.00          |
|            | <b>TOTAL</b>                                                                      |              | <b>269,240.00</b> |
|            | <b>BANK TRANSFER<br/>A M O U N T S<br/>DEDUCTED( 60*8)</b>                        |              | <b>480</b>        |
|            |                                                                                   |              | <b>269,720.00</b> |

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The unpaid amount of kshs.522,980 was later paid as per the table below.

| Creditor A/c |              | 7774080 KWALE DISTRICT HOSPITAL |            | Address    |                    | P.O. BOX 9030 KWALE |                   |  |  |  |
|--------------|--------------|---------------------------------|------------|------------|--------------------|---------------------|-------------------|--|--|--|
| Jnl Date     | Bank A/c     | Cheque/Ref No.                  | Posted     | Jnl No     | Description        | Status              | Amount            |  |  |  |
| 13/02/2023   | 103233-00010 | EFT230112737.0013               | 15/02/2023 | CD/2844991 | FFS                | Cleared             | 2,800.00          |  |  |  |
| 13/06/2023   | 103233-00010 | EFT230512174.0004               | 14/06/2023 | CD/2948471 | FFS                | Cleared             | 600               |  |  |  |
| 13/06/2023   | 103233-00010 | EFT230413183.0003               | 14/06/2023 | CD/2968828 | REBATE             | Cleared             | 9,000.00          |  |  |  |
| 13/06/2023   | 103233-00010 | EFT230413649.0001               | 14/06/2023 | CD/2970696 | MAT                | Cleared             | 10,000.00         |  |  |  |
| 13/06/2023   | 103233-00010 | EFT230413727.0004               | 14/06/2023 | CD/2970907 | FFS                | Cleared             | 43,500.00         |  |  |  |
| 13/06/2023   | 103233-00010 | EFT230414202.0005               | 14/06/2023 | CD/2972401 | REBATE             | Cleared             | 174,000.00        |  |  |  |
| 14/06/2023   | 103043-00000 | EFT230212764.0002               | 15/06/2023 | CD/2977189 | LINDA MAMA DELIVER | Cleared             | 140,000.00        |  |  |  |
| 14/06/2023   | 103043-00000 | EFT230213757.0001               | 15/06/2023 | CD/2979324 | LINDA MAMA DELIVER | Cleared             | 140,000.00        |  |  |  |
| 14/06/2023   | 103043-00000 | EFT230214096.0001               | 15/06/2023 | CD/2980348 | ANC                | Cleared             | 3,000.00          |  |  |  |
|              |              |                                 |            |            |                    |                     | <b>522,900.00</b> |  |  |  |

The NHIF contract agreement has been attached.

### Committee Observations

The Committee observed that—

- i. the nil balance in relation to revenues from NHIF claims was due to the Hospital's revenue being collected by the Kwale County - Department of Finance and economic planning.
- ii. whereas the contract agreement between the Hospital and the NHIF was provided and verified by the Auditor-General, and the query marked as addressed, the submission was done outside the timelines contemplated under the Public Audit Act, Cap.412B and constitutes an offence under section 62(2) of the Act.

### Committee Recommendations

The Committee recommends that—

- i. the County Executive Committee Member (CECM) – Health ensures the effective collection and retention of revenue by the Hospital in compliance



with section 9(a) of the Facilities Improvement Financing Act, Cap.277 failure to which penalties under section 28 of this Act shall apply; and

- ii. the Accounting Officer should ensure timely submission of documents during the audit process in accordance with section 9(1)(e) and section 47(1) of the Public Audit Act, Cap.412B, failure to which the Committee shall recommend for their investigation and prosecution in compliance with section 62(2) of the Public Audit Act, Cap.412B in the subsequent audit cycle.

#### **4. Inaccuracies in General Expenses**

The statement of financial performance reflects general expenses amounting to Kshs. 8,860,115 as disclosed in note 21 to the financial statements. Included in this amount are Kshs. 1,098,285 and Kshs. 671,112 on travel and accommodation allowance and motor vehicle running expenses respectively. However, the supporting ledger for travel and accommodation allowance reflects a balance Kshs. 752,185, resulting to an un reconciled variance of Kshs. 346,100 and the motor vehicle running expenses of Kshs. 671,112 were not supported by a ledger.

Further, general expenses amounting to Kshs. 3,083,225 in respect of publishing and printing services of Kshs. 12,450, supplies for computers and printers of Kshs. 812,000, general office supplies of Kshs. 1,962,620, and purchase of household and institutional appliances of Kshs. 296,155 were not disclosed in the financial statements.

In the circumstances the accuracy and completeness of general expenses amounting to Kshs. 8,860,115 could not be confirmed.

#### **Management response**

In the year under review the hospital incurred travel, accommodation and other allowances expenses amounting to Kshs. 1,098,285 in respect of travel Kshs. 47,450, accommodation domestic travel Kshs. 144,000, board's allowances Kshs. 346,100 and daily subsistence allowances Kshs. 560,735.

Since the unreconciled figure of Kshs. 346,100 the auditor pointed out is the same as the board allowance figure we suspect that he must have left the boards allowance while calculating the total for travel, accommodation and other allowances.

The figure of Kshs 671,112 in respect to motor vehicle running expenses was an aggregate figure culminating from an amount of Kshs 118,150 paid by the Hospital and

Kshs 552,962 paid by the administration (department of health headquarters) as per annexed ledgers.

The general expenses amounted to Kshs 3,083,225 provided by the Auditor in respect to publishing and printing services of Kshs 12,450, supplies for computers and printers of ksh 812,000 and General office supplies as Kshs 1,962,620 and purchase of house hold and institutions appliance of Kshs 296,155 could not match with our records, we suspect the auditor used the financial statement before the revised one. As per our ledgers, the amount of each expenditure items mentioned above are as below;

|                                                |                       |
|------------------------------------------------|-----------------------|
| Publish and printing                           | ksh 10,000            |
| Supplies for computers and printer             | ksh 400,000           |
| General office Supplies                        | ksh 850,000           |
| Purchase of house hold & institution appliance | ksh 296,155           |
| <b>TOTAL</b>                                   | <b>Kshs 1,556,155</b> |

We could not establish where the auditor got the figures from.

### **Committee Observations**

The Committee observed that—

- i. The management clarified that the variance of Kshs. 346,100 were board allowances.
- ii. The management failed to provide ledgers to support motor vehicle running expenses of Kshs. 671,112 for audit review.
- iii. The management failed to disclose general expenses amounting to kshs. 3,083,225 in the financial statements of the Hospital.

### **Committee Recommendations**

The Committee recommends that—

- i. **the Auditor-General to verify that the general expenses amounting to Kshs. 3,083,225 are disclosed in line with section 164(2)(a) of the Public Finance Management Act, within the financial statements of the subsequent Financial Year and provide a status update on the same to the**



**Senate during the subsequent audit cycle. Failure to adhere to this section constitutes an attracts penalties under section 199 of this Act;**

- ii. the Accounting Officer to take appropriate administrative action on responsible officers within the Accounts and Finance department who fail to keep complete financial records in accordance with section 156(1) of the Public Finance Management Act, Cap.412A and in line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- iii. the Accounting Officer should comply with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- iv. the National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties;**
- v. the Accounting Officer should strengthen internal audit controls and ensure proper record keeping in line with section 155 of the Public Finance Management Act, Cap.412A and submit a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- vi. the Accounting Officer should enhance the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.**

- vii. **the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9(1)(e) and section 47(1) of the Public Audit Act, Cap.412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62 (2) of the Public Audit Act, Cap.412B in the subsequent audit cycle.**

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

The statement of financial position reflects property, plant and equipment balance of kshs. 358,740 and as disclosed in note 31 to the financial statements. However, the financial statements do not disclose non-current assets purchased during the year amounting to kshs. 1,175,300 in respect of furniture and fittings of kshs. 448,600, computers, printers and other IT equipment of kshs. 701,700, and medical and dental equipment of kshs.25,000. Further, the statement of financial position and as disclosed in note 18 of the financial statements reflects a depreciation expense of kshs.39, 860 which was not supported by hospital depreciation policy.

In the circumstances the accuracy and completeness of property, plant and equipment balance of kshs. 358,740 could not be confirmed.

### **Management response**

During the year under review. The auditor revealed that we purchased non-current assets worth ksh 1,175,300 in respect to furniture and fittings of ksh 448,600, Purchase of computer, printers & other IT equipment ksh 701,700 and medical & dental equipment of ksh 25,000. These figure differs with our ledgers for the year 2021/2022 for the mentioned expenditure items as shown below.

|                                |             |
|--------------------------------|-------------|
| Purchase furniture and fitting | ksh 299,999 |
|--------------------------------|-------------|

|                                              |             |
|----------------------------------------------|-------------|
| Purchase of computer, printer & it equipment | ksh 300,000 |
|----------------------------------------------|-------------|

|                                        |             |
|----------------------------------------|-------------|
| Purchase of medical & dental equipment | ksh 100,000 |
|----------------------------------------|-------------|

The figure presented by the auditor could not match our ledgers.

The hospital works under the regulations and policies adopted by the county government of Kwale. The county government of kwale currently adopts a 10% straight line method of depreciation. The depreciation expense of Ksh. 39,860.00 is arrived at upon



application of straight line method of depreciation from the value of property, Plant & Equipment of Ksh. 398,600.00 hence the balance of Ksh. 358,740.00.

### **Committee Observations**

The Committee observed that—

- i. The management failed to disclose non-current assets purchased during the year amounting to kshs. 1,175,300 in the financial statements of the hospital.
- ii. The management failed to provide a hospital depreciation policy to support a depreciation expense of kshs. 39,860 for audit review.

### **Committee Recommendations**

The Committee recommends that—

- i. **The Auditor-General to verify that the non-current assets amounting to Kshs. 1,175,300 are disclosed within the financial statements, in line with section 164(2)(a) of the Public Finance Management Act, of the subsequent Financial Year and provide a status update on the same to the Senate during the subsequent audit cycle. Failure to disclose attracts penalties under section 199 of the Public Finance Management Act;**
- ii. **the Accounting Officer to take appropriate administrative action on responsible officers within the Accounts and Finance department who fail to keep complete financial records in accordance with section 156(1) of the Public Finance Management Act, Cap.412A and in line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- iii. **the Accounting Officer should comply with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- iv. **the National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties;**

- v. **the Accounting Officer should strengthen internal audit controls and ensure proper record keeping in line with section 155 of the Public Finance Management Act, Cap.412A and submit a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- vi. **the Accounting Officer should enhance the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements; and**
- vii. **the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9 (1) (e) and section 47(1) of the Public Audit Act, Cap.412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62 (2) of the Public Audit Act, Cap.412B in the subsequent audit cycle.**

#### **6. Unsupported Payment for Drugs**

Review of documents revealed that the Hospital ordered a total of 12,685 costing kshs. 1,311,970 while KEMSA delivered a total of 18,750 units costing to kshs. 2,153,820 resulting into an over supply of 6,065 units at a cost of kshs.841,850 which were not supported by a procurement order.

In the circumstances, the regularity of the payment for the additional 6,065 units of drugs costing kshs. 841,850 could not be confirmed.

#### **Management response**

All facilities in Kwale County make orders for drugs through the county health department. A single LPO for all facilities is prepared and sent to KEMSA for deliveries. KEMSA delivers the drugs to each facility. During the year under review kwale hospital ordered for 30,147 units of drugs but were supplied with 25,787 units worth ksh 3,088,551 as evidenced by Invoice and delivery notes.

#### **Committee Observations**



The Committee observed that the management explained that the over-supply of 6,065 units was a donation from KEMSA therefore, the query was addressed.

### **Committee Recommendations**

**The Committee recommends that—**

- i. **the Accounting Officer in-charge of the hospital should ensure strict adherence to section 5(2) and (3) of the Facilities Improvement Financing Act, 2023 with regards to retention and recording of donations and monies in public health facilities. Failure to adhere to this law attracts penalties under section 28 of this Act; and**
- ii. **the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9(1)(e) and section 47(1) of the Public Audit Act, Cap.412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62 (2) of the Public Audit Act, Cap.412B in the subsequent audit cycle.**

### **Other Matter**

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

The statement of appropriation reflects final receipts and actual on a comparable basis of Kshs. 143,052,415 and Kshs. 128,911,747 respectively, resulting to an under funding of Kshs. 14,140,668 (or 10%) of the budget. Similarly, the Hospital spent Kshs. 127,622,107 against an approved budget of Kshs. 129,492,283 resulting to an optimal utilization of the budget.

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

#### **Management Response**

The management appreciates the issue raised by the auditor in that there was an approved budget of Kshs 129,492,283 and managed to utilize Kshs 127,622,107 making a variance of Kshs 1,870,176 (1.44%) meaning 98.56% was absorbed by the hospital.

In this way, the underfunding could not bring much negative since many of the hospital operational activities were achieved ranging from staff salaries, reagents for laboratory

tests, Pharmaceutical and non- pharmaceutical items, global fund commodities for TB and HIV patients to medical equipment and consumables in theatre.

### **Committee Observations**

The Committee observed that the Hospital had an under-funding of Kshs. 14,140,668 (or 10%) of the budget during the financial year under review.

### **Committee Recommendations**

**The Committee recommends that—**

- i. the Accounting Officer should ensure strict compliance with section 149(2)(h) and (i) of the Public Finance Management Act, Cap. 412A and the standards prescribed by the Public Sector Accounting Standard Board under IPSAS 24 on the presentation of budget information in the financial statements for an entity that prepares financial statements under the accrual basis of financial reporting, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply; and**
- ii. the Accounting Officer should comply with regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply.**

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

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

### **1. Non- Compliance with The Public Sector Accounting Standards**

The financial statements header did not indicate the name of the Hospital under the statement of financial performance, the statement of financial position, the statement of change in net asset, the statement of cash flows and the statement of comparison of budget and actual amounts.



In the circumstances, the financial statements have not been prepared in accordance with the recommended reporting template and guidelines issued by the public sector accounting standards board.

### **Management response**

This was an oversight and the anomaly was noted and has since been rectified.

### **Committee Observations**

The Committee observed that the financial statements of the hospital were not prepared in accordance with the recommended reporting template and guidelines under... issued by the Public Sector Accounting Standards Board (PSASB).

### **Committee Recommendations**

**The Committee recommends that—**

- i. the Accounting Officer to take appropriate administrative action on responsible officers within the Accounts and Finance department who fail to keep complete financial records in accordance with section 156(1) of the Public Finance Management Act, Cap.412A and in line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- ii. the Accounting Officer should comply with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- iii. the National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties;**

- iv. **the Accounting Officer should strengthen internal audit controls and ensure proper record keeping in line with section 155 of the Public Finance Management Act, Cap.412A and submit a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- v. **the Accounting Officer should enhance the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.**

## **2. Failure to Deduct and Remit National Social Security Fund Contributions**

The staff payroll for the financial year under review revealed that management failed to deduct and remit employees' National Social Security Fund (NSSF) contributions amounting to kshs.488,800 contrary to section 19(1) and 20(1) of the National Social Security Fund, 2013 which requires every employer who, under a contract of service, employs one employee or more shall register with the fund as a contributing employer and shall, register his employee or employees, as member of the fund and pay to the pension fund in respect of each employee in his or her employment.

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

### **Management response**

In Kwale County human resource services are handled centrally by the County Human resource department. Payroll issues are handled at the human resource department. However, we made a follow up on this matter and found out that all employees employed by the county government were deducted NSSF dues and these were subsequently remitted to the pension fund.

### **Committee Observations**

The Committee observed that whereas evidence to show that NSSF contributions were deducted and remitted was provided and verified by the Auditor-General, and the query marked as addressed, the submission was done outside the timelines contemplated under the Public Audit Act, Cap.412B and constitutes an offence under section 62(2) of the Act.



## **Committee Recommendations**

**The Committee recommends that—**

- i. the hospital to adhere to Sections 19(1) and 20(1) of the National Social Security Fund Act, 2013 which requires every employer who, under a contract of service, employs one employee or employees, as members of the Fund and pay to the Pension Fund in respect of each employee in his or her employment, failure to which the penalty under section 19(5) of the Employment Act shall apply; and**
- ii. the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9 (1) (e) and section 47(1) of the Public Audit Act, Cap.412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62 (2) of the Public Audit Act, Cap.412B in the subsequent audit cycle.**

### **3. Irregular Waivers of Patient Bills**

Review of the Hospital revenue system revealed patients bills fees waivers amounting to kshs.388,080 by three officers who had no delegated authority for such approvals from the accounting officer or the receiver of revenues as required of the regulation 64(3) of the public finance management(county governments) regulations, 2015 which provide that the accounting officer or receiver of revenue or collector of revenue shall include in the report under paragraph (1), the following details in respect of each waiver or variation; (a) the full name of each person benefitting from the waiver or variation; (b) the amount of tax, fee or charges affected by the waiver or variation;(c) the year to which the waiver or variation relates; (d) the reasons for the waiver or variations

Also, the circumstances for the waivers, an assessment report indicating the patients' inability to pay for the services rendered, the quarterly report submitted to the county treasury and the auditor general were not provided for audit review.

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

#### **Management response**

The authority to waive is vested on the CEC Member of Finance and Economic Planning. The CEC Member of Health services has delegated authority to waive on behalf of the CEC Member of Finance and Economic Planning. A letter from CEC Member of health

services instructed all medical Superintendent to form waiver committees. The medical superintendent appointed 3 officers to help her perform the delegated duties. There is an elaborate criterion to assess the capability of patients to pay. There is a social worker who assesses the socio-economic status of the client and informs the committee of his findings. There are also waiver forms that are filled by the waiver committee which have the name of the patient, the amount waived, the date and reason for the waiver.

### **Committee Observations**

The Committee observed that—

- i. The management failed to provide the necessary approvals regarding the delegation of authority to three officers to waive patient bills for audit verification.
- ii. The management failed to provide a waiver assessment report for audit review.

### **Committee Recommendations**

The Committee recommends that—

- i. **the Accounting Officer to take appropriate administrative action on the officers within the Accounts and Finance department who fails to keep complete financial records in accordance with their terms and conditions of appointment or employment and as required by section 156(1) of the Public Finance Management Act, Cap.412A, failure to which penalties under section 199 of this Act shall apply; and**
- ii. **the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9(1)(e) and section 47(1) of the Public Audit Act, Cap.412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act, Cap.412B in the subsequent audit cycle.**

### **4. Irregular Procurement of Furniture**

Review of documents revealed that a supplier was paid an amount of kshs. 385,365 for the supply of six (6) tables and ten (10) chairs where the procurement was made through request for quotations. However, no appointment letter for adhoc opening and evaluation committees, professional opinion, and minutes of the committees as required by the regulation 91(2) of the public procurement and asset disposal regulations, 2020 were



provided for audit. Further, no store ledger and fixed asset register were provided to confirm the receipt and issue of the assets. Physical verification of the furniture conducted on 16th May 2023 revealed that the hospital could not identify the tables and chairs.

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

### **Management response**

The detailed technical specifications for the purchase of office furniture was clearly communicated to the bidders. The specifications were attached to the S10 (RFQ), since they could not fit to S10 (RFQ).

The store department received and issued the furniture through S13 and S11 respectively as indicated. The physical verification of the furniture can be confirmed. The distribution list has been attached in the payment voucher for easy tracing of the furniture. The hospital adhoc opening and evaluation committee minutes are attached in the same annex.

### **Committee Observations**

The Committee observed that whereas appointment letter, professional opinion, minutes of the committees, store ledger and fixed asset register were provided and verified by the Auditor-General, and the query marked as addressed, the submission was done outside the timelines contemplated under the Public Audit Act, Cap.412B and constitutes an offence under section 62(2) of the Act.

### **Committee Recommendations**

**The Committee recommends that—**

- i. the Accounting Officer of the hospital should maintain and update the fixed asset register as required by section 149(2)(o) of the Public Finance Management Act, 2012, and in the format prescribed by the Public Sector Accounting Standards Board pursuant to section 104(1)(h) of the Public Finance Management Act 2012, failure to which the penalties under section 199 shall apply;**

- ii. **the Accounting Officer ensures strict compliance with the provisions of Section 106(2)(b) of the Public Procurement and Asset Disposal Act, on effective competitiveness on procurement, failure to which penalties under section 177 of this Act shall apply; and**
- iii. **the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9 (1) (e) and section 47(1) of the Public Audit Act, Cap.412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act, Cap.412B in the subsequent audit cycle.**

## **5. Poor Management of Medical Supplies**

The management of pharmaceuticals and non-pharmaceuticals revealed that the KEMSA and MEDS delivered medical supplies to the Hospital between July, 2021 and June, 2022. However, the stores officer received the supplies amounting to kshs. 3,989,039 without the involvement of a pharmacist or appointed specialist to confirm whether the supplies met the quality specifications.

In addition, KEMSA delivery notes dated 21 April, 2022 and 28 October, 2021 shows that individuals who are not Hospital staff received supplies amounting to Kshs. 1,743,814. These supplies could not be traced in the department of health stores to verify whether they were used at the facility.

Further, medical supplies delivered in the months of August, 2021, May, 2022 and June, 2022 amounting to kshs. 978,869 were received by undisclosed persons whose details are not recorded on the delivery notes.

In the circumstances, the value for money on medical supplies could not be confirmed.

### **Management response**

During the year under review All deliveries from KEMSA were received by Kwale sub-county Hospital staff as per the schedule below;



| <b>C S<br/>Receipt<br/>Date</b> | <b>Delivery Note<br/>No</b> | <b>Received By</b> | <b>p a y r o l l<br/>number</b> | <b>UOM</b>   | <b>Q t y<br/>Issued</b> | <b>T o t a l<br/>Value</b> |
|---------------------------------|-----------------------------|--------------------|---------------------------------|--------------|-------------------------|----------------------------|
| 21/04/2022                      | EMB-2-056403-2021/2022      | AYUB               | 1993060293                      | 100 ML       | 183                     | 30,227                     |
| 21/04/2022                      | EMB-2-056403-2021/2022      | AYUB               | 1993060293                      | PACK OF 100S | 147                     | 47,409                     |
| 21/04/2022                      | EMB-2-056403-2021/2022      | AYUB               | 1993060293                      | PACK OF 100S | 353                     | 3,842                      |
| 21/04/2022                      | EMB-2-055991-2021/2022      | AYUB               | 1993060293                      | PACK OF 100S | 2                       | 2,593                      |
| 21/04/2022                      | EMB-2-055991-2021/2022      | AYUB               | 1993060293                      | PACK         | 18                      | 526,588                    |
| 21/04/2022                      | EMB-2-056403-2021/2022      | AYUB               | 1993060293                      | PACK OF 30S  | 180                     | 24,647                     |
| 21/04/2022                      | EMB-2-056403-2021/2022      | AYUB               | 1993060293                      | PACK OF 30S  | 84                      | 133,791                    |
| 21/04/2022                      | EMB-2-056403-2021/2022      | AYUB               | 1993060293                      | PACK OF 120S | 6                       | 944                        |
| 21/04/2022                      | EMB-2-056403-2021/2022      | AYUB               | 1993060293                      | PACK OF 60S  | 30                      | 47,400                     |
| 21/04/2022                      | EMB-2-056403-2021/2022      | AYUB               | 1993060293                      | PACK OF 30S  | 3                       | 47,400                     |
|                                 |                             | <b>AYUB Total</b>  |                                 |              |                         | <b>864,839</b>             |
| 28/10/2021                      | EMB-2-023870-2021/2022      | ZACHARIA           | 20190039493                     | ROLL         | 175                     | 210,000                    |
| 28/10/2021                      | EMB-2-023870-2021/2022      | ZACHARIA           | 20190039493                     | PACK OF 10S  | 30                      | 13,380                     |
| 28/10/2021                      | EMB-2-023870-2021/2022      | ZACHARIA           | 20190039493                     | PIECE        | 200                     | 9,400                      |

|            |                        |          |             |              |       |         |
|------------|------------------------|----------|-------------|--------------|-------|---------|
| 28/10/2021 | EMB-2-023870-2021/2022 | ZACHARIA | 20190039493 | PACK OF 100S | 4     | 11,200  |
| 28/10/2021 | EMB-2-023870-2021/2022 | ZACHARIA | 20190039493 | DOZEN        | 25    | 15,025  |
| 28/10/2021 | EMB-2-023870-2021/2022 | ZACHARIA | 20190039493 | PIECE        | 50    | 3,000   |
| 28/10/2021 | EMB-2-023870-2021/2022 | ZACHARIA | 20190039493 | TUBE         | 120   | 15,600  |
| 28/10/2021 | EMB-2-023870-2021/2022 | ZACHARIA | 20190039493 | ROLL         | 50    | 13,500  |
| 28/10/2021 | EMB-2-023870-2021/2022 | ZACHARIA | 20190039493 | 5L           | 16    | 13,600  |
| 28/10/2021 | EMB-2-023870-2021/2022 | ZACHARIA | 20190039493 | VIAL         | 1,344 | 51,072  |
| 28/10/2021 | EMB-2-023870-2021/2022 | ZACHARIA | 20190039493 | VIAL         | 450   | 17,100  |
| 28/10/2021 | EMB-2-023870-2021/2022 | ZACHARIA | 20190039493 | VIAL         | 6     | 228     |
| 28/10/2021 | EMB-2-023870-2021/2022 | ZACHARIA | 20190039493 | 30ML         | 100   | 4,300   |
| 28/10/2021 | EMB-2-023870-2021/2022 | ZACHARIA | 20190039493 | PACK OF 10   | 400   | 142,000 |
| 28/10/2021 | EMB-2-023870-2021/2022 | ZACHARIA | 20190039493 | BOTTLE       | 2,000 | 44,000  |
| 28/10/2021 | EMB-2-023870-2021/2022 | ZACHARIA | 20190039493 | PACK OF 100S | 20    | 3,400   |
| 28/10/2021 | EMB-2-023870-2021/2022 | ZACHARIA | 20190039493 | PACK OF 30S  | 180   | 10,800  |
| 28/10/2021 | EMB-2-023870-2021/2022 | ZACHARIA | 20190039493 | PACK OF 10   | 20    | 2,300   |



|            |                        |                       |             |                   |       |                  |
|------------|------------------------|-----------------------|-------------|-------------------|-------|------------------|
| 28/10/2021 | EMB-2-023870-2021/2022 | ZACHARIA              | 20190039493 | AMPOULE           | 30    | 8,250            |
| 28/10/2021 | CMS-2-002629-2021/2022 | ZACHARIA              | 20190039493 | 500ML             | 270   | 12,150           |
| 28/10/2021 | CMS-2-002629-2021/2022 | ZACHARIA              | 20190039493 | 500ML             | 1,230 | 55,350           |
| 28/10/2021 | EMB-2-023870-2021/2022 | ZACHARIA              | 20190039493 | 100 ML            | 4     | 31,720           |
| 28/10/2021 | EMB-2-023870-2021/2022 | ZACHARIA              | 20190039493 | AMPOULE           | 50    | 8,700            |
| 28/10/2021 | EMB-2-023870-2021/2022 | ZACHARIA              | 20190039493 | Blisters OF 100's | 10    | 700              |
| 28/10/2021 | EMB-2-023870-2021/2022 | ZACHARIA              | 20190039493 | T U B E 15GM      | 500   | 10,500           |
| 28/10/2021 | EMB-2-023870-2021/2022 | ZACHARIA              | 20190039493 | TUBE 3.5 GM       | 400   | 7,600            |
| 28/10/2021 | EMB-2-023870-2021/2022 | ZACHARIA              | 20190039493 | CAN               | 100   | 31,100           |
| 28/10/2021 | EMB-2-023870-2021/2022 | ZACHARIA              | 20190039493 | 1 0 M L VIAL      | 100   | 53,000           |
| 28/10/2021 | EMB-2-023870-2021/2022 | ZACHARIA              | 20190039493 | 5 M L VIAL        | 50    | 80,000           |
|            |                        | <b>ZACHARIA Total</b> |             |                   |       | <b>878,975</b>   |
|            |                        |                       |             |                   |       |                  |
|            |                        | <b>Grand total</b>    |             |                   |       | <b>1,743,814</b> |

All deliveries to Kwale Sub-county Hospital are entered in our stores control cards.

#### Committee Observations

The Committee observed that—

- i. the stores officer received supplies valued at Kshs. 3,989,039 without the involvement of a pharmacist or appointed specialist to verify if the supplies met the required quality specifications.
- ii. supplies amounting to Kshs. 1,743,814, which were received by individuals who were not hospital staff, could not be traced in the department of health stores.
- iii. Supplies amounting to kshs. 978,869 were received by undisclosed persons whose names were not recorded on the delivery note.

### **Committee Recommendations**

The Committee recommends that—

- i. **the Ethics and Anti-Corruption Commission (EACC) to conduct an investigation into the untraceable supplies and possible loss of funds amounting to Kshs. 1,743,814 and give a status on the same to the committee within 60 days of the adoption of this report;**
- ii. **the Accounting Officer ensures strict compliance with the provisions of Section 162(2) of the Public Procurement and Assets Disposal Act 2015, with regards to quarterly and annual inventory and stock taking, failure to which penalties under section 177 of this Act shall apply;**
- iii. **the Accounting Officer to ensure that a procurement policy with clear guidelines for specialist involvement at every stage of the supply chain, with documented verification procedures to guarantee that all received supplies meet the required quality standards, is implemented within 60 days from the adoption of this report.**

### **6. Poor Implementation of Universal Health Coverage**

Review of documents revealed that the Ministry of Health through KEMSA, under the UHC program made a drugs donation to the Hospital on 21 December, 2021 worth kshs. 550,355 for the implementation of universal health coverage which was found to be insufficient in sustaining the program. Further, the status of the employment contracts for the deployed healthcare workers could not be established.



In addition, review of the stock records revealed that the hospital experienced stock-outs of essential medical supplies of between eight (8) to one hundred and seventeen (117) days during the year while the management did not have a minimum reorder levels policy on replenishment of medical supplies.

In the circumstances, the attainment of universal health care may not be achieved which may impact negatively on service delivery to the public.

### **Management response**

The UHC program is under the National government via the Ministry of Health. The program has not been fully rolled out as it involves citizens accessing health services through the NHIF cards. It is work in progress. Concerning the Healthcare workers, their contracts expired but we have received communication of the commitment by the national government through Council of Governors that their contracts will be renewed. The facility has a re order level of two months' stock but inconsistency in funds disbursement made it hard to order for drugs timely. However, the pharmacist dispensed substitute drugs that were available for continuity of service delivery.

### **Committee Observations**

The Committee observed that—

- i. The drug donation worth Kshs. 550,355 under the UHC program was insufficient to sustain the hospital's needs;
- ii. the healthcare workers' contracts had expired and were yet to be renewed as at the time of audit;
- iii. the hospital faced stock-outs of essential medical supplies due to the inconsistency in funds disbursement.

### **Committee Recommendations**

The Committee recommends that—

- i. the Governor of Kwale to engage KEMSA and the Ministry of Health to address the shortfall and request additional supplies or financial support to meet the hospital's drug needs;
- ii. the Governor of Kwale County should ensure that the health workers have valid contracts in line with the Employment Act; and
- iii. the County should ensure full implementation of the provisions of the Facilities Improvement Financing Act of 2023.

## **7. Weak Internal Controls in Revenue Collection**

Review of the Hospital's patients flow chart revealed that a patient was first registered then proceeded for examination, consultation, treatment and pharmacy. However, the Hospital's monthly service workload report for the financial year 2021/2022 indicated that a total of 52,533 patients were registered but only 15,106 patients made cash payments amounting to kshs.6, 022,130. However, the variance of 37,427 patients who could not be attributed to NHIF care has not been explained.

The monthly service workload report indicates that twelve (12) inpatients whose details were not disclosed escaped from the Hospital before making payments, however, there was no evidence that the cases were reported to the management and how the outstanding amounts were recovered.

In the circumstances, the weaknesses in internal controls on own generated revenue may impact negatively on revenue generation.

### **Management response**

The variance of 37,427 patients between the number of patients registered and the number of patients who made cash payments can be attributed to the following;

- All clients attending CCC and TB clinic are exempted 3988
- All clients attending nutrition services are exempted 647
- All children under the age of 5 years are registered but exempted from payments. 16195
- All patients over 60 years are exempted 3146
- All clients attending MCH/FP services are exempted 13552

The hospital management has since established the following new security measures to avoid instances of patients escaping from the wards without settling their bills;

- All patients admitted in the wards are required to be in full patients' uniform during the entire admission period and their home clothes are given back to the patient after clearing their respective bills with the revenue department.



- The management has installed a chain link fence around the wards in addition to the already existing fence covering the entire hospital.
- The management has enhanced security around the wards with at least one security personnel available at the entrance/exit of the gate to the new fence surrounding the wards, this serves as an extra security to purposely monitor the movements of the patients and relatives visiting their loved ones during the regular visiting hours.

### **Committee Observations**

The Committee observed that—

- i. 12 inpatients escaped without paying, with no evidence of reporting or recovery of the outstanding amounts.
- ii. out of 52,533 patients in the 2021/2022 financial year, only 15,106 made cash payments, leaving an unexplained variance of 37,427 patients not attributed to NHIF care.

### **Committee Recommendations**

The Committee recommends that—

- i. **the Accounting Officer ensures the implementation of an integrated hospital management information system that accurately tracks patient registrations, services rendered, payments received, and outstanding balances. The Accounting Officer to provide a status update on the implementation of the aforementioned system to the Senate within 60 days of the adoption of this report;**
- ii. **there should be an investigation by the Ethics and Anti-Corruption to account for the monetary value of the 12 escaped inpatients and payments made by the 37,427 patients. Those found culpable should be prosecuted by the Office of Director of Public Prosecution; and**
- iii. **the hospital management should implement a suitable integrated hospital management information system in accordance with the existing health legislations and regulations under the Digital Health Act No.15 of 2023 in as far as application of comprehensive integrated digital health information system is concerned.**

## **8. Shortage of Health Care Workers**

Review of the Hospital's processes revealed that it did not have an approved staff establishment to determine the optimal number of staffs. The draft staff establishment indicates a total staff requirement of two hundred and eight two (282) against the in- post of one hundred and sixty-four (164), resulting in a shortage of one hundred and eighteen 118 employees, out of which one hundred and one (101) are healthcare workers.

In the circumstances, the hospital lacks capacity to provide primary healthcare services as intended for a level four Hospital.

### **Management response**

The shortage of health care workers is caused by budget constraints. However, the management progressively increased the number of staff to 171 as per the attached schedule.

| <b>FINANCIAL YEAR</b> | <b>ESTABLISHMENT</b> | <b>IN POST</b> | <b>VARIANCE</b> | <b>GROWTH</b> |
|-----------------------|----------------------|----------------|-----------------|---------------|
| <b>2021-2022</b>      | <b>282</b>           | <b>164</b>     | <b>118</b>      |               |
| <b>2023-2024</b>      | <b>282</b>           | <b>171</b>     | <b>111</b>      | <b>7</b>      |

### **Committee Observations**

The Committee observed that the hospital was understaffed which adversely affected the current employees.

### **Committee Recommendations**

The Committee recommends that—

- i. **within sixty (60) days from the adoption of this report, the Governor and the Accounting Officer submit a comprehensive plan outlining the specific measures being taken to address the hospital's staffing shortages. The measures should include both short-term and long-term solutions, focusing on optimizing existing resources, improving employee welfare, and ensuring sustainable staffing levels moving forward; and**



- ii. **the Governor should enhance their own source revenue and make budgetary provision to allocate money to employ more qualified staff to serve in the hospital.**

## **16. Irregular Composition of Board and Appointment of its Members**

The Hospital's board of management had nine (9) members appointed on 4<sup>th</sup> May, 2018 for a three (3) years term to end on 3rd May, 2021. However, on 27 September, 2022, the CEC member of health services issued an internal memo to the Accounting officer of all level 4 and 5 Hospitals in Kwale County to continue working with the then current board members until further notice. As a result, the board members continued to be in office without valid appointments, over thirteen (13) months after the expiry of their contracts.

In addition, the board did not include deputy county commissioner, sub county medical services officer, person in-charge of the hospital, and a person with knowledge and experience with finance and administration matters as required by the governance guidelines for Hospital management committees for level 4 and 5 Hospitals, 2021 issued by ministry of Medical services, 2011.

In the circumstances the regularity of the board as composed and its effectiveness in governance could not be confirmed.

### **Management response**

The board members were properly appointed for an extended period of 1 year. This was during the transition period. However, the new board was appointed 2<sup>nd</sup> May 2023 as per the gazette notice attached and was in place during the audit

- i) Board extension letter
- ii) Board gazettelement may 2023 No VOL.CXXV-N0 157

### **Committee Observations**

The Committee observed that—

- i. Members of the Board of Management of the Hospital continued to perform their duties despite the expiration of their tenure.
- ii. the board membership did not include deputy county commissioner, sub county medical services officer, person in-charge of the hospital, and a person with knowledge and experience with finance and administration matters

contrary to the governance guidelines for Hospital management committees for level 4 and 5 Hospitals, 2021 issued by ministry of Medical services, 2011.

### **Committee Recommendations**

**The Committee recommends that—**

- i. the County Executive Committee Member (CECM) for Health ensures strict compliance with section 9(j) of the Facilities Improvement Financing Act, Cap. 277, regarding the appointment of Board of Management members;**
- ii. the CECM - Health should ensure that all appointments are conducted in accordance with the law and that no Board member serves beyond the three-year term as prescribed by section 19 of the Facilities Improvement Financing Act; and**
- iii. the County Executive Committee Member (CECM) for Health ensures strict compliance with the governance guidelines for Hospital management committees for level 4 and 5 Hospitals, 2021 issued by ministry of Medical services, 2011.**

### **17. Expired Supplies**

Review of management of pharmaceuticals and non-pharmaceuticals at the Hospital revealed that 1,249 units of various drugs of undetermined value had expired between august, 2021 to June, 2022 since the stores officer did not use First Expiry First out (FEFO) principle while issuing the supplies.

In the circumstances, the lack effective management of pharmaceuticals and non-pharmaceutical policies may result in expiry of medical supplies.

#### **Management response**

Most of the drugs that expired in the Kwale hospital were short expiry drugs that were donated by KEMSA.

#### **Committee Observations**

The Committee observed that 1,249 units of various drugs of undetermined value expired between August 2021 and June 2022 due to the failure of the stores officer to apply the First Expiry, First Out (FEFO) principle when issuing supplies.

#### **Committee Recommendations**



**The Committee recommends that—**

- i. the hospital should ensure strict compliance to section 164(2)(a) of the Public Finance Management Act with regards to making disclosures of their assets e.g drugs, failure to which the penalty under section 199 of the Act shall apply;**
- ii. the Accounting Officer ensures strict compliance with the provisions of Section 162(2) of the Public Procurement and Assets Disposal Act 2015, with regards to quarterly and annual inventory and stock taking, failure to which penalties under section 177 of this Act shall apply; and**
- iii. within 60 days of the adoption of this report, the Accounting Officer ensures the hospital's inventory procedures are updated to enforce the First Expiry First Out (FEFO) principle, ensuring drugs with the nearest expiration dates are issued first, and implements systems to track and alert staff about upcoming expirations to enhance stock rotation efficiency.**

## CHAPTER SIX

### REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR LONGISA COUNTY REFERRAL HOSPITAL FOR THE FINANCIAL YEAR 2021/2022

The Governor of Bomet County, Hon. Prof. Hillary Barchok, EGH, appeared before the Committee on Tuesday, 9<sup>th</sup> July, 2024 to respond (under oath) to audit queries raised in the Report of the Auditor-General on Financial Statements for Longisa County Referral Hospital for the Financial Year 2021/2022. He was accompanied by –

1. Mr. Andrew Sigei - CECM-Finance
2. Dr. Andrew Cheruiyot - Medical Support-Longisa
3. Mr. Felix Langa't - Chief Officer Health Services
4. Mr. Benard Sigei - Hospital administrator

Longisa County Referral Hospital is wholly owned by County Government of Bomet.

### REPORT ON THE FINANCIAL STATEMENTS.

The Auditor-General rendered a **qualified opinion** on the financial statements of Longisa County Referral Hospital for the financial year 2021/2022 on the following basis-

#### 1. Inaccuracies in the Financial Statements

The financial statements presented for audit had the following inaccuracies:

- 1.1 The following variances between the financial statements and supporting schedules were noted;

| Description                      | Financial Statements (Kshs.) | Support Schedules (Kshs.) | Variances (Kshs.) |
|----------------------------------|------------------------------|---------------------------|-------------------|
| Transfers from County Government | 96,725,000                   | 92,002,000                | 4,723,000         |
| Medical/Clinical Costs           | 79,656,011                   | 77,781,739                | 1,874,272         |
| Board of Management Expenses     | 130,000                      | 979,050                   | 849,050           |
| Repairs and Maintenance          | 7,444,994                    | 3,397,670                 | 4,047,324         |
| General Expenses                 | 11,751,915                   | 3,248,484                 | 8,503,431         |
| Cash and Cash Equivalent         | 832,990                      | 1,023,919                 | 190,929           |
| Inventory                        | 5,093,185                    | 6,336,994                 | 1,243,809         |
| Trade and Other Payables         | 12,165,495                   | 4,658,728                 | 7,506,767         |



1.2 The statement of financial performance reflects net deficit for the year of Kshs. 6,239,320 which is not reflected in the statement of changes in net assets under accumulated surplus/deficit column. This is contrary to the reporting template issued by the Public Sector Accounting Standards Board.

1.3 The statement of financial position reflects cash and cash equivalents balance of Kshs. 832,990 while the cash book reflects Kshs. 787,559 resulting in an unexplained variance of Kshs. 45,431.

1.4 The statement of financial position reflects the inventory balance of Kshs. 5,093,185 while the stock sheets reflect Kshs. 6,336,809 resulting in unreconciled variance of Kshs. 1,243,624.

In the circumstances, the accuracy and completeness of the above amounts and balances reflected in the financial statements could not be confirmed.

### **Management Response**

There were no variances between the supporting schedules and the financial statements. The highlighted discrepancies herein are figures in supporting schedules in the sub components which form the main components as reported in the notes to the financial statement.

The main component for general expenses constitutes a sub component of printing and stationery of Kshs. 3,248,484 as per note 21 of the financial statement.

The component of board of management expenses had been analysed together with the sub component amount of Kshs. 849,040 for staff training and development which is reported under note 21. The schedules that support the financial statements have been availed for audit verification.

The anomaly in the statement of changes in net assets has been noted and the necessary adjustments were subsequently adjusted accordingly in the financial statements for the financial year 2022-2023. An excerpt of statement of changes in net assets has been availed.

The cash and cash equivalents consist of bank balances as per cash book and bank certificate of Kshs. 787,559 and cash at hand of Kshs. 45,431 as per cash book and as reported under note 27 and 27(a) to financial statement. Copy of Cash Book extract, bank reconciliation and board of survey has been availed.

The stock sheets had included items that had been issued but not yet updated in the stock sheet for one bin card that had been misplaced at the time of audit. The reconciled stock sheets have been availed for audit verification and copies has been attached.

## **Committee Observations**

The Committee observed that—

- i. There were variances between the financial statements and the supporting schedules which were later adjusted and availed for audit verification.
- ii. There were variances between the statement of financial performance and statement of changes in net assets as they used a template contrary to the Public Sector Accounting Standards.
- iii. There were notable differences between the cash and cash equivalents which were later adjusted to reflect the true financial position of the hospital.
- iv. Stock take sheets were updated and presented for audit verification.

## **Committee Recommendations**

The Committee recommend that—

- i. **the Accounting Officer to take appropriate administrative action on responsible officers within the Accounts and Finance department who fail to keep complete financial records in accordance with section 156(1) of the Public Finance Management Act, Cap.412A and in line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- ii. **the Accounting Officer should comply with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- iii. **the National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties;**
- iv. **the Accounting Officer should strengthen internal audit controls and ensure proper record keeping in line with section 155 of the Public Finance Management Act, Cap.412A and submit a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply; and**



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

## **2. Unsupported Expenditure on Food and Ration**

The statement of financial performance reflects medical/clinical cost of Kshs. 79,656,011 as disclosed in Note 15 to the financial statements. Included in the amount 176 is Kshs. 19,721,369 incurred in the purchase of food and ration that has not been supported by receipts in the stores, issue notes and bin cards.

In the circumstances, the accuracy and completeness of food and ration expenditure of Kshs. 19,721,369 could not be confirmed.

### **Management Response**

All supplies received at the facility are properly received, recorded and charged accordingly in the store cards (S3). The counter receipt (S13) and counter issue vouchers (S11) are always attached to the payment vouchers and copies have been availed for audit verification.

### **Committee Observations**

The Committee observed that Kshs. 19,721,369 incurred in the purchase of food and ration had not been supported by receipts in the stores, issue notes and bin cards but later the S3, S13 and S11 were attached for audit verification.

### **Committee Recommendations**

**The Committee recommends that the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9(1)(e) of the Public Audit Act, failure to which the Committee shall recommend for their investigation and prosecution in line with section 62 (2) of the Public Audit Act in the subsequent audit cycle.**

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

Pursuant to section 7(1)(a) of the Public Audit Act, based on the audit procedures performed by the Auditor-General, the internal control, risk management and governance were not effective—

### **1. Lack of Risk Management Policy**

During the year under review, the Hospital did not have a Risk Management Policy in place. This was contrary to Regulation 158(1) of the Public Finance Management (County Governments) Regulations, 2015 which states that the Accounting Officer shall ensure that (a) the county government entity develops risk management strategies, which include fraud prevention mechanism; and (b) the county government entity develops a system of risk management and internal control that builds robust business operations.

In circumstances, the effectiveness of risk management could not be confirmed.

#### **Management Response**

Hon Chair, the hospital had not developed its own risk management policy at the time of audit however, being a semi-autonomous entity, the management adopted the county risk management policy which has been availed for audit verification and a copy has been attached.

#### **Committee Observations**

The Committee observed that the hospital did not have a risk management policy in place and was using the County Risk Management Policy contrary to the Facility Improvement and Financing Act 2023 (FIFA 2023)

#### **Committee Recommendations**

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

### **2. Failure to maintain an Assets Register**

Records provided for audit revealed that Hospital does not maintain an asset register for its movable and non-movable assets. This was contrary to Regulation 170(1) of the Public Procurement and Asset Disposal Regulation, 2020 which provides that an Accounting Officer of a procuring entity shall be responsible for maintaining a register of assets under his or her control or possession.

In circumstances, the effectiveness of internal controls on asset management could not be confirmed.



## **Management Response**

Hon chair, the hospital maintains an inventory of its movable assets in the facility while the county government maintains the register for all the assets which include non-movable assets which were acquired by the county government. The non-movable assets of all the facilities in the county government including buildings and other devolved equipment are in the final stages of handing over and will be updated in the asset register in the current financial year.

A copy of asset register for movable assets and equipment has been availed for audit verification and a copy has been attached

## **Committee Observations**

The Committee observed that the hospital did not maintain an asset register and was using the County asset register for all assets contrary to the Facility Improvement and Financing Act 2023 (FIFA 2023)

## **Committee Recommendations**

**The Committee recommends that—**

- i. the Governor through the CEC responsible for health ensures that the assets belonging to the hospital are transferred by the Intergovernmental Relations Technical Committee (IGRTC) within 6 months from the adoption of this report; and**
- ii. the Accounting Officer of the hospital should maintain and update the fixed asset register as required by section 149(2)(o) of the Public Finance Management Act, 2012 and in the format prescribed by the Public Sector Accounting Standards Board pursuant to section 104(1)(h) of the Public Finance Management Act 2012, failure to which penalties under section 199 of the Act shall apply.**

## CHAPTER SEVEN

### **REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR LUNGA LUNGA SUB-COUNTY HOSPITAL FOR THE FINANCIAL YEAR 2021/2022**

The Governor for Kwale County, Hon. Fatuma Mohamed Achani, appeared before the Committee on Monday, 2<sup>nd</sup> September, 2024, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Lunga Lunga Sub-County Hospital for the financial year 2019/2020. The Governor was accompanied by:

1. Dr. Francis Gwama - CECM Health Services
2. Ms. Sylvia Chidodo - County Secretary
3. Mr. Salim Suleiman - County Attorney

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

The Auditor-General rendered a **qualified opinion** on the Financial Statements of the Lunga Lunga Sub-County Hospital for the period under review on the following basis-

#### **1. Revenue from Exchange Transactions - Medical Services Income**

The statement of financial performance reflects Kshs. Nil revenue earned from rendering of services. However, note 11 to the financial statements reflects a balance of Kshs. 12,656,455. In addition, the revenue billings report could not be generated to establish the actual revenue earned by the hospital.

In the circumstances, the accuracy and completeness of revenue as reflected in the financial statements could not be confirmed.

#### **Management Response**

This was an error of omission and has been corrected by passing journals.

Credit Revenue and Debit Reserves

Revenue collection in Kwale County is centrally collected by the county treasury and reported in the County Receiver of Revenue report that was audited.

#### **Committee Observations**



The Committee observed that the management clarified that the revenue of Kshs. 12,656,455 was not disclosed in the hospital's financial statements as the revenue is centrally reported at the County Receiver of Revenue. However, the amount could not be traced in Kwale County CRF or ROR financial statements.

### **Committee Recommendations**

**The Committee recommends that the Governor should adhere to section 5 the Facility Improvement and Financing Act, 2023 and manage the hospital separately from the County Executive, failure to which penalties under section 28 of the Act shall apply.**

### **2. Budgetary Control and Performance**

The statement of appropriation reflects final receipts and actual on a comparable basis of Ksh 143,052,415 and Ksh. 128,911,747 respectively, resulting to an under funding of Ksh 14,140,668(or 10%) of the budget. Similarly, the Hospital spent Ksh. 127,622,107 against an approved budget of Ksh. 129,492,283 resulting to an optimal utilization of the budget.

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

### **Management Response**

The management appreciates the issue raised by the auditor in that there was an approved budget of Ksh. 129,492,283 and managed to utilize Ksh. 127,622,107 making a variance of Ksh. 1,870,176 (1.44%) meaning 98.56% was absorbed by the hospital.

The reasons for under funding of Kshs. 14, 140,668 was due to late disbursements of funds by the national treasury.

### **Committee Observations**

The Committee observed that the hospital had an under funding of Ksh 14,140,668 or 10% of the budget during the financial year under review due to late disbursements of funds by the National Treasury.

### **Committee Recommendations**

**The Committee recommends that—**

- i. the Accounting Officer should ensure strict compliance with section 149(2)(h) and (i) of the Public Finance Management Act, Cap. 412A and the standards prescribed by the Public Sector Accounting Standard Board**

**under IPSAS 24 on the presentation of budget information in the financial statements for an entity that prepares financial statements under the accrual basis of financial reporting, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply; and**

- ii. the Accounting Officer should comply with regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply.**

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

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

### **1. Irregularities in the Contract for Construction of Maternity Wing**

The hospital awarded the contract for the construction and completion of maternity wing at a contract sum of Kshs. 14,075,474. The works was procured through an open tender advertised on 9 February, 2022 and closing on 17 February, 2022. However, the tender opening minutes were signed on 14 February, 2022 by the opening committee members which was three (3) days before the official tender closure. No explanation was provided for the inconsistency.

In addition, the contract sum of Kshs. 14,075,474 exceeded the approved budget estimate of Kshs. 10,551,194 by Kshs. 3,524,279.77 contrary to Section 53 (8) of the Public Procurement and Asset Disposal Act, 2015 which states that an accounting officer shall not commence any procurement proceeding until satisfied that sufficient funds to meet the obligations of the resulting contract are reflected in its approved budget estimates.

Further, the physical verification of the maternity wing in June 2023 revealed that 2 doors, 7 hand driers and fire alarm installation amounting to Kshs. 419,600 stated in the Bill of Quantities have been paid but were not delivered.

In the circumstances, the validity of the pending bills could not be confirmed



## **Management Response**

The tender 10 award a maternity wing at Lungalunga Hospital was published in the IFMIS system on 9th February, 2022 and opened (unsealed on 17th February 2022) at 11:45 am and evaluated on 22nd March 2022 as per attached IFMIS generated report. The maternity wing is complete and operational and was officially opened on 7th February 2023.

The Maternity Wing of L/Lunga Hospital had a contract sum of Ksh. 14,075,474 against the budgeted amount of Ksh. 10,551,194. The budget deficit of 3,524,279 was financed by the FY 2022- 2023 second supplementary budget.

Attached Completion certificate, IFMIS generated reports, Opening minutes, Supplementary Budget and Hospital Photo.

## **Committee Observations**

The Committee observed that—

- i. whereas the tender opening minutes and the minutes for the supplementary budget allocation were provided and verified by the Auditor-General, and the query marked as addressed, the submission was done outside the timelines contemplated under the Public Audit Act, Cap.412B and constitutes an offence under section 62(2) of the Act.
- ii. A payment amounting to Kshs. 419,600 had been made for the installation of two doors, seven hand dryers, and a fire alarm system which were not delivered.

## **Committee Recommendations**

The Committee recommends that—

- i. **the Accounting Officer ensures strict compliance with the provisions of Section 106(2)(b) of the Public Procurement and Asset Disposal Act, on effective competitiveness on procurement, failure to which penalties under section 177 of this Act shall apply;**
- ii. **the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9(1)(e) and section 47(1) of the Public Audit Act, Cap.412B, failure to which the Committee shall**

**recommend for their investigation and prosecution in accordance with section 62 (2) of the Public Audit Act, Cap.412B in the subsequent audit cycle; and**

- iii. the Auditor-General to conduct physical verification of the hospital to confirm that the Installation of the two doors, seven hand dryers, and a fire alarm system was completed and provide a status update of the same to the Senate during the subsequent audit cycle.**

## **2. Irregular Payment of Non-Practicing Allowance**

During the year under review, the Hospital paid four (4) doctors non-practicing allowances amounting to Ksh. 1,536,000. However, the Hospital's work schedule indicated that the doctors were scheduled to work for 2 to 3 days in a week despite being full time employees and earning non-practicing allowance.

In the circumstances, the regularity of the expenditure of Kshs. 1,536,000 on non-practicing allowance could not be confirmed.

### **Management Response**

The four Medical Officers (MOs), cover the entire hospital from Outpatient, Emergencies, medical and surgical clinics, theatre Obstetric emergencies and inpatient wards, including maternity.

Rotation is amicably done to ensure that all the service areas are adequately covered through the week to weekends as in the day duties, night duties and on-call shifts.

Further, the ward rounds are done on daily basis in all the wards by the doctors and major ward rounds on selected days are done in the week. Outpatient special clinics are done on selected days e.g Mondays and Thursdays.

Night coverage is done for the entire hospital by a doctor on daily basis for the whole week.

The doctors' rotation schedule includes the off-duty days and thus every doctor is available in the hospital on daily basis unless he/she is on off duty.

For the Consultants, a Working Hours Memo was issued to provide guidance in relation to working time of consultants.

### **Committee Observations**



The Committee observed that the Hospital paid Ksh. 1,536,000 in non-practicing allowances to four doctors, despite their work schedule showing they were only working 2 to 3 days per week, contrary to their full-time status. The Doctors are currently working for 8 hrs/day, 40 Hrs./week.

### **Committee Recommendations**

**The Committee recommends that within 60 days of the adoption of this report, the Accounting Officer assesses the contracts of the doctors to clarify the terms of their employment and establish a system to regularly monitor work schedules and allowances to ensure compliance with employment agreements and to prevent similar issues in the future.**

### **3. Expenditure Incurred on Unused Works**

The Hospital incurred an expenditure of Kshs. 397,450 made on 16 February, 2022 for renovation of staff toilet's septic tank, replacement of sinks, doors, plumbing work, tiling of the floor. However, the Bill of Quantities (BQs) and measurement certificate for work done were not provided for audit review.

In addition, the physical verification of the staff toilet conducted in the month of June, 2023 revealed that the toilet was not in use and the water taps fitted on the sinks were broken.

In the circumstances, the value for money in respect to Kshs. 397,450 spent could not be confirmed.

### **Management Response**

The expenditure of Ksh 397,450 was meant for a renovation of staff toilet. In this way, this was a mere renovation which is an allowable activity to be carried by the hospital since it is not a construction.

The Pre-Inspection report for the works was done by Public Health officer and later renovation had been done, a Post-Inspection report for works was issued.

The renovated toilet is in good condition and in use by the facility staff.

### **Committee Observations**

The Committee observed that whereas pre-inspection and post-inspection reports were provided and verified by the Auditor-General, and the query marked as addressed, the submission was done outside the timelines contemplated under the Public Audit Act, Cap.412B and constitutes an offence under section 62(2) of the Act.

## **Committee Recommendations**

**The Committee recommends that the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9 (1) (e) and section 47(1) of the Public Audit Act, Cap.412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62 (2) of the Public Audit Act, Cap.412B in the subsequent audit cycle.**

### **4. Ineffective Management of Universal Health Coverage**

The National Government rolled out a Universal Health Coverage (UHC) program in all counties for provision of quality and affordable healthcare to all citizens at no cost which resulted in the employment of thirteen (13) healthcare workers for the hospital under contract but which had expired and not yet renewed at the time of audit in June 2023.

In addition, the Kenya Quality Model for Health requires a level 4 hospital to have five (5) new born unit incubators, a renal unit with five beds, a functional ICU and HDU with a six-bed capacity each and two functional operating theatres. However, the hospital had only one functional theatre while the ICU, HDU and renal unit are not in place.

Further, inpatient children are admitted in the adults' wards since the hospital does not have a paediatric ward. The non-availability of these services means that the severely sick patients brought to the hospital end up being referred to higher health facilities.

The hospital does not perform surgical services while gynaecological services are performed twice a week with one hundred and seventy (170) referrals to other health facilities. Also, the hospital has a 65-bed capacity against the required 150 resulting in a shortage of 85 beds.

In the circumstances, the effectiveness of management of Universal Health Coverage (UHC) program to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines could not be confirmed.

### **Management Response**

The management hereby appreciates the fact the 13 HCW who were employed through UHC Program were posted to L/Lunga Sub County Hospital and during the time of audit exercise, their contract had expired. However, the UHC Contracts were renewed and the employees got back to their duties and thus no more gaps in serving patients.

### **Committee Observations**



The Committee observed that—

- i. 13 healthcare workers' contracts had expired and were yet to be renewed as at the time of audit. The contracts have since been renewed, therefore, the matter is addressed.
- ii. The hospital lacked key facilities required for a level 4 hospital, including a functional ICU, HDU, renal unit, paediatric ward, and a second operating theatre, leading to frequent patient referrals, limited surgical and gynaecological services, and a significant shortage of beds.

### **Committee Recommendations**

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

### **5. Expired Medical Supplies and Inadequate Storage Space for Pharmaceuticals and Non-Pharmaceuticals**

Review of management of pharmaceuticals and non-pharmaceuticals at the hospital revealed that 1,842 units of various drugs whose value could not be determined were expired. Also, the stock cards used to issue drugs to various departments in the hospital did not indicate the batch number and the expiry dates of the drugs which makes it easy to use the principal of First Expiry First Out (FEFO) method of issuing drugs.

Further, the hospital received pharmaceuticals and non-pharmaceuticals amounting to Kshs. 24,371,321. Physical verification revealed inadequate shelves for the storage of pharmaceutical thus resulting in keeping the stacking the drugs in boxes in the stores. In addition, the air conditioner meant to regulate temperature in the store was not functional.

In the circumstances, the expired drugs of undetermined value and inadequate storage capacity results in loss of public resources.

### **Management Response**

Currently, the drug store for the facility is small, rendering inadequate shelves for drug storage especially when deliveries are done by KEMSA and MEDS. This in most times result to staking the drugs in boxes in the available stores.

However, the hospital management has come up with another space which used to harbour the Sub County Team to be converted to be another store that will aid in providing ample space for drug storage.

Apart from that, the Hospital management had a number of meetings with the County Executive and the issue of Drug store was induced in the CIDP and it is believed that once this materialize then both Pharmaceuticals and Non-Pharmaceutical items will have adequate storage space.

### **Committee Observations**

The Committee observed that—

- i. 1,249 units of various drugs of undetermined value expired due to the failure of the stores officer to apply the First Expiry, First Out (FEFO) principle when issuing supplies.
- ii. The hospital's shelves for the storage of pharmaceutical were inadequate.

### **Committee Recommendations**

The Committee recommends that—

- i. **the Accounting Officer ensures strict compliance with the provisions of Section 162(2) of the Public Procurement and Assets Disposal Act 2015, with regards to quarterly and annual inventory and stock taking, failure to which penalties under section 177 of this Act shall apply; and**
- ii. **within 60 days of the adoption of this report, the Accounting Officer ensures the hospital's inventory procedures are updated to enforce the First Expiry First Out (FEFO) principle, ensuring drugs with the nearest expiration dates are issued first, and implements systems to track and alert staff about upcoming expirations to enhance stock rotation efficiency.**

### **6. Failure to Conduct Annual Stock Take**

The statement of financial position indicates Kshs. Nil inventories. However, during the year under review, the hospital procured food items, office stationery and supplies, pharmaceuticals and non-pharmaceuticals amounting to Kshs. 24,371,321 for its operations that were received and recorded in the stores before making issues to users. However, the annual stock take was not conducted to confirm the closing balances of inventories as at 30 June 2022. This was contrary Regulation 32(1)(a) of the Public Finance Management (County Governments) Regulations, 2015 providing that 'The



Accounting Officer of a county government entity shall take full responsibility and ensure that proper control systems exist for assets and that preventative mechanisms are in place to eliminate theft, security threats, losses, wastage and misuse.

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

### **Management Response**

The hospital has a culture of conducting annual stock take through the daily inventory management documents recorded to do away with theft, misuse, wastage and loss as tabulated below:

|                                                                  |                                                                                                                                                       |                                                                                                      |
|------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|
| Possible pilferage due to improper documentation.                | All the inventory management documents were intact, comparison of stock card balance and physical stock balance on a few sampled commodities tallied. | The good documentation is always done and all the sections are filled in This a continuous activity. |
| Physical counts for commodities not done                         | Regular physical counts are done and documented on the stock cards                                                                                    | Stock Cards are well kept at each commodity                                                          |
| Expiry dates and batch numbers not documented on the stock cards | Batch numbers column were filled in for most of the stock cards, expiry dates were recorded with an exception of a few.                               | All stock cards columns to be filled.                                                                |

Further, the management really appreciates that truly during the audit exercise there was an anomaly of electricity fluctuation and this was immediately corrected after indulging the KPLC team. The AC is functional and picture below unravels it.

### **Committee Observations**

The Committee observed that the management failed to conduct stock-taking during the financial year under review contrary to Regulation 32(1)(a) of the Public Finance Management (County Governments) Regulations, 2015.

### **Committee Recommendations**

**The Committee recommends that—**

- i. the Accounting Officer ensures strict compliance with the provisions of Section 162(2) of the Public Procurement and Assets Disposal Act 2015, with regards to quarterly and annual inventory and stock taking, failure to which penalties under section 177 of this Act shall apply; and
- ii. the Accounting Officer ensures strict compliance with the provisions of Regulation 32(1)(a) of the Public Finance Management (County Governments) Regulations, 2015 with regards to proper control systems for assets, failure to which penalties under section 199 of the Public Finance Management Act shall apply.

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

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

### **1. Inadequacies in Revenue Billing System**

A walkthrough of the hospital revenue processes revealed that patients are billed manually using an undefined way which does not give a trail for the generation of revenue billing reports so as to establish the revenue earned in line with IPSAS accrual basis.

In addition, the facility's monthly service workload report indicates that forty-three (43) anonymous inpatients who had accumulated undisclosed amounts of hospital bills absconded from the hospital wards before making payments. However, there is no evidence that the incidences were reported to the hospital Management and whether the outstanding bills were recovered.

### **Management Response**

The hospital revenue billing system is in two folds:

#### ***-Outpatient Services Billing***

This is normally done to patients who come to receive services and get back home. Patient is received at the registry office and then taken to triage for vitals taking, prior to proceed to clinical examination. At every point of service, the patient is notified the tests



that are available, pays at the Cashier's through MPESA, given a receipt and the test be carried out.

In case of the patient with NHIF and EduAFYA for students, the revenue officer at the registry registers the patient with the credentials required with all the amount for tests and medications captured at the end of the exercise. At all the points, the Revenue officer is not supposed to receive cash instead direct the patient to nearby MPESA to deposit and pay the required amount accompanied with a receipt.

### ***In patient Services Billing***

A patient is received at the registry, taken to clinical examination and then admitted to the facility wards. A file for the patient is opened where all tests, drugs and other medical examinations are recorded. Prior to discharge, the Revenue Officer takes the file to confirm with the Laboratory and Pharmacy for the tests done and drugs distributed to the patients during his/her stay. Prices for tests and drugs are then quoted in the file for the patient to pay via MPESA prior to attaining discharge approval by the doctor.

For the case of NHIF patient, registration in the system is done within 24hrs where it automatically calculates the number of days till discharge. It is during discharge that the patient credentials are taken to sum up the total figure .For Caesarian Section(CS) mothers is Ksh 30,000 per day and Ordinary delivery is Ksh 10,000 per day.

Further, all collections done via MPESA are recorded daily in a hard counter book and figures are aligned to those sent to CRF via MPESA at the POS tool. Reconciliations are weekly done to do away with misappropriations during the collection exercise.

### **Committee Observations**

The Committee observed that—

- i. 43 patients escaped without paying, with no evidence of reporting or recovery of the outstanding amounts.
- ii. The hospital's revenue processes indicate that patients are billed manually using an unclear method, which prevents the generation of accurate revenue billing reports necessary for tracking revenue in accordance with the IPSAS accrual basis.

### **Committee Recommendations**

The Committee recommends that—

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

## 2. Unaccounted for Sale of Medicines

The statement of financial performance indicates Kshs. Nil revenue from sale of goods which excludes all the drugs sold in the hospital. During the year under review, the hospital dispensed drugs to patients based on the price list contained in the Hospital's Service Charter. However, sales prices for five (5) dispensed drugs amounting to Kshs. 2,077,994 were not included in the hospital's price lists as follows:

| No | Item Code  | Description                                        | Quantity | Amount (Kshs.)   |
|----|------------|----------------------------------------------------|----------|------------------|
| 1  | PM01CTX001 | C o - T r i m o x a z o l e Suspension - 240mg/5ml | 3,600    | 79,200           |
| 2  | PM01CTX006 | Cotrimoxazole Tablet 960mg                         | 5,286    | 1,127,964        |
| 3  | PM01CTX007 | Co-Trimoxazole Tablets 480mg                       | 500      | 65,000           |
| 4  | PM05PAR013 | P a r a c e t a m o l Tablets 500mg                | 7,065    | 655,830          |
| 5  | PM11MEP003 | O m e p r a z o l e 2 0 m g Capsules               | 1,500    | 150,000          |
|    |            |                                                    |          | <b>2,077,994</b> |

In addition, the approval of the hospital's service charter by the Hospital Management Board was not provided for audit review.



In the circumstances, the effectiveness of internal controls on revenue billing and collection could not be confirmed.

### **Management Response**

The Service Charter of the Hospital takes only a summary of the classes of medical drugs and their prices. However, the itemized drugs in each class with their prices were induced in the Revenue Charging system. Hereunder, are the examples of medicine classes:

#### *-Inhibitors (H1 or Anti-acids)*

This is a class that includes drugs that relieve the stomach-aches due to accumulation of acids i.e Omeprazole 20mg capsules.

#### *-Hypoglycemics:*

This is a class of drugs that are used for the management of diabetes(sugars). They are usually used with a combination of lifestyle habits to control sugars to patients. Examples are Metformin, Adalat, Anatopril, Laxicies, Repaglinides, Alpha-glucosidase etc.

#### *-Antibiotics:*

These medicines that fight bacterial infections in people. This class of drugs has several medicines namely; penicillins, macrolides, sulfonamides and flouroquinolons. The Cotrimoxazole drugs fall in the category of sulfonamides drugs.

In this way, the service charter could not accommodate all the drugs from different classes of medicines and thus only the price for the class was put in the service charter.

To sum up, the Board of Management for the Hospital approved the service charter.

### **Committee Observations**

The Committee observed that—

- i. the management failed to provide evidence showing that the 5 dispensed drugs amounting to Kshs.2,077,994 were included in the hospital's price lists for audit review.
- ii. the management failed to provide the Hospital Management Board's approval of the hospital's service charter for audit review.

### **Committee Recommendations**

**The Committee recommends that—**

- i. **the Accounting Officer to take appropriate administrative action on the officers within the Accounts and Finance department who fails to keep complete financial records in accordance with their terms and conditions of appointment or employment and as required by section 156(1) of the Public Finance Management Act, Cap.412A; and**
- ii. **the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9 (1) (e) of the Public Audit Act, Cap.412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62 (2) of the Public Audit Act, Cap.412B in the subsequent audit cycle.**

### **3. Lack of Approved Staff Establishment**

During the year under review, the hospital's payroll revealed a total of seventy-five (75) employees. However, the hospital's annual work plan for the year indicates 289 employees resulting to unreconciled variance of two hundred and fourteen (214) staffs.

Also, the approved staff establishment for the hospital was not provided for audit review.

In the circumstances, the total number of employees required and working in the facility could not be confirmed.

#### **Management Response**

The management highly values the concern raised in the audit report. The County Government Kwale through the Department of Health is working aggressively in reducing staff/personnel gap. In as much as the facility is a level 4, staff gap will differ from the other level 4 facilities in the County depending on the number of services offered.

Staff increment in a facility is a gradual process and is done as the facility also expands. At the time of the audit exercise, the number of total personnel in the facility were 75 as per the staff establishment. Now, the number has increased as posting of new staff was made and the gap is gradually diminishing.

In addition, the staff establishment approval is the responsibility of the CEC and not for the Board of Management.

#### **Committee Observations**

The Committee observed that-



- i. There was a variance of 214 employees between the number of employees listed in the hospital's payroll and those listed in the hospital's annual work plan which remained unreconciled.
- ii. The management failed to provide the hospital's staff establishment for audit review.

### **Committee Recommendations**

#### **The Committee recommends that—**

- i. **the CECM in charge of Health expedites the process of establishing a staff establishment and provides a status update on the same to the Senate within 60 days of the adoption of this report; and**
- ii. **the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9(1)(e) of the Public Audit Act, Cap.412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act, Cap.412B in the subsequent audit cycle.**

#### **4. Failure to Deduct and Remit NSSF Contributions**

A review of the staff payroll for the financial year under review revealed that the Management failed to deduct and remit to National Social Security Fund (NSSF) contributions amounting to Kshs. 85,200 in respect of twenty (20) employees. This is contrary to Section 19 (1) and Section 20 (1) of the National Social Security Fund 2013.

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

#### **Management Response**

The managements appreciate the concern raised by the auditor, however, from findings obtained from the payroll, indicates that the deductions were made and remitted to NSSF.

#### **Committee Observation**

The Committee observed that whereas evidence to show that NSSF contributions were deducted and remitted was provided and verified by the Auditor-General, and the query marked as addressed, the submission was done outside the timelines contemplated under the Public Audit Act, Cap.412B and constitutes an offence under section 62(2) of the Act.

### **Committee Recommendations**

**The Committee recommends that—**

- i. **the hospital to adhere to Sections 19(1) and 20(1) of the National Social Security Fund Act, 2013 which requires every employer who, under a contract of service, employs one employee or employees, as members of the Fund and pay to the Pension Fund in respect of each employee in his or her employment, failure to which the penalty under section 19(5) of the Employment Act shall apply; and**
- ii. **the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9 (1) (e) and section 47(1) of the Public Audit Act, Cap.412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62 (2) of the Public Audit Act, Cap.412B in the subsequent audit cycle.**

#### **5. Irregular Dispensing of Drugs to Private Hospitals**

During the year under review, the hospital received free Global Fund commodities of Kshs. 9,052,415 out of which Kshs. 933,949 were in respect to tuberculosis (TB) drugs. The TB drugs which are required to be dispensed to patients free of charge were dispensed to private health facilities for utilization by patients registered in those facilities. However, the inter facility transfers indicating the value of all drugs dispensed to the private facilities were not provided for audit review.

In the circumstances, the effectiveness of internal controls on drug management and regularity of the transfers could not be confirmed.

#### **Management Response**

The Global Fund Commodities which are distributed to hospital through Global Fund Program are meant for TB and HIV patients. The program requires that patients that cannot reach the Government facility due to distance may have an access to the drugs in a nearby private facility to curb spread, especially TB. It is for this reason that the drugs are dispensed to earmarked private facilities to down-size spread and prevalence.

#### **Committee Observations**

The Committee observed that although the management provide the inter-facility transfer documents for audit review, the documents did not indicate the value of all drugs dispensed to the private facilities.

#### **Committee Recommendations**



**The Committee recommends that—**

- i. the hospital should ensure strict compliance to section 164(2)(a) of the Public Finance Management Act with regards to making disclosures of their assets e.g drugs, failure to which the penalty under section 199 of the Act shall apply;**
- ii. the Accounting Officer to take appropriate administrative action on the officers within the Accounts and Finance department who fails to keep complete financial records in accordance with their terms and conditions of appointment or employment and as required by section 156(1) of the Public Finance Management Act, Cap.412A; and**
- iii. the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9 (1) (e) of the Public Audit Act, Cap.412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62 (2) of the Public Audit Act, Cap.412B in the subsequent audit cycle.**

#### **6. Irregularities in the Appointment of Board Members and Board Composition**

The annual report of the hospital for the year ended 30 June 2022 indicates that the Board of Management comprises nine (9) members who were appointed for a three (3) year term starting 4 May, 2018 to 4 May, 2021. However, during the year under review on 27 September, 2022, the County Executive Committee Member (CECM) Health Services issued an internal memo to the accounting officers of all level 4 and 5 hospitals in Kwale County to continue working with the Board members until further notice despite the expiry of their term in office. As a result, the Board members are in office without valid appointments thirteen (13) months after the expiry of contract up to the time of audit in June, 2023.

In addition, the board members do not include the Deputy county commissioner, sub-county medical services officer, person in charge of the hospital, and a person with knowledge and experience in finance and administration matters as required by Governance Guidelines for Hospital Management Committees for Level 4 and 5 Hospital issued by Ministry of Medical Services, 2011.

Further, the corporate governance statement included in the annual reports for the year under review does not disclose the functions of the Board members, composition,

succession plan, removal of Board members, and Board and member performance as required by the financial reporting template.

In the circumstances, the regularity of the Board members appointment and the contributions of the Board in implementation of primary health care services in the hospital could not be confirmed.

### **Management Response**

CEC Health Services truly issued a letter of period extension for the Board of management, though, this did not materialize. The coming in of devolution and taking into account that Health is devolved, then the position of DCC was taken by the Sub County Administrator who is a member to the Board. Medical Superintendent who is an in-charge of the hospital is the Secretary to the Board.

Further, the Corporate Governance part of the Financial Statements highlighted the Board membership number, meetings, appointment and remuneration as being first adopters of financial statement adhering to IPSAS 33. Going forward, there will be an inclusion and disclosures of board functions, removal of members and member performance in compliance with the reporting template.

### **Committee Observations**

The Committee observed that—

- i. Members of the Board of Management of the Hospital continued to perform their duties despite the expiration of their tenure;
- ii. the board membership did not include deputy county commissioner, sub county medical services officer, person in-charge of the hospital, and a person with knowledge and experience with finance and administration matters contrary to the governance guidelines for Hospital management committees for level 4 and 5 Hospitals, 2021 issued by ministry of Medical services, 2011; and
- iii. the corporate governance statement included in the annual reports for the year under review did not disclose the functions of the Board members, composition, succession plan, removal of Board members, and Board and member performance as required by the financial reporting template.

### **Committee Recommendations**

The Committee recommends that—



- i. the County Executive Committee Member (CECM) for Health ensures strict compliance with section 9(j) of the Facilities Improvement Financing Act, Cap. 277, regarding the appointment of Board of Management members;**
- ii. the CECM - Health should ensure that all appointments are conducted in accordance with the law and that no Board member serves beyond the three-year term as prescribed by section 19 of the Facilities Improvement Financing Act;**
- iii. the County Executive Committee Member (CECM) for Health ensures strict compliance with the governance guidelines for Hospital management committees for level 4 and 5 Hospitals, 2021 issued by ministry of Medical services, 2011;**
- iv. the Accounting Officer to take appropriate administrative action on responsible officers within the Accounts and Finance department who fail to keep complete financial records in accordance with section 156(1) of the Public Finance Management Act, Cap.412A and in line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- v. the Accounting Officer should comply with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- vi. the National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties;**
- vii. the Accounting Officer should strengthen internal audit controls and ensure proper record keeping in line with section 155 of the Public Finance Management Act, Cap.412A and submit a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap.412A, failure to which the**

provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply; and

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



## CHAPTER EIGHT

### REPORT ON THE AUDITED FINANCIAL STATEMENTS MIGORI COUNTY LEVEL 4 HOSPITAL FOR THE FINANCIAL YEAR 2021/2022

The Governor for Migori County, Hon. Dr. George Ochilo M. Ayacko, EGH, appeared before the Committee on Thursday, 8<sup>th</sup> August, 2024, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Migori County Level 4 Hospital for the financial year 2021/2022. The Governor was accompanied by:

1. Mr. Maurice Otunga - CECM-Finance
2. Mr. Julius Awuor - CECM-Health
3. Mr. Erick Jalango - Chief Officer Medical Services
4. Mr. Omuom Ian - Medical Supt-MCRH

### REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered an **unqualified opinion** on the Financial Statements of the Migori County Level 4 Hospital for the period under review on the following basis-

#### 1. Variance in Repair and Maintenance Expenses

The statement of financial performance reflects repair and maintenance expenses balance of Kshs. 1,813,752 as disclosed in Note 12 to the financial statements. However, ledger balance indicates an amount of Kshs. 1,636,135 resulting to an unexplained and unreconciled variance of Kshs. 177,617.

In circumstance, the accuracy and completeness of the repairs and maintenance expenditure of Kshs. 1,813,752 for the year ended 30 June 2022 could not be confirmed.

#### Management Response

The Management concurs with the auditor's observation and wishes to state that the amount of **Kshs. 177,617** for repair of motor vehicle No. 44CG008A was omitted in the Repair and Maintenance ledger though captured correctly in the financial statement. We provide the correct ledger and voucher of vehicle maintenance for your review.

#### Committee Observations

The Committee observed that the variance of Kshs. 177,617 was an error of omission within the ledger which has since been corrected therefore, the query was addressed.

### **Committee Recommendations**

**The Committee recommends that—**

- i. the Accounting Officer to take appropriate administrative action on responsible officers within the Accounts and Finance department who fail to keep complete financial records in accordance with section 156(1) of the Public Finance Management Act, Cap.412A and in line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- ii. the Accounting Officer should comply with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- iii. the National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties;**
- iv. the Accounting Officer should strengthen internal audit controls and ensure proper record keeping in line with section 155 of the Public Finance Management Act, Cap.412A and submit a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply; and**
- v. the Accounting Officer should enhance the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.**



## **2 Cash and Cash Equivalent**

The statement of financial position reflects cash and cash equivalent balance of Kshs. 22,163,151 and as disclosed in Note 15 to the financial statements. However, the cash book, bank reconciliation statement and the board of survey report reflects a balance amounting to Kshs. 1,534,669 resulting to an unreconciled and unexplained variance of Kshs. 20,628,482

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs. 22,163,151 as at 30<sup>th</sup> June 2022 could not be confirmed.

### **Management Response**

The Management noted the auditor's observation and wishes to state that the difference of Kshs. **20,628,482** was as a result of un-presented cheques as at 30<sup>th</sup> June 2022. However, the unpresented cheques were cleared in the subsequent year as indicated in the bank reconciliation statement.

### **Committee Observations**

The Committee observed that the management clarified that the variance of Kshs. 20,628,482 in the cash and cash equivalent balance was due to unpresented cheques. The cheques have since been cleared therefore, the query was addressed.

### **Committee Recommendations**

**The Committee recommends that—**

- i. the Accounting Officer should ensure strict compliance with the provisions of regulation 90 (1) of Public Finance Management (County Government) Regulations 2015 with respect to monthly reconciliation of bank statements failure to which penalties under section 199 of the Public Finance Management Act shall apply; and**
- ii. the Accounting Officer should ensure timely submission of documents during the audit process in accordance with section 9(1)(e) of the Public Audit Act, Cap.412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act, Cap.412B in the subsequent audit cycle.**

### **3. Unsupported Inventory Balances**

The statement of financial position reflects inventory valued at Kshs. 34,523,348 as disclosed in note 16 to the financial statements. However, the balances were not supported with schedules/ledgers and stock count reports. Further, Management did not include a summary of significant accounting policy on stock valuation.

In the circumstances, the accuracy and recoverability of inventories balance of Kshs. 34,523,348 as at 30 June, 2022 could not be confirmed.

#### **Management Response**

The management concurs with the auditor's assertions and wishes to state that currently the management is conducting stock take on a monthly basis. Further the summary of significant accounting policy on stock valuation used will be disclosed in the subsequent financial statement.

#### **Committee Observations**

The Committee observed that the management failed to provide schedules/ledgers, stock count reports and a summary of significant accounting policy on stock valuation to support the inventory balance of Kshs. 34,523,348 for audit review.

#### **Committee Recommendations**

The Committee recommends that—

- i. **the Accounting Officer to take appropriate administrative action on the officers within the Accounts and Finance department who fails to keep complete financial records in accordance with their terms and conditions of appointment or employment and as required by section 156(1) of the Public Finance Management Act, Cap.412A; and**
- ii. **the Accounting Officer should ensure timely submission of documents during the audit process in accordance with section 9(1)(e) of the Public Audit Act, Cap.412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62 (2) of the Public Audit Act, Cap.412B in the subsequent audit cycle.**

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



The statement of financial position reflects property, plant and equipment balances of Kshs. 446,277,666 as disclosed in Note 17 to the financial statements. However, Management did not provide for audit verification the schedules or valuation reports indicating how the disclosed values were arrived at. In addition, note 17 reflects net book value of Kshs. 436,580,174 resulting in an unexplained variance of Kshs. 9,697,492.

In the circumstances, the accuracy and completeness of the property, plant and equipment of Ksh.446, 277,666 as at 30 June, 2022 could not be confirmed.

### **Management Response**

The Management noted the auditor's observation and wishes to state that the County is waiting for handover of the Intergovernmental relations Technical Committee (IGRTC) report on Asset and liabilities to enable preparation of a comprehensive Asset Register which will form the basis of valuation of County Assets. However, the Management used estimated market values in preparation of the financial statement.

### **Committee Observations**

The Committee observed that—

- i. the management clarified that the value of Kshs. 446,277,666 in relation to property, plant and equipment was arrived at through estimation as the Hospital did not have an updated asset register.
- ii. The variance of Kshs. 9,697,492 remained unreconciled.

### **Committee Recommendations**

The Committee recommends that—

- i. the Auditor-General to undertake physical verification of all assets of the Hospital and provide a status report to the Committee within 60 days from the adoption of this report;
- ii. the Accounting Officer of the hospital should maintain and update the fixed asset register as required by section 149(2)(o) of the Public Finance Management Act, 2012 and in the format prescribed by the Public Sector Accounting Standards Board pursuant to section 104(1)(h) of the Public Finance Management Act 2012, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;

- iii. the Accounting Officer ensures that the variance of Kshs. 9,697,492 is corrected within the financial statements of the subsequent financial year and the Auditor-General to provide a status update on the same to the committee within the subsequent audit cycle;
- iv. the Accounting Officer to take appropriate administrative action on responsible officers within the Accounts and Finance department who fail to keep complete financial records in accordance with section 156(1) of the Public Finance Management Act, Cap.412A and in accordance with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;
- v. the Accounting Officer should comply with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;
- vi. the National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties;
- vii. the Accounting Officer should strengthen internal audit controls and ensure proper record keeping in line with section 155 of the Public Finance Management Act, Cap.412A and submit a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply; and
- viii. the Accounting Officer should enhance the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.



## **5. Trade and Other Payable**

The statement of financial position reflects trade and other payables balance of Kshs. 8,952,668 as disclosed in Note 18 to the financial statements. However, the balance was not supported with detailed schedules with aging analysis.

In the circumstances, the accuracy and recoverability of trade and other payables balance of Kshs. 8,952,668 as at 30 June, 2022 could not be confirmed

### **Management Response**

The management noted the auditor's observation and provides the Trade and other payables schedules with aging analysis.

### **Committee Observations**

The Committee observed that whereas the detailed schedules with aging analysis were provided and verified by the Auditor-General, and the query marked as addressed, the submission was done outside the timelines contemplated under the Public Audit Act, Cap.412B and constitutes an offence under section 62(2) of the Act.

### **Committee Recommendations**

**The Committee recommends that the Accounting Officer should ensure timely submission of documents during the audit process in accordance with section 9 (1) (e) of the Public Audit Act, Cap.412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62 (2) of the Public Audit Act, Cap.412B in the subsequent audit cycle.**

### **Other Matter**

#### **Budgetary Control and performance**

The statement of comparative budget and actual amounts reflects final receipts budget and actual on a comparable basis of Kshs. 120,000,000 and Kshs. 87,136,100 respectively resulting to an under-funding of Kshs. 32,863,900 or 27% of the budget. Similarly, the hospital expended Kshs. 65,582,228 against an approved budget of Kshs. 38,800,000 resulting to unapproved over expenditure of Kshs. 26,782,228 or 69% of the budget.

The underfunding affected the planned activities and may have impacted negatively on the service delivery to the public

## **Management Response**

The Management noted the auditor's observation and wishes to state that the underfunding was due to non-realization of revenue targets and late disbursement of exchequer releases. Further the appropriated amount was captured in the Statement of Comparison of Budget and Actual as **Kshs 38,800,000** instead of **Kshs 120,000,000** resulting to over expenditure of **Kshs 26,782,228** which was corrected in the subsequent year. For non-realization of revenue targets; the Management is continuously engaging the National Treasury through various intergovernmental coordination meetings and Council of Governors for timely disbursement of funds. In addition, the Management has enhanced its revenue collection through automation of all revenue streams and introduction of cashless system of revenue collection.

## **Committee Observations**

The Committee observed that—

- i. The Hospital had an under-funding of Kshs. 32,863,900 or 27% of the budget during the financial year under review due to non-realization of revenue targets and late disbursement of exchequer releases.
- ii. The over-expenditure of Kshs. 26,782,228 was due to the appropriated amount being erroneously captured in the Statement of Comparison of Budget and Actual as Kshs 38,800,000 instead of Kshs 120,000,000.

## **Committee Recommendations**

The Committee recommends that—

- i. the Accounting Officer should ensure strict compliance with section 149(2)(h) and (i) of the Public Finance Management Act, Cap. 412A and the standards prescribed by the Public Sector Accounting Standard Board under IPSAS 24 on the presentation of budget information in the financial statements for an entity that prepares financial statements under the accrual basis of financial reporting, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply; and
- ii. the Accounting Officer should comply with regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures, failure to which the provisions of



**section 199 of the Public Finance Management Act on penalties for offences shall apply.**

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

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

### **1. Non-Compliance on presentation of the financial statement**

Review of financial statement revealed that the Management did not comply with the Public Sector Accounting Standards Board Reporting Template (Issued June, 2022 new). It was noted that the preparer did not leave a blank page immediately after the cover as required by the template. It was also noted that the Report of Board of Management was not signed by the secretary to the Board. In addition, the statement of financial statement of financial performance, position, changes in net assets and comparison of budget and actual amount did not indicate the pages that cover notes to the financial statements and the date of approval by the Board.

In circumstance, the presentation of the financial statements did not comply with the Public Sector Accounting Standards Board reporting templates.

### **Management Response**

The Management concurs with the auditor's observation and wishes to state that the template as provided by Public Sector Accounting Standards Board has been adopted in the FYR 2022/2023.

### **Committee Observations**

The Committee observed that the hospital's financial statements did not comply with the Public Sector Accounting Standards Board reporting templates as they lacked a required blank page, the Board Secretary's signature, the Board approval date, and complete page referencing.

### **Committee Recommendations**

**The Committee recommends that—**

- i. the Accounting Officer to take appropriate administrative action on responsible officers within the Accounts and Finance department who fail to**

- keep complete financial records in accordance with section 156(1) of the Public Finance Management Act, Cap.412A and in accordance with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;
- ii. the Accounting Officer should comply with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;
  - iii. the National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties;
  - iv. the Accounting Officer should strengthen internal audit controls and ensure proper record keeping in accordance with section 155 of the Public Finance Management Act, Cap.412A and submit a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply; and
  - v. the Accounting Officer should enhance the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.

## **2. Staff Ethnic Composition**

Audit review of employees' records for the month of June, 2022 revealed that Migori County Referral Hospital has a workforce of seventy-three (73, out of which sixty-seven (67) are member of the dominant community. This represents 92% of the total workforce which is contrary to section 65(1) of the County Government Act, 2012



which requires that at least thirty percent (30%) of the vacant post at entry level are filled by candidates who are not from the dominant ethnic community in the County.

In the Circumstance, Management was in breach of law.

### **Management Response**

The Management noted the auditor's observation and wishes to state that Migori County is a cosmopolitan County and all communities are always encouraged to apply for the advertised vacancies in line with National Cohesion and Integration Act, 2008. The County Government of Migori, buoyed by the appointment of the New Public Service Board, is currently working towards full compliance and implementation of section 7(1) and (2) of the National Cohesion and Integration Act, and County Employment Equity Plan as prescribed in the revised County Government Act. However, the current ratio is at 68:32 staff ethnicity composition.

### **Committee Observations**

The Committee observed that 92% of the employees of the hospital were from the dominant community in the county contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008.

### **Committee Recommendations**

**The Committee recommends that—**

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

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

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

### **1. Weakness in the Revenue Automation System**

Review of the Hospital ICT governance system revealed that there were disaster recovery plan and a business continuity plan. In addition, it was noted that Management implemented an automated system known as MEDIBOS to assist in collection, accounting and reporting of the Hospital revenue. However, audit review of the system revealed the following weaknesses;

- iii. The system has only partially automated the hospital operations; the pharmacy store, X Rays and NHIF Departments are still manual and transactions are handled in cash.
- iv. ICT infrastructure are not networked and UPCs machines to all departments cannot retain power once is lost.
- v. Lack of integrity of the MEDBOSS Hospital Management Information System.
- vi. Lack of segregation of duties on the MEDBOSS HMIS.
- vii. Inability to capture all event logs.
- viii. Inadequate billing of services.
- ix. Existence of possibility of reusing receipts.
- x. Reversal of bills without approvals.
- xi. Inability to generate system user's reports. The system generated Kshs. Nil balances for some departments, like ICU, MCH, Orho Tech, and renal indicating that they were not operational during the year under review.
- xii. Lack of up-to-date Microsoft Windows and Microsoft Office Licenses.
- xiii. Lack of computer antivirus.
- xiv. Lack of adequate physical controls in the server room.

### **Management Response**



- i. The Management noted the Auditor's observation and wishes to state that the upgraded MEDBOSS system captures all the hospital's operations. For instance, all the x-ray requests are done through Doctors/Clinician Modules which triggers the payments of these services before they are done at the X-Ray department. Similarly, for NHIF, the system does generate an invoice in which the hospital can claim the bill as per patient.
- ii. The management wishes to state that currently, the administration has acquired a power backup for all the desktops which are in use at all the service points.
- iii. The Management noted the Auditor's observation and wishes to state that the upgraded system uses the OTP and encrypted password for access. Further firewall was installed to improve the integrity of the system.
- iv. The Management noted the Auditor's observation and wishes to state that Segregation of duties has been enhanced by setting up of additional approval levels based on user responsibility.
- v. The Management noted the auditor's observation and wishes to state that the system was upgraded and currently captures all the event logs.
- vi. The Management noted the auditor's observation and wishes to state that the upgraded system currently addresses the billing services by offering a billing module in which the users can bill the services.
- vii. The management noted the auditor's observation and wishes to state that the upgraded system produces receipt with unique code which indicates the patient name and service to be offered which cannot be reused for a different service or patient since the same information is transmitted to all service points.
- viii. The Management noted the auditor's observation and wishes to state that the upgraded system provides segregation of duties through hierarchical approval based on responsibility of user. This therefore sorted the reversal process which can only be approved by the Executive User who is the Chief Officer of Medical services.
- ix. The Management noted the Auditor's observation and wishes to state that the upgraded MEDBOSS system captures all the hospital's operations and is able to generate reports for various departments
- x. The Management noted the auditor's observation and wishes to state that the hospital procured genuine operating system and Microsoft office with licenses.

- xi. The Management noted the auditor's observation and wishes to state that the hospital procured antivirus (Kaspersky) internet security.
- xii. The Management noted the auditor's observation and wishes to state that the server room door and lock were installed and access keys are under the custody of responsible ICT officer.

### **Committee Observations**

The Committee observed that the Hospital's ICT governance system, MEDIBOS which was implemented for revenue collection, had critical weaknesses, including partial automation, poor network infrastructure, lack of system integrity and user logs, inadequate billing, unauthorized bill reversals, missing software licenses, lack of antivirus, and insufficient physical server controls.

### **Committee Recommendations**

**The Committee recommends that—**

- i. **the Board of Directors ensures that the hospital puts in place all internal control systems such as the Internal Audit Committee as provided under section 155(5) of the Public Finance Management Act, 2012, and a Risk Management Policy as provided under section 158(1) of Public Finance Management (County Governments) Regulations, 2015 among others to guide the internal operations of the hospital. Further, the management to submit evidence of the same to the Auditor General for verification; and**
- ii. **the hospital management should implement a suitable integrated hospital management information system in accordance with the existing health legislations and regulations under the Digital Health Act No.15 of 2023 in as far as application of comprehensive integrated digital health information system is concerned.**

### **2. Lack of Approved Staff Establishment**

Audit review of the Migori County Referral Hospital staff complement revealed that the Management does not have an approved staff establishment. In the absence of an approved staff establishment, the Hospital may not be able to determine the skills and optimal staffing levels required to achieve its goals and objectives.

In the circumstances, it was not possible to ascertain whether the total staff in the employment of the Migori County Referral Hospital is at the optimal operating level.



### **Management Response**

The Management noted the auditor's observation and wishes to state that the Migori County Staff establishment was approved and currently under implementation

### **Committee Observations**

The Committee observed that whereas management submitted minutes showing the approval of the hospital's staff establishment, and was verified by the auditor.

### **Committee Recommendations**

**The Committee recommends that the Accounting Officer ensures that supporting documents are availed to the Auditor during audit as required under section 9(1)(e) of the Public Audit Act, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit in the subsequent audit cycle.**

### **3. Lack of a Risk Management Policy**

Audit review revealed that Management does not have an approved Risk Management Policy to enable the hospital in providing a framework for the management of risk and also to increase overall awareness of risk throughout the institution.

In the absence of an approved Risk Management Policy, the Hospital is left exposed and cannot mitigate potential risks that may arise.

### **Management Response**

The Management noted the auditor's observation and wishes to state that the risk management policy was approved and currently being implemented.

### **Committee Observations**

The Committee observed that the hospital did not have an approved Risk Management Policy in place during the financial year under review, however, the policy was since approved.

### **Committee Recommendations**

**The Committee recommends that the Board of Directors ensures that the Hospital puts in place all internal control systems such as a Risk Management Policy as**

**provided under section 158(1) of Public Finance Management (County Governments) Regulations, 2015 among others to guide the internal operations of the Hospital. Further, the management to submit evidence of the same to the Auditor-General for verification.**



## CHAPTER NINE

### REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR MSAMBWENI SUB-COUNTY HOSPITAL FOR THE FINANCIAL YEAR 2021/2022

The Governor for Kwale County, Hon. Fatuma Mohamed Ahani, appeared before the Committee on Monday, 2<sup>nd</sup> September, 2024, to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for the Msambweni Sub-County Hospital for the financial year 2021/2022. The Governor was accompanied by:

- |                       |   |                      |
|-----------------------|---|----------------------|
| 1. Dr. Francis Gwama  | - | CECM Health Services |
| 2. Ms. Sylvia Chidodo | - | County Secretary     |
| 3. Mr. Salim Suleiman | - | County Attorney      |

### REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **qualified opinion** on the Financial Statements of the Msambweni Sub-County Hospital for the period under review on the following basis-

#### 1. Undisclosed Balance

##### 1.1 Revenue from Non-Exchange Transactions

The statement of financial performance and Note 7 to the financial statement reflects in-kind contributions from the County Government of Kshs. 436,565,136.00. However, the amount excludes direct payment of salary to the hospital's Universal Health Coverage (UHC) program healthcare workers by the National Government amounting to Kshs. 18,120,000. In addition, the revenue excludes donations in-kind from the Global Fund amounting to Kshs. 18,029,499 and 75,500 doses of Measles Rubella, BCG and OPV vaccines of undetermined value.

#### Management Response

The amount as direct payment of salary to the hospital's universal health care coverage (UHC) program of health care workers by the National Government amounting to Kshs. 18,120,000 was initially disclosed in the footnotes of the financial statements and it's also corrected and adjusted in the financial statements.

The donations in-kind from Global Fund amounting to Kshs. 18,029,499 & Kshs.75,500 doses & Measles Rubella, BCG & OPV vaccines was adjusted & corrected in the financial statement.

### **Committee Observations**

The Committee observed that the management clarified that the payment of salary to the hospital's Universal Health Coverage (UHC) program healthcare workers of Kshs. 18,120,000 and the donations in-kind from the Global Fund amounting to Kshs. 18,029,499 and 75,500 doses of Measles Rubella, BCG and OPV vaccines of undetermined value were disclosed in the in the footnotes of the financial statements, therefore, the query was addressed.

### **Committee Recommendations**

**The Committee recommends that the queried assets are disclosed within the financial statements, in accordance to section 164(2)(a) of the Public Finance Management Act, failure to which penalties under section 199 of the Act shall apply.**

#### **1.2 Revenue from Exchange Transactions**

The statement of financial performance reflects Nil income from rendering of medical services as disclosed in Note 11 to the financial statement. However, review of the hospital's Mpesa statements revealed an amount of Kshs. 16,340,147 was collected and the hospital received the National Hospital Insurance Fund (NHIF) capitations amounting to Kshs.4,166,440 during the year under review.

Further, the statement of financial performance reflects Nil other income while the corresponding Note 14 to the financial statements reflects an amount of Kshs.17,044,390. The variance has not been explained or reconciled.

In addition, the revenue balance is at variance with the supporting schedule being the National Hospital Insurance Fund (NHIF) claims amounting to Kshs. 18,497,140 resulting in an unexplained variance of Kshs. 1,452,750.

In the circumstances, the accuracy and completeness of the revenues from non-exchange transactions and Nil revenue from exchange transactions could not be confirmed.

### **Management Response**

- Revenue collection in the Hospital is normally done by the Revenue Officers from the county treasury by using the Mpesa pay bill number where the



amount goes direct to the CRF- County Revenue Fund Account as per the Public Finance Management (PFM) Act sec 109

- The NHIF which come through hospital account is then transferred to Kwale County Revenue Account.
- The full disclosure is being done by the county receiver of revenue and thus the Hospital is only obliged to put disclosure note/footnotes in the financial statements at the end of the Financial Year.

If it happens that amount collected through the hospital is induced to the financial statements then this will be double disclosure as the same will have already been disclosed by the receiver of revenue.

The NHIF claims were Ksh. 18,497,140.00 comprising of total NHIF and capitation whereby as per NHIF statements domiciled in the office of the county receiver of revenue, a total of Kshs. 17,044,390.00, claims were paid as at 30th June 2022 leaving a balance of Kshs. 1,452,750.00 unpaid claims.

Out of Kshs. 1,452,750.00 unpaid claims, Kshs. 1,025,200.00 was paid in the following financial year 2022/2023 while Kshs. 428,100 was rejected and latter reclaimed again.

The management have also noted the issue of non-disclosure of revenue from exchange and non-exchange transactions as a result of capacity issue and we have since trained our accountants on accrual accounting basis training.

### **Committee Observations**

The Committee observed that—

- i. the nil balance in relation to revenues, NHIF claims and other income of Kshs. 16,340,147, Kshs. 4,166,440 and Kshs. 17, 044,390 was due to the Hospital's revenue being collected by the Kwale County - Department of Finance and economic planning.
- ii. The management explained that the variance of Kshs. 1,452,750 were unpaid NHIF claims, however, an amount of Kshs. 1,025,200 was later paid while Kshs. 428,100 was rejected. The confirmation on the payment of the rejected Kshs. 428,100 is to be confirmed in the subsequent audit cycle.

### **Committee Recommendations**

The Committee recommends that—

- i. the County Executive Committee Member (CECM) – Health ensures the effective collection and retention of revenue by the Hospital in line with section 9(a) of the Facilities Improvement Financing Act, Cap.277 failure to which penalty under section 28 of the Act shall apply; and
- ii. the Auditor-General to confirm whether the remaining balance of Kshs. 428,100 in relation to NHIF claims is paid during the subsequent audit cycle.

### **1.3 Receivables from Exchange Transactions**

The statement of financial position reflects nil receivables from exchange transactions. However, review of records revealed that during the year review, the hospital made NHIF claims amount amounting to Kshs. 14,330,700 out of which refunds amount to Kshs.1,178,700 had not been received.

The recoverable outstanding balances had not been disclosed in the financial statements.

In the circumstances, the accuracy and completeness of receivables from exchange transactions nil balance could not be confirmed.

#### **Management Response**

NHIF claims made were totaling to Kshs. 14,330,700 the refunds amounting to Kshs. 1,178,700 out of which Kshs. 1,025,200.00 were paid in the following financial year.

The NHIF money collected through the hospital is transferred to CRF since the hospital cannot utilize the money at that period under review. The implementation of the FIF which will start on financial year 2024/2025 is when the hospital will be disclosing the receipts in the financial statements. The management has also noted the issue of non-disclosure of revenue from exchange and non-exchange transactions as a result of capacity issue and we have since taken our accountants on accrual accounting basis training.

#### **Committee Observations**

The Committee observed that the management failed to disclose the outstanding refunds of Kshs. 1,178,700 in the financial statements.

#### **Committee Recommendations**

**The Committee recommends that—**



- i. **the Accounting Officer to take appropriate administrative action on responsible officers within the Accounts and Finance department who fail to keep complete financial records in accordance with section 156(1) of the Public Finance Management Act, Cap.412A and in line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- ii. **the Accounting Officer should comply with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- iii. **the National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties;**
- iv. **the Accounting Officer should strengthen internal audit controls and ensure proper record keeping in accordance with section 155 of the Public Finance Management Act, Cap.412A and submit a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply; and**
- v. **the Accounting Officer should enhance the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.**

## **2.0 Misstatement of Property, Plant and Equipment balance**

The statement of financial position reflects property, plant and equipment balance of Kshs. 829,796. However, review of records revealed the following anomalies;

- i. A payment of Kshs. 220,000 was made for the supply and installation of an air conditioner at the hospital on 1 September, 2021. However, the delivery made on 3 April 2020 did not indicate the item serial number and the item was not recorded in the hospital's assets register, it was therefore not possible to identify the equipment at the hospital.
- ii. A payment of Kshs. 310,000 was made on 10 January, 2022 for supply four (4) back trolleys and two (2) Mayo trolley. However, the items were not recorded in the hospital's asset register and the physical verification exercise done on June, 2023 revealed that one trolley costing Kshs. 60,000 was not accounted for.
- iii. Payment of Kshs. 296,000 and Kshs. 95,995 were made on 5 October, 2021 and 18 November, 2021 for supply of four (4) stainless steel serving trolleys and a refrigerator respectively. However, the items were not recorded in the hospital's assets register.

In the circumstances, the accuracy and completeness of the property, plant and equipment balance of Kshs. 829,796 could not be confirmed.

### **Management Response**

We used the Health asset valuation roll which was updated in 2018 and update the procured assets.

- i. The delivery of air conditioner at the hospital the serial number; - make west point SN. 340941945029C210120059 BTU-2400. The items are included in the hospital asset register
- ii. During the audit verification of the said trolleys, one of the mayo trolleys was still at the store which was then issued to theater department. The items are included in the hospital asset register.
- iii. The delivery of four stainless serving trolleys and refrigerator are included in hospital asset register.

### **Committee Observations**

The Committee observed that the items have since been included in the hospital's assets register with their serial numbers therefore, the query was addressed.

### **Committee Recommendations**



**The Committee recommends that the Accounting Officer of the hospital should maintain and update the fixed asset register as required by section 149(2)(o) of the Public Finance Management Act, 2012 and in the format prescribed by the Public Sector Accounting Standards Board pursuant to section 104(1)(h) of the Public Finance Management Act 2012 failure to which penalties under section 199 of the Act shall apply.**

## **Other Matter**

### **Budgetary Control and performance**

The summary statement of appropriation reflects budget and actual on a comparable basis of Kshs. 451,545,321 and Kshs. 393,823,321 respectively, resulting to an underfunding of Kshs. 57,722,000 of 12% of the budget. Similarly, the Hospital spent Kshs.434,255,121 against an approved budget of Kshs. 389, 022,269 resulting to an unauthorized over expenditure of Kshs. 45,232,852 or 12% of the budget.

The underfunding and an unauthorized reallocation of public funds affected the planned activities and may have impacted negatively on service delivery to the public.

### **Management Response**

The County Treasury has noted the matter and the County Accounting reporting unit is working on the prior year adjustments to the financial statements and capacity building on accrual basis of Accounting.

### **Committee Observations**

The Committee observed that—

- i. the hospital had an under-funding of Kshs. 57,722,000 of 12% of the budget during the financial year under review.
- ii. The hospital had an unauthorized over-expenditure of Kshs. 45,232,852 or 12% of the budget during the financial year under review.

### **Committee Recommendations**

**The Committee recommends that—**

- i. the Accounting Officer should ensure strict compliance with section 149(2)(h) and (i) of the Public Finance Management Act, Cap. 412A and the standards prescribed by the Public Sector Accounting Standard Board

**under IPSAS 24 on the presentation of budget information in the financial statements for an entity that prepares financial statements under the accrual basis of financial reporting, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply; and**

- ii. the Accounting Officer should comply with regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply.**

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

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

### **1. Failure to deduct and remit statutory contributions**

Review of personnel records revealed that during the year under review Management failed to deduct and remit the employees' National Social Security Fund (NSSF) contributions amounting to Kshs. 613,200. In addition, the employer's contributions were also not remitted to NSSF. This is contrary to Sections 19(1) and 20(1) of the National Social Security Fund Act, 2013 which requires every employer who, under a contract of service, employs one employee or employees, as members of the Fund and pay to the Pension Fund in respect of each employee in his or her employment.

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

### **Management Response**

The NSSF was deducted byproduct remitted to NSSF as a whole batch; the payment made to NSSF is done at the Finance department for the whole County Staff and the EFT numbers for the payment done is provided.

### **Committee Observations**



The Committee observed that whereas evidence to show that NSSF contributions were deducted and remitted was provided and verified by the Auditor-General, and the query marked as addressed, the submission was done outside the timelines contemplated under the Public Audit Act, Cap.412B and constitutes an offence under section 62(2) of the Act.

### **Committee Recommendations**

**The Committee recommends that—**

- i. **the hospital to adhere to Sections 19(1) and 20(1) of the National Social Security Fund Act, 2013 which requires every employer who, under a contract of service, employs one employee or employees, as members of the Fund and pay to the Pension Fund in respect of each employee in his or her employment, failure to which the penalty under section 19(5) of the Employment Act shall apply; and**
- ii. **the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9(1)(e) and section 47(1) of the Public Audit Act, Cap.412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act, Cap.412B in the subsequent audit cycle.**

### **2. Unsupported Employment and Salary Arrears**

During the financial year under review, three (3) healthcare workers were employed on 2 April, 2022. However, no evidence was provided to support the recruitment process such job advertisement, list of applicants, shortlisted candidates, minutes of the interviews and the officer's personal files. The new employees were also paid salary arrears in April, 2022 amount amounting to Kshs. 330,723 which were not explained or supported.

In the circumstances, the regularity of the employment of the three staffs and their subsequent payment of salary arrears of Kshs. 330,723 could not be confirmed.

### **Management Response**

Recruitment is centrally done by the County Public Service Board as per the County Government Act section 59 (b) the chief officer writes an indent to the County Secretary for approval. After the approval has been done the County Public Service Board does the advert for the recruitment. After the recruitment then the Chief Officer does the posting order. The arrears arise due to the waiting period for payroll number.

### **Committee Observations**

The Committee observed that whereas evidence to support the recruitment process was provided and verified by the Auditor-General, and the query marked as addressed, the submission was done outside the timelines contemplated under the Public Audit Act, Cap.412B and constitutes an offence under section 62(2) of the Act.

### **Committee Recommendations**

**The Committee recommends that the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9(1)(e) and section 47(1) of the Public Audit Act, Cap.412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62 (2) of the Public Audit Act, Cap.412B in the subsequent audit cycle.**

### **3. Weak internal controls on delivery of medical supplies**

During the year under review, the hospital received various medical commodities out of which supplies worth Kshs. 3,327,334 were received by individuals whose details could not be traced in the hospital's payroll, and the Department of Health Services stores records did not indicate whether the stores were received and used at the facility. In addition, medical supplies amounting to Kshs. 19,839,293 were received by undisclosed persons whose details were not recorded on the delivery notes.

In the circumstances, regularity and completeness of the supplies receipts could not be confirmed.

### **Management Response**

The management has noted the anomaly and has since formed an inspection and acceptance committee headed by a commodity nurse for receiving hospital commodities.

Moreover, the staffs who received the various commodities are in the payroll system and some have been transferred to other facilities and some are still at the facility and deployed at stores.

| <b>Name</b>      | <b>ID No</b> | <b>Payroll number</b> | <b>Department</b> |
|------------------|--------------|-----------------------|-------------------|
| • Joshua Matilu  | 21105355     | 20160026906           | Stores            |
| • Nahashon Maina | 24993501     | 2009090874            | Pharmacy          |
| • Rita Mwakisha  | 27230105     | 20140038713           | Pharmacy          |
| • Ayub Kirinzo   | 22005371     | 1993060293            | Pharmacy          |



|                                        |          |             |            |
|----------------------------------------|----------|-------------|------------|
| • Husna Mwamzandi                      | 29520331 | 20190039368 | Stores     |
| • Masito Mejumaa                       | 27198823 | 20150113714 | Pharmacy   |
| • Dr.Panchal Rameshchandra<br>Pharmacy | 25066419 | 2014007922  |            |
| • Musa Ali Abdullahi                   | 21726261 | 2010041456  | Laboratory |

### **Committee Observations**

The Committee observed that—

- i. Supplies amounting to Kshs.1,465,596, which were received by individuals whose details could not be traced in the hospital’s payroll, could not be traced in the department of health stores.
- ii. Supplies amounting to Kshs. 19,839,293 were received by undisclosed persons whose names were not recorded on the delivery note.

### **Committee Recommendations**

The Committee recommends that—

- i. **the Ethics and Anti-Corruption Commission (EACC) to conduct an investigation into the untraceable supplies and possible loss of funds amounting to Kshs. 1,465,596 and the supplies amounting to Kshs. 19,839,293 from undisclosed persons and give a status on the same to the Senate within 60 days of the adoption of this report; and**
- ii. **the Accounting Officer to ensure that a procurement policy with clear guidelines for specialist involvement at every stage of the supply chain, with documented verification procedures to guarantee that all received supplies meet the required quality standards, is implemented within 60 days from the adoption of this report, failure to which the penalties under section 177 of the Public Procurement and Disposal of Assets shall apply.**

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

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

## **1. Weak Internal Controls on Revenue**

### **1.1 Billing System**

Review of hospital revenue process revealed that patients are billed manually using an undefined way which does not give a trail for the generation of revenue billing reports so as to establish the revenue earned in line with IPSAS accrual basis.

In addition, the facility's monthly service workload report indicates that during the year under review, thirty seven (37) in patients whose details were not disclosed escaped from the hospital before paying their hospital bills. However, there is no evidence that the incidences were reported to the hospital management and whether the outstanding bills were recovered.

#### **Management Response**

We appreciate the issues raised on weaknesses in the billing system which was due to inadequate personnel and the management intends to automate the billing section in order to curb the weaknesses.

The matter of patients who absconded was reported to the management by the Hospital Nursing In charge

There is no inpatient finance system due to financial constraints.

The hospital management has since plans to undertake the following measures to avoid instances of patients escaping from the wards without settling their bills;

- To progressively provide uniform to inpatients.
- The hospital management has ensured billing is done in the wards.
- Improve security through outsourcing and rehabilitate the CCTV installations in the hospital (this is in proposed hospital management budget for 2024/2025).

#### **Committee Observations**

The Committee observed that—



- i. Thirty-seven (37) patients escaped without paying, with no evidence of reporting or recovery of the outstanding amounts.
- ii. The hospital's revenue processes indicate that patients are billed manually using an unclear method, which prevents the generation of accurate revenue billing reports necessary for tracking revenue in accordance with the IPSAS accrual basis.

## **Committee Recommendations**

**The Committee recommends that—**

- i. **the EACC should conduct an investigation on the 13 escaped patients and determine the monetary loss incurred by the hospital within 60 days after the adoption of this report. Officers found culpable should be surcharged; and**
- ii. **the hospital management should implement a suitable integrated hospital management information system in accordance with the existing health legislations and regulations under the Digital Health Act No.15 of 2023 in as far as application of comprehensive integrated digital health information system is concerned. The Accounting Officer to provide a status update on the implementation of the aforementioned system to the Senate within 60 days of the adoption of this report.**

1.

1.1

### **1.2 Unapproved Waivers of Patient's bills**

The hospital waived patient's bills amounting to Kshs.549, 280. However, Management did not provide for audit the written delegated authority to the officers who granted the waivers from the Accounting Officer or the receiver of revenue as required of Regulation 64(3) of the Public Finance Management (County Governments) Regulations, 2015 which provide that the accounting officer or receiver of revenue or collector of revenue shall include in the report under paragraph (1), the following details in respect of each waiver or variation; (a) the full name of each person benefiting from the waiver or variation; (b) the amount of tax, fee or charge affected by the waiver or variation; (c) the year to which the waiver or variation relates; (d) the reasons for the waiver or variation.

## **Management Response**

There is a written delegated authority from Chief Officer Finance and Economic planning to the Director, Msambweni County Referral Hospital which authorized approval of waivers for needy patients.

Further the hospital administration has come up with waiver guidelines which is at the draft level and is awaiting the hospital board approval.

The management has now set an elaborate criterion in the waiver matters, the waiver originates from the patient through the nurse in charge of the respective ward, then the name is forwarded to the committee for discussion minutes generated and then the social worker is given the mandate to access the socio- economic status of the patient if it's true that he/ she is unable to clear the bill.

There is also waiver form to be filled by the social worker as he is the secretary to the committee which will be signed and approved by the director for release of the patient.

### **Committee Observations**

The Committee observed that the management failed to provide the necessary approvals regarding the delegation of authority to officers to waive patient bills for audit verification.

### **Committee Recommendations**

**The Committee recommends that—**

- i. the Accounting Officer to take appropriate administrative action on the officers within the Accounts and Finance department who fails to keep complete financial records in accordance with their terms and conditions of appointment or employment and as required by section 156(1) of the Public Finance Management Act, Cap.412A;**
- ii. the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9(1)(e) and section 47(1) of the Public Audit Act, Cap.412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act, Cap.412B in the subsequent audit cycle.**

### **1.3 Sale of medicines not accounted for**

The statement of financial performance for the year ended 30 June, 2022 reflects Nil revenue from sale of goods. However, during the year under review, the hospital



purchased drugs from Kenya Medical Supplies Authority (KEMSA) amounting to Kshs. 13,287,113 which are dispensed to patients at an undefined cost since the drugs were not included in the drugs price list provided for audit review. In addition, the hospital does not have a drug pricing policy to guide on the selling of drugs to patients.

In the circumstances, the effectiveness of internal controls on revenue billing and collection could not be confirmed.

### **Management Response**

The drugs under reference are actually included in the price list not as a single drug but under different classification as captured on the service charter which agrees with the list of the drugs procured for example insulin on the list of drugs procured is captured as insulin on the service charter, drug such as salbutamol and nifedipin are general drugs, we have anti-malarials which are quite a number.

Also some drugs are resuscitative drugs used in theatre and maternity and thus billed as a package for theatre procedures or delivery and not as a single item.

### **Committee Observations**

The Committee observed that—

- i. the dispensed drugs amounting to Kshs. 13,287,113 were not included in the hospital's drugs price lists.
- ii. The hospital did not have a drug pricing policy in place during the financial year under review.

### **Committee Recommendations**

The Committee recommends that—

- i. the hospital management should implement a suitable integrated hospital management information system in accordance with the existing health legislations and regulations under the Digital Health Act No.15 of 2023 to monitor dispensing of drugs among other things;
- ii. the Ethics and Anti-Corruption Commission should conduct an investigation on the dispensed drugs amounting to Kshs. 13,287,113 and officers found culpable should be surcharged or prosecuted; and
- iii. the County Executive Committee Member (CECM) - Health ensures that the Hospital puts in place all internal control systems such as a Risk Management

**Policy as provided under section 158 (1) of Public Finance Management (County Governments) Regulations, 2015 among others to guide the internal operations of the Fund. Further, the County Executive Committee Member (CECM) - Health to submit evidence of the same to the Auditor General for verification.**

## **2. Implementation of Universal Health Coverage**

During the year under review, the National Government through the ministry of Health supplied drugs worth Kshs. 1,404,351 and recruited thirty-seven (37) healthcare workers to the hospital under the Universal Health Coverage (UHC) program. However, the drugs delivered in the month of December 2021 to cater for the hospital's 1,181 enrolled UHC members appeared inadequate.

In addition, review of the hospital's role in the implementation of UHC program revealed the following inadequacies:

- a) The Intensive Care Unit ICU has six (6) beds compared to the required twelve (12)
- b) The new born care unit has (6) incubators against the required ten (10).
- c) Sixteen (16) ventilators at the hospital have not been into use due to unavailability of space in the ICU
- d) The High Dependence Unit (HDU) of three-bed capacity is un functional due to lack of trained healthcare workers.
- e) The Magnetic Resonance Imaging (MRI) and electrocardiogram (ECG) services are not available in hospital as required.

In the circumstances, the realization of quality and affordable health care to citizens is in doubt.

### **Management Response**

We appreciate the fact that the drugs supplied through UHC to cater for 1,181 patients were inadequate, however when the drugs are available in the hospital pharmacy, the patient covered under the UHC program would benefit equally alongside with other patients and there are no boundaries alongside any patient category.

- a. The intensive care unit (ICU) is below capacity due to space.
- b. The new born care unit has (6) incubators against the required ten (10) - this is due to space shortage and financial constraints, but there are plans to move to the maternity complex to create more capacity.



- c. Sixteen (16) ventilators at the hospital have not been into use to unavailability of space in the ICU- this is due to the low capacity of the ICU however this provide aback up in case of breakage or default.
- d. The High Dependence Unit (HDU) of three-bed capacity is un functional due to lack of trained healthcare workers- this department is fully equipped but not utilized due to shortage of critical trained nursing staff.
- e. The Magnetic Resonance Imaging (MRI) and electrocardiogram (ECG) services are not available in the hospital as required- the MRI room is available but there is no machine due to financial constraints, the ECG service is now available at outpatient department.

### **Committee Observations**

The Committee observed that—

- i. The drug supply worth Kshs. 1,404,351 from the National Government through the Ministry of Health was insufficient to sustain the hospital's needs;
- ii. The hospital faced significant equipment and staffing shortages, including an under-equipped ICU and new-born care unit, unused ventilators due to limited ICU space, a non-functional HDU due to lack of trained staff, and the absence of MRI and ECG services, which were all requirements in the implementation of the UHC programme.

### **Committee Recommendations**

The Committee recommends that—

- i. **the Governor of Kwale to engage the National Government through the Ministry of Health to address the shortfall and request additional supplies or financial support to meet the hospital's drug needs; and**
- ii. **within sixty (60) days from the adoption of this report, the Governor and the Accounting Officer submit a comprehensive plan detailing the specific measures to address the hospital's critical facility deficiencies. The measures should focus on optimizing existing resources and ensuring the hospital meets the necessary healthcare standards moving forward.**

### **3. Expired Medical Supplies**

Review of management of pharmaceuticals and non-pharmaceuticals at the hospital revealed that 4,180 units of medicine of undetermined value had expired. In addition, the stock cards used in controlling drugs in the hospital did not indicate the batch number and expired dates of the medicines which are useful indicators in while issuing drugs to avoid expiry of drugs in the stores.

In the circumstances, the expired drugs of undetermined value resulted in loss of public funds.

### **Management Response**

We appreciate to the issue raised during the audit that revealed that 4180 units pharmaceuticals and non-pharmaceuticals had expired. Initially the bin cards that were used in receiving from one of the suppliers, MEDS did not have provisions for batch number and expiry dates. This was actually a gap that would result to expired drugs of undetermined value. The hospital administration with the pharmacy team agree to make a corrective measure through fruitful discussion with the supplier that has led to acquisition of the right stock control cards which have provision of the batch number and expiry dates, sample of the stock card and the costed expired drug list is appended.

### **Committee Observations**

The Committee observed that—

- i. 4,180 units of various drugs of undetermined value expired due to the failure of the stores officer to apply the First Expiry, First Out (FEFO) principle when issuing supplies.
- ii. The stock cards used for controlling drugs in the hospital did not include batch numbers or expiration dates, which are essential for avoiding the issuance of expired drugs.

### **Committee Recommendations**

The Committee recommends that—

- i. the hospital should ensure strict compliance to section 164(2)(a) of the Public Finance Management Act with regards to making disclosures of their assets e.g. drugs, failure to which the penalty under section 199 of the Act shall apply;
- ii. the Accounting Officer ensures strict compliance with the provisions of Section 162(2) of the Public Procurement and Assets Disposal Act 2015, with regards to



**quarterly and annual inventory and stock taking, failure to which penalties under section 177 of this Act shall apply; and**

- iii. within 60 days of the adoption of this report, the Accounting Officer ensures the hospital's inventory procedures are updated to enforce the First Expiry First Out (FEFO) principle, ensuring drugs with the nearest expiration dates are issued first, and implements systems to track and alert staff about upcoming expirations to enhance stock rotation efficiency.**

#### **4. Lack of approved Staff establishment**

During the year under review, the hospital's payroll reflected a total of two hundred and forty (240) employees. However, the staff establishment incorporated in the annual work plan for the year under review indicates 548 available positions in the hospital against 240 staffs in-post resulting to a shortage of 308 employees.

In the circumstances, the staff shortfall may affect the hospital's ability to achieve its mandate.

#### **Management Response**

We have noted the concerns raised by the Auditors regarding the number of hospital staff totaling to 240 employees as per the payroll against 548 as norms in accordance with the staff establishment incorporated in the annual work plan in the year under review, this results to a shortage of 308 employees. This gap would create a negative impact in achieving the hospital mandate. The staff establishment document was prepared using a national tool that predetermine staffing levels for various levels of health provisions (level 1,2,3,4,5,6). However, this a matter of budget constraints

The staff establishment is at CEC which is now waiting for approval of Cabinet.

#### **Committee Observations**

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

#### **Committee Recommendations**

**The Committee recommends that the CECM in charge of Health expedites the process of establishing a staff establishment and provides a status update on the same to the Senate within 60 days of the adoption of this report.**

## **5. Appointment of Board members and board composition**

Review of Board records, revealed seven members were appointed on 4 May, 2018, through a gazette notice for a three (3) years term ended on 3 May, 2021. However, on 27 September, 2022 the CECM issued an internal memo to accounting officers of all level 4 and 5 hospitals in Kwale County to continue working with the Board members until further notice. As a result, the Board members have continued to be in the office without valid appointments for thirteen (13) months after expiry of contract as at the time of audit in June, 2023

In addition, the board membership does not include the Deputy County Commissioner, Sub-County Medical Services Officer, person in-charge of the hospital, and a person with knowledge and experience in Finance and administration matters as required by Governance Guidelines for Hospital issued by Ministry of Medical Services, 2021

In the circumstances, the regularity of the Board members appointment and the contributions of the Board in implementation of primary health care services in the hospital could not be confirmed.

### **Management Response**

The CEC health services issued a letter extending life of board members; since health was devolved the DCC was replaced by the Sub-County administrator who is automatically a member of the board.

### **Committee Observations**

The Committee observed that—

- i. Members of the Board of Management of the Hospital continued to perform their duties despite the expiration of their tenure;
- ii. the board membership did not include deputy county commissioner, sub county medical services officer, person in-charge of the hospital, and a person with knowledge and experience with finance and administration matters contrary to the Governance Guidelines for Hospital issued by Ministry of Medical Services, 2021.

### **Committee Recommendations**

The Committee recommends that—



- i. **the County Executive Committee Member (CECM) for Health ensures strict compliance with section 9(j) of the Facilities Improvement Financing Act, Cap. 277, regarding the appointment of Board of Management members. The CECM - Health should ensure that all appointments are conducted in accordance with the law and that no Board member serves beyond the three-year term as prescribed by section 19 of the Facilities Improvement Financing Act failure to which penalties under section 28 shall apply; and**
- ii. **the County Executive Committee Member (CECM) for Health ensures strict compliance with the Governance Guidelines for Hospital issued by Ministry of Medical Services, 2021.**

## CHAPTER TEN

### REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR MT. KENYA SUB-COUNTY HOSPITAL FOR THE FINANCIAL YEAR 2021/2022

The Governor of Nyeri County, Hon. Edward Mutahi Kahiga, EGH, appeared before the Committee on Monday, 23<sup>rd</sup> September, 2024 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Mt. Kenya Sub-County Level 4 Hospital for the financial year 2021/2022. He was accompanied by –

1. Mr. Robert Thuo Mwangi - CECM Finance
2. Dr. Joseph Maina Kiragu - CECM Health
3. Mr. Ibrahim Adan - Chief Officer
4. Dr. Charles Ndirangu - Medical Superintendent

### REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **qualified opinion** on the financial statements of Mt. Kenya Sub-County Level 4 Hospital for the period under review on the following basis –

#### 1. Inaccuracies and Inconsistencies in the Financial Statements

Review of the financial statements for the year ended 30<sup>th</sup> June, 2022 as prepared and presented for audit revealed the following errors and inconsistencies;

- i. The statement of financial performance reflects general expenses of Kshs. 8,061,136 while the supporting schedule reflects Kshs. 7,970,586 resulting to an unexplained variance of Kshs. 90,550. Further, the transfer to Health Fund (3% and 20%) was reflected as Kshs. 3,074,383 while the recomputed balance is Kshs. 3,648,858 (23% of 15,864,599) resulting in an unexplained variance of Kshs. 574,475.

#### Management Response

Management stated that the general expenses of Kshs. 8,061,136 is the correct figure as reflected in note 21 of the financial performance as per the provided supporting schedule.

Management further indicated that according to Nyeri County Health Services Fund Act 2021 and its regulations, computation of 3% and 20% should be calculated as follows; first deduct 3% from the total revenue (100%), then get 20% from the balance of 97%. Finally, the hospital receives reminder of the revenue collected as shown by the table below;



|                             |                                            |                            |                                                               |                                                  |
|-----------------------------|--------------------------------------------|----------------------------|---------------------------------------------------------------|--------------------------------------------------|
| Total Revenue<br>(100%) (A) | 3% Transfer to<br>Health Fund<br>Board (B) | Balance – (A-<br>B) = C    | 20% Transfer<br>to Rural<br>Health<br>Facilities<br>(20% x C) | Transfer to<br>Hospitals<br>Account (80%<br>x C) |
| K s h s .<br>15,864,599.00  | K s h s .<br>475,937.97                    | K s h s .<br>15,388,661.03 | K s h s .<br>3,077,732.21                                     | K s h s .<br>12,310,928.82                       |

Thus, the re-computation formula (23% of 15,864,599) does not apply at all. The Nyeri County Health Services Fund Act 2021 was provided for reference.

### **Committee Observation**

The Committee observed that whereas an adequate response and supporting documents were submitted and the query considered resolved the submission was done outside the timelines contemplated under the Public Audit Act, Cap 412B and constitutes an offense under section 62(2) of the Public Audit Act.

### **Committee recommendations**

**The Committee recommends that –**

- i). the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9(1)(e) of the Public Audit Act, Cap 412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act, 412B in the subsequent audit cycle;**
- ii). the Accounting Officer to take appropriate administrative action on responsible officers within the Accounts and Finance department who fail to keep complete financial records in accordance with section 156(1) of the Public Finance Management Act, Cap.412A and in line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- iii). the Accounting Officer should comply with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**

- iv). **the National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties;**
- v). **the Accounting Officer should strengthen internal audit controls and ensure proper record keeping in accordance with section 155 of the Public Finance Management Act, Cap.412A and submit a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply; and**
- vi). **the Accounting Officer should enhance the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.**
  - ii. The statement of financial position reflects total Net Assets and liabilities of Kshs.7,310,039 while the recomputed balance is Kshs.6,534,519 resulting in an unexplained variance of Kshs.775,520. Further, the receivables from exchange transactions was reflected as Kshs.1,150,764 while the supporting schedule reflects Kshs.13,774,945 resulting in an unreconciled variance of Kshs.12,624,181.

### **Management Response**

Management submitted that the variance of Kshs. 775,520 was for trade and other payables as indicated in note 34 of the financial position.

To explain the variance of Kshs. 12,624,181, management stated that under IPSAS accrual accounting, revenue should be recognized once it is probable that future economic benefits will flow to an entity. The initial figure of Kshs. 13,774,945 was an estimate of the cumulative claims owed to the hospital by NHIF since 23rd October 1998. However, since the figure spans several financial periods, the hospital's management felt that it would be prudent to limit the receivables to the financial year under review and term the balance of Kshs. 12.62 million as bad debts. A schedule of the outstanding claims that was reported in the financial year 2021/2022 amounting to Kshs. 1.150.764 was provided for review.

### **Committee observation**



The Committee observed that whereas an adequate response and supporting documents were submitted and the query considered resolved the submission was done outside the timelines contemplated under the Public Audit Act, Cap 412B and constitutes an offense under section 62(2).

### **Committee recommendations**

**The Committee recommends that –**

- i. the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9(1)(e) of the Public Audit Act, Cap 412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act, 412B in the subsequent audit cycle;**
- ii. the Accounting Officer to take appropriate administrative action on responsible officers within the Accounts and Finance department who fail to keep complete financial records in accordance with section 156(1) of the Public Finance Management Act, Cap.412A and in line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- iii. the Accounting Officer should comply with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- iv. the National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties;**
- v. the Accounting Officer should strengthen internal audit controls and ensure proper record keeping in accordance with section 155 of the Public Finance Management Act, Cap.412A and submit a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply; and**

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

- iii. The Statement of Cash Flows Reflects Cash and Cash Balance brought forward at 1<sup>st</sup> July, 2021 which was not disclosed in the statement of Financial Position as Fund Balance.

### **Management Response**

Management stated that the reflected Cash and Cash Balance brought forward as at 1<sup>st</sup> July, 2021 was the balance brought forward from previous FY 2020/2021 and reported in the statement of cashflows. The omission was noted and has been rectified in subsequent years of reporting.

### **Committee Observation**

The Committee observed that the Cash Flows reflects a Cash and Cash Balance brought forward as at 1<sup>st</sup> July, 2021, which was not omitted in the Statement of Financial Position as Fund Balance. However, the omission was rectified in the subsequent financial statements but was yet to be verified by the Auditor-General.

### **Committee Recommendations**

**The Committee recommends that –**

- i. **the Accounting Officer to take appropriate administrative action on responsible officers within the Accounts and Finance department who fail to keep complete financial records in accordance with section 156(1) of the Public Finance Management Act, Cap.412A and in line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- ii. **the Accounting Officer should comply with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act,**



Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;

- iii. the National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties;
- iv. the Accounting Officer should strengthen internal audit controls and ensure proper record keeping in accordance with section 155 of the Public Finance Management Act, Cap.412A and submit a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply; and
- v. the Accounting Officer should enhance the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.

- iv. The Statement of Cash Flows reflects cash and cash equivalents balance as at 30<sup>th</sup> June, 2022 of Kshs. 6,159,235 while the recomputed balance is Kshs. 11,321,230 resulting to unexplained variance of Kshs. 5,161,995.

### **Management Response**

Management submitted that the cash and cash equivalents as at 30<sup>th</sup> June 2022 represent the hospital's closing balance of Kshs. 6,159,235 as per the cashbook balance and the board of survey report.

### **Committee Observation**

The Committee observed that whereas an adequate response and supporting documents were submitted and the query considered resolved the submission was done outside the timelines contemplated under the Public Audit Act, Cap 412B and constitutes an offense under section 62(2).

### **Committee Recommendations**

The Committee recommends that –

- i). the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9(1)(e) of the Public Audit Act, Cap 412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act, 412B in the subsequent audit cycle;**
- ii). the Accounting Officer to take appropriate administrative action on responsible officers within the Accounts and Finance department who fail to keep complete financial records in accordance with section 156(1) of the Public Finance Management Act, Cap.412A and in line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- iii). the Accounting Officer should comply with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- iv). the National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties;**
- v). the Accounting Officer should strengthen internal audit controls and ensure proper record keeping in accordance with section 155 of the Public Finance Management Act, Cap.412A and submit a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply; and**
- vi). the Accounting Officer should enhance the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.**



- v. The Statement of Budget Comparison and Actual Amount reflects actual receipts of Kshs. 28,701,644 and actual expenditure of Kshs. 22,167,125 while the Statement of Financial Performance reflects actual receipts of Kshs. 33,787,468 and actual Kshs. 27,252,549 resulting to unexplained variance of Kshs. 5,085,424 and Kshs. 5,085,424 respectively.

### **Management Response**

Management submitted that the variance of Kshs. 5,085.424 is attributable to the in-kind contributions by the County Government of Nyeri as broken down on note 7 of the financial statements. Transfer in kind were treated as both revenue and expense in the statement of financial performance but the figure was not included in the Statement of Budget Comparison. Management noted the omission and stated that the issue has been resolved in subsequent reporting.

### **Committee Observation**

The Committee observed that the query remains unresolved as–

- i). the variance of Kshs. 5,085.424 was an in-kind transfer from the County Government of Nyeri which was treated as revenue and expenditure in the statement of financial performance but was excluded from the Statement of Budget Comparison which management admitted was an error of omission; and
- ii). management made amendments in the subsequent reporting period but the same had not been verified by the Auditor-General.

### **Committee Recommendations**

The Committee recommends that –

- i. the Accounting Officer to take appropriate administrative action on responsible officers within the Accounts and Finance department who fail to keep complete financial records in accordance with section 156(1) of the Public Finance Management Act, Cap.412A and in line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;
- ii. the Accounting Officer should comply with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act,

Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;

- iii. the National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties;
- iv. the Accounting Officer should strengthen internal audit controls and ensure proper record keeping in accordance with section 155 of the Public Finance Management Act, Cap.412A and submit a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply; and
- v. the Accounting Officer should enhance the capacity of in-post officers preparing financial statements to comply with the Public Sector Accounting Standards and should further invest in technology to enhance efficiency and improve the accuracy of financial statements.

## 2. Irregular Recognition of Revenue from Exchange Transactions

The statement of financial performance reflects income from exchange transaction - medical services of Kshs. 15,852,599 and as disclosed in Note 11 to the financial statements. However, the income was recognized on a cash basis instead of an accrual basis. Further, Kshs. 1,099,025 cash collections could not be reconciled to source departments on amount billed, amount paid and banked per patient.

Further, Mpesa receipts for July, 2021 of Kshs. 722,640, December, 2021 of Kshs. 472,070, January, 2022 of Kshs. 1,209,530, February, 2022 of Kshs. 469,670 and March 2022 of Kshs. 321,360 were not supported with bank statements. In addition, daily collections reflected in Mpesa statements had unexplained variances with amounts reflected in supporting schedules as detailed below: -

| <b>Date</b>    | <b>Amounts as per Mpesa Statements (Kshs.)</b> | <b>A m o u n t s Reported (Kshs.)</b> | <b>Variance (Kshs.)</b> |
|----------------|------------------------------------------------|---------------------------------------|-------------------------|
| 01 April, 2022 | 10,940                                         | -                                     | 10,940                  |



|                 |                |                |                |
|-----------------|----------------|----------------|----------------|
| 01 June, 2022   | 81,620         | -              | 81,620         |
| 01 August, 2021 | 29,080         | -              | 29,080         |
| 02 August, 2021 | 49,120         | -              | 49,120         |
| 07 June, 2022   | 20,548         | 29,380         | (8,832)        |
| 09 June, 2022   | 15,672         | 20,520         | (4,848)        |
| 10 June, 2022   | 18,628         | 18,829         | (201)          |
| 14 June, 2022   | 86,926         | 86,701         | 225            |
| <b>Total</b>    | <b>312,534</b> | <b>155,430</b> | <b>157,104</b> |

In the circumstances, the accuracy and completeness of receipts from rendering of services for the financial year ended 30 June, 2022 could not be confirmed.

### **Management Response**

Management submitted that revenue from exchange transactions amounts to Kshs. 15,864,599 as disclosed on note 11 of the amended financial statements. As disclosed in the financial statements, the hospital took advantage of the exemptions provided under IPSAS 33 which allow for a transitional period before an entity can adopt all IPSAS accounting standards, including recognition of revenue on accrual basis

Mpesa receipts for July, 2021 of Kshs. 722,640, December, 2021 of Kshs, 472,070. January, 2022 of Kshs. 1,209,530, February, 2022 of Kshs. 469,670 and March 2022 of Kshs, 321,360 are hereby supported with the provided Mpesa statements.

Further, the discrepancies between the Mpesa amounts receipted and the actual collection was noted and reconciled as presented below:

### **Reconciled Mpesa Receipts**

| Date         | Amounts as per<br>Mpesa statements<br>(Kshs) | Amount reported   | Variance    |
|--------------|----------------------------------------------|-------------------|-------------|
|              |                                              | Kshs              | Kshs        |
| 01-April-22  | 10,910.00                                    | 10,910.00         | 0.00        |
| 01-Jun-22    | 81,620.00                                    | 81,620.00         | 0.00        |
| 01-Aug-21    | 29,060.00                                    | 29,060.00         | 0.00        |
| 02-Aug-21    | 49,120.00                                    | 49,120.00         | 0.00        |
| 07-Jun-22    | 16,170.00                                    | 16,170.00         | 0.00        |
| 09-Jun-22    | 18,628.00                                    | 18,628.00         | 0.00        |
| 10-Jun-22    | 11,340.00                                    | 11,340.00         | 0.00        |
| 14-Jun-22    | 28,703.00                                    | 28,703.00         | 0.00        |
| <b>Total</b> | <b>245,551.00</b>                            | <b>245,551.00</b> | <b>0.00</b> |

Management further indicated that the discrepancies between Mpesa amounts receipted and the actual collection was noted and reconciled and provided revenue reports for the months of July 2021, August 2021, April 2022 & June 2022, Dec 2021, January 2022 - March 2022. Mpesa statements were also provide for reference.

### **Committee Observation**

The Committee observed that the query was partially addressed as –

- i). income amounting to Kshs. 15,852,599 was recognized on a cash basis instead of an accrual basis, which management attributed to the transition period from cash basis of accounting to accrual basis whereby an exemption period of transition was provided for under IPSAS 33 for adopting IPSAS accounting standards, including revenue recognition on an accrual basis;
- ii). management clarified that revenue from exchange transactions amounts to Kshs. 15,864,599 as per Note 11 of the amended financial statements but the same had not been verified by the Auditor-General; and
- iii). Mpesa statements to support Mpesa monthly transactions and reconciled monthly revenue reports to support discrepancies between Mpesa amounts receipted and the actual collection were provided and reviewed by the Auditor-General, albeit the submission being done outside the timelines contemplated under the Public Audit Act.

### **Committee Recommendations**



**The Committee recommends that –**

- i). the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9(1)(e) of the Public Audit Act, Cap 412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act, 412B in the subsequent audit cycle;**
- ii). the Accounting Officer should ensure strict compliance with the provisions of regulation 90 of Public Finance Management (County Government) Regulations 2015 with respect to monthly reconciliation of bank statements, taking into account cash collections by source departments, amounts billed, amounts paid, and banked, to enhance transparency and accountability;**
- iii). the Accounting Officer to take appropriate administrative action on responsible officers within the Accounts and Finance department who fail to keep complete financial records in accordance with section 156(1) of the Public Finance Management Act, Cap.412A and in line with their terms and conditions of appointment or employment, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- iv). the Accounting Officer should comply with section 149(2)(b) of the Public Finance Management Act, Cap.412A and section 47(2) of Public Audit Act, Cap.412B in the preparation and management of financial and accounting records, failure to which the provisions of section 62 of the Public Audit Act, Cap.412B and section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply;**
- v). the National Treasury should enhance awareness and training on changes made to the accounting standards to all public officers handling financial matters in Counties;**
- vi). the Accounting Officer should strengthen internal audit controls and ensure proper record keeping in accordance with section 155 of the Public Finance Management Act, Cap.412A and submit a quarterly report to the County Treasury and the Controller of Budget in accordance with section 168(3) of the Public Finance Management Act, Cap.412A, failure to which the provisions of section 199 of the Public Finance Management Act, Cap.412A on penalties for offences shall apply; and**

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

### **3. Unsupported National Hospital Insurance Fund (NHIF) Claims**

The statement of financial position reflects receivables from exchange transaction - medical services NHIF of Kshs.1,150,764 and as disclosed in Note 28 to the financial statements. However, the hospital did not provide records on the NHIF billings, the amount claimed, amount paid, outstanding balances and monthly reconciliations. Further, the Management of the hospital did not provide a contract between them and NHIF for the financial year under review.

In the circumstances, the accuracy and completeness of receivables from NHIF of Kshs.1,150,764 for the year ended 30 June, 2022 could not be confirmed.

#### **Management Response**

Management provided contracts between the hospital and NHIF the contract period between 2018/2021 and 2022/2024 for review. Pending NHIF claims for the financial year 2021/2022 amounting to Kshs. 1,150,764 were also provided for review.

#### **Committee Observation**

The Committee observed that whereas the supporting documents were submitted and verified by the Auditor-General and the query marked as resolved, the submissions were done outside the timelines contemplated under the Public Audit Act, and constitutes an offense under section 62(2) of the Public Audit Act.

#### **Committee Recommendation**

**The Committee recommends that the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9(1)(e) of the Public Audit Act, Cap 412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act, 412B in the subsequent audit cycle.**

### **4. Unsupported Cash and Cash Equivalents**

The statement of financial position reflects cash and cash equivalents balance of Kshs. 6,159,235 and as disclosed in Note 27 to the financial statements. However, the balances were not supported with cash survey report. Further, cheque number '1499 for Kshs.



12,540 issued to Boc Kenya PLC could not be traced in subsequent bank statements for clearance as at 15 June, 2023.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs. 6,159,235 as at 30 June, 2022 could not be confirmed.

### **Management Response**

Management submitted that the department through Nyeri County Treasury conducted cash survey and issued the board of survey report that indicated cash balance of Kshs. 6,159,235 which was reported in financial position as cash and cash equivalent.

Further, cheque number 1499 amounting to Kshs. 12,540 was a cancelled cheque paid to BOC Kenya PLC. It was replaced by cheque no.1604 which was presented to bank and debited in the hospital's bank account on 31st August 2022. The cancelled cheque 1499 and a scanned extract of bank statement to confirm when the replacement cheque cleared in Bank were provided for reference.

### **Committee Observation**

The Committee observed that whereas the supporting documents were submitted and verified by the Auditor-General and the query marked as resolved, the submissions were done outside the timelines contemplated under the Public Audit Act, and constitutes an offense under section 62(2) of the Public Audit Act.

### **Committee Recommendation**

**The Committee recommends that the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9(1)(e) of the Public Audit Act, Cap 412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act, 412B in the subsequent audit cycle.**

### **Other Matter**

The following issues were raised by the Auditor-General under Other Matter –

#### **1. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on a comparable basis of Kshs. 28,701,644 and Kshs. 28,701,644 respectively resulting to a balanced budget. Similarly, the actual expenditure reflects a balance of Kshs. 22,167,125 against an approved budget of Kshs. 28,701,644 resulting to an under-expenditure of Kshs. 6,536,519 or 23% of the budget. The actual figures for receipts and expenditure do not agree with the figures in the statement of financial performance.

Further, the Statement of comparison of budget and actual amounts for the year ended 30 June, 2022 reflects final budget income of Kshs. 28,701,644 and final expenditure budget of Kshs. 26,278,388 resulting to a budget surplus of Kshs. 2,423,256 or 8%.

This is contrary to Regulation 31(c and e) of Public Finance Management (County Government) Regulations, 2015 which provides that budget revenue and expenditure appropriations shall be balanced, total budget revenue shall cover total budget expenditure.

The under-absorption affected the planned activities and may have impacted negatively on service delivery towards achieving universal health care. Also, the surplus budget reflects some expected income with no expenditure budgeted which may have impacted negatively on service delivery towards achieving universal health care.

### **Management Response**

Management submitted that the reported under-absorption of the budget is highly attributed to the revenues collected during the last days of the 4<sup>th</sup> Quarter of the year under review i.e., 16<sup>th</sup>-30<sup>th</sup> June 2022 which was budgeted in the 1<sup>st</sup> Quarter of FY 2022/2023. The fourth quarter budget included collections up to 15<sup>th</sup> June to allow time for payment of goods and services before closure of the financial year

The under-absorption of the budget did not affect the planned activities of the hospital neither impacted negatively on service delivery to the public. The hospital had received enough stock for medical supplies from the county budget.

### **Committee Observation**

The Committee observed that the query remains unresolved as –

- i). the budget prepared an unbalanced budget whereby the final receipt budget and the final expenditure budget were Kshs. 28,701,644 and Kshs. 26,278,388 respectively contrary to regulation 31 (c and e) of the Public Finance Management (County Government) Regulations, 2015;
- ii). the figures for receipts and expenditure in the statement of comparison of budget and actual amounts do not align with the statement of financial performance; and
- iii). there was under-expenditure of Kshs. 6,536,519 or 23% of the budget which may have affected the planned activities and may have impacted negatively on service delivery towards achieving universal health care.

### **Committee Recommendations**

**The Committee recommends that –**



- i. the Accounting Officer should ensure strict compliance with section 149(2)(h) and (i) of the Public Finance Management Act, Cap. 412A and the standards prescribed by the Public Sector Accounting Standard Board under IPSAS 24 on the presentation of budget information in the financial statements for an entity that prepares financial statements under the accrual basis of financial reporting, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply; and
- ii. the Accounting Officer should comply with regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply.

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

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

### **1. Failure to Maintain Revenue Cash Book**

The income from rendering of services was collected and deposited in Health Sector Revenue Collection Account. However, the Hospital Management did not maintain a revenue cash book with details on daily billings and collections (amount paid), transfers to the Fund Account, withdrawals through Authority to Incur Expenditure (AIE) and receipts revenue receivables. This is contrary to Regulation 100, of the Public Finance Management (County Government) Regulations, 2015 which requires the Accounting Officers to keep in all offices concerned with receiving cash or making payments a cash book showing the receipts and payments and shall maintain such other books and registers as may be necessary for the proper maintenance and production of the accounts of the Vote for which he or she is responsible.

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

### **Management Response**

Management submitted that the hospital maintains a cashbook for the funds transferred back from the health services fund. It's important to note that hospital collections are paid and transferred direct to the fund's collection account domiciled at KCB that receives all revenues collected by health facilities within Nyeri County.

However, sufficient internal controls are in place to ensure that revenue collected is safeguarded and used for its intended purpose. In a move that has proved to be very effective, the hospital has automated revenue collection by requiring that patients pay via M-pesa for all services offered. This has eliminated the incidents of billing clerks handling cash, leading to reduced pilferage of actual revenue collected.

Additionally, the delegated officer in charge of revenue collection maintains a cashier's shift report which shows collection for the cashier per shift. For M-pesa collection, M-pesa statements are filed on a monthly basis to reflect collection for that month, while revenue received from NHIF can be verified through the hospital bank account statements which were provided during the audit.

All revenue collected by the facility are transferred to the Nyeri County Health Fund collection account to comply with the Nyeri County Health Services Fund Regulations.

### **Committee Observation**

The Committee observed that the query remains unresolved as the hospital did not maintain a revenue cash book detailing daily billings and collections, transfers to the Fund Account, withdrawals through Authority to Incur Expenditure (AIE), and revenue receivables contrary to regulation 100 of the Public Finance Management (County Government) Regulations, 2015, which mandates accounting officers to maintain a cash book showing receipts and payments and other necessary books and registers.

### **Committee Recommendations**

**The Committee recommends that the Accounting Officer should ensure compliance with regulation 100 of the Public Finance Management (County Government) Regulations, 2015 on maintaining a cash book showing receipts and payments and other necessary books and registers, failure to which the penalties under section 199 of the Public Finance Management Act shall apply.**

#### **2. Non-Submission of Monthly Bank Reconciliations**

The Hospital Management did not submit monthly bank reconciliation statements on the 10<sup>th</sup> of the subsequent month to the County Treasury with a copy to the Auditor-General. This was contrary to regulation 90(1) of The Public Finance Management (County Government) Regulations, 2015.

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

### **Management Response**

Management submitted that they have always been ensuring that monthly bank reconciliations are done and signed on time. The management noted the omission and has



since been rectified to comply with the PFM regulations. All monthly bank reconciliations are submitted to the relevant offices for review.

### **Committee Observation**

The Committee observed that at the time of audit, the Accounting Officer had not submitted monthly bank reconciliation statements on the 10<sup>th</sup> of the subsequent month to the County Treasury with a copy to the Auditor-General as required under regulation 90(1) of The Public Finance Management (County Government) Regulations, 2015 but has since complied as confirmed by the Auditor-General.

### **Committee Recommendation**

**The Committee recommends that the Accounting Officer to ensure compliance with regulation 90(1) of The Public Finance Management (County Government) Regulations, 2015 on reconciliation, failure to which the penalties under section 199 of the Public Finance Management Act shall apply.**

### **3. Non-Compliance with Kenya Quality Model for Health Policy Guidelines**

Due to the following deficiencies the hospital was not operating as per the provisions of Health Act, 2017 schedule on classification of health services and the guidelines, standards and policies for Level4 Hospital as per Kenya Quality Model for Health Policy Guidelines and the Nyeri County Health Services Act, 2015 and may have hindered the realization of the Government program on Universal Health Coverage (UHC) –

#### **3.1. Understaffing of Health Workers**

During the year under review the hospital had two (2) medical officers against the required sixteen (16) recommended by the Kenya quality model for health which represents a deficit of 88%. Further, the hospital did not have anaesthesiologists, general surgeons, gynaecologists, paediatrics, radiologists, from the recommended two (2) each representing 100% deficit. In addition, the hospital had twenty-one (21) registered community health nurses from the recommended seventy-five (75) representing a deficit of 72%.

### **Management Response**

The hospital's management has been liaising with the County Department of Health Services to address the staffing needs of the hospital and there are plans to add more medical as well as support staff personnel with the view of attaining adequate standards of health care provision for citizens in Nyeri County and the country at large. The hospital has received extra staff such as an extra physician, nurses, clinical officer, CO paediatrician, support staff, clerical officer, Human Resource manager, Accountant, occupational therapist and a physiotherapist.

### **Committee Observation**

The Committee observed that the query remains unresolved as the hospital suffers significant understaffing across multiple specialties, an indication that there are challenges in complying with the Kenya Quality Model for Health Policy Guidelines.

### **Committee Recommendations**

The Committee recommends that –

- i). **the Governor should prioritize resource mobilization through systematic and innovative approaches to progressively support recruitment of medical officers and specialists (anaesthesiologists, general surgeons, gynaecologists, paediatricians, and radiologists) to fill the existing gaps as required under the Kenya Quality Model for Health Policy Guidelines and provide regular updates on progress and evidence of efforts being made to address these staffing deficiencies to the Auditor-General for verification; and**
- ii). **the Accounting Officer should develop and implement staff retention programs to ensure that newly recruited personnel are supported and remain in their positions, addressing both immediate and long-term needs.**

### **3.2. Failure to Offer Various Medical Services Offered in the Hospital**

During the year under review the Hospital was not offering services on radiology, renal dialysis, mortuary and autopsy, advanced life support, caesarean section and surgical operations. Further, the hospital only offered partial services on minor surgical procedures, paediatric and gynaecological services in the outpatient departments due to lack of Medical Officers or fully fledged departments.

### **Management Response**

Management submitted that the hospital would work with the Nyeri County Department of Health Services and the Nyeri County Treasury to develop the necessary infrastructure required to offer the critical services required. The hospital now has a CO paediatrician and is working on opening a paediatric clinic (Integrated Management of Childhood Illnesses). The theatre renovations are almost complete, and the hospital expects to begin offering surgical services. With the subsiding of COVID 19, the hospital will expand the scope of minor surgical and gynaecological services offered in the outpatient. The hospital cooperates with the county referral hospital for radiology, dialysis, mortuary and other services that are missing in our facility even as the management continues communication with the department of health to avail missing infrastructure.

### **Committee observation**



The Committee observed that the query remains unresolved as the hospital did not offer critical services such as radiology, renal dialysis, mortuary and autopsy, advanced life support, caesarean section and surgical operations whereas services such as surgical procedures, paediatric and gynaecological services in the outpatient departments remained inadequate due to lack of Medical Officers, fully fledged departments and inadequate infrastructure, an indication that there are challenges in complying with the Kenya Quality Model for Health Policy Guidelines.

### **Committee Recommendation**

**The Committee recommends that –**

- i). the Governor, through the County Department of Health to progressively avail resources and accelerate the development of infrastructure to provide critical services such as radiology, renal dialysis, and advanced life support;**
- ii). the Governor, through the County Department of Health should expedite the completion of theatre renovations and start offering surgical services, caesarean sections, and other necessary medical procedures as required under the Kenya Quality Model for Health Policy Guidelines; and**
- iii). the Accounting Officer responsible for the hospital and the County Executive Committee Member responsible for health should develop an implementation matrix of services that is in line with the requirements of the Kenya Quality Model for Health Policy Guidelines with clear timelines to track progress and share the same with the Auditor-General for monitoring of progress and verification.**

### **3.3. Inadequate Operational Equipment**

During the year under review, the Hospital had thirty-one (31) inpatient beds from the recommended one hundred and fifty (150) beds representing 79% deficit, zero resuscitative in theatre from the recommended one, and one in labour ward from the recommended two (2). In addition, the hospital had one new born unit-incubators which was not functional from the recommended five, zero newborn unit cots from the recommended five (5), zero functional intensive care unit-beds from the recommended six, zero high dependency unit-beds from the recommended six and zero renal unit dialysis machines from the recommended five (5). Further, the hospital had zero functional operating theatres Maternity and general from the recommended two (2).

### **Management Response**

The Hospital management has communicated the infrastructural needs for the hospital to the County Department of Health and we are hopeful that if funds are available, additional inpatient beds and other medical equipment will be procured. The county management has already approved plans to upgrade the hospital to offer amenity services.

It's also important to note that, the department has an elaborate referral mechanism that ensures that clients in need of services that are lacking in one facility either elective or emergency are properly referred to the facility where the service is available. Mt. Kenya Hospital has a standby ambulance 24/7 to facilitate any referrals to the facilities around and outside the county. This ensures that clients are provided with quality services.

### **Committee Observation**

The Committee observed that the query remains unresolved, as the hospital had inadequate operational equipment as required under the Kenya Quality Model for Health Policy Guidelines due to insufficient resources. Despite assurances from management that efforts were underway to address the issue, no evidence was provided to support this claim, and the situation remained unchanged over the period.

### **Committee Recommendations**

**The Committee recommends that –**

- i). the Governor should prioritize addressing the hospital's resource challenges by ensuring a systematic and innovative approach to resource mobilization to facilitate the hospital in progressive acquisition of adequate operational equipment;**
- ii). the Accounting Officer responsible for the hospital and the County Executive Committee Member should develop an implementation matrix with clear timelines on how the critical deficiencies will be addressed and submit the same to the Auditor-General for monitoring of progress and verification; and**
- iii). the Accounting Officer should provide regular updates on the progress to the Auditor-General for verification and the Auditor-General should monitor progress and provide a status update in the subsequent audit cycle.**

### **3.4. Lack of Key Operational Departments**

During the year under review the hospital had only six operational departments out of the twenty-four surveyed representing 75% deficit. The functional departments include:- laboratory department of class E, physical medicine department, infectious disease department, dental department for basic services, general ward unit and rehabilitation department, while the non-operational departments include;- imaging department,



urology department, obstetrics and gynaecology department, research department, surgery and surgical procedures department, critical care unit, surgery recovery unit, day procedures unit, step down or clinical decision unit, cardiac unit, renal in dialysis unit, cath lab unit and home health unit, quality control unit, nuclear medicine unit, paediatric unit, paediatric critical and community-based rehabilitation unit.

### **Management Response**

The County Government of Nyeri is cognizant of these deficiencies and has been improving the departments in the hospital even in the midst of limited resources and competing needs. A radiology unit has been constructed, OPD expanded, ward and theatre renovated and reopened. The hospital now has a fully-fledged obstetrics and gynaecology unit. A radiology unit is planned for construction in 2024/2025.

### **Committee Observation**

The Committee observed that the query remains unresolved as critical departments such as imaging department, urology department, obstetrics and gynaecology department, research department, surgery and surgical procedures department, critical care unit, surgery recovery unit, day procedures unit, step down or clinical decision unit, cardiac unit, renal in dialysis unit, cath lab unit and home health unit, quality control unit, nuclear medicine unit, paediatric unit, paediatric critical and community-based rehabilitation unit remained non-operational.

### **Committee Recommendations**

**The Committee recommends that –**

- i). the Governor should prioritize addressing the hospital's resource challenges by ensuring a systematic and innovative approach to resource mobilization to facilitate the hospital in progressive operationalization of non-operational departments;**
- ii). the Accounting Officer should ensure that the hospital adopts a phased approach to develop and operationalize the non-functional departments, starting with those that have the highest impact on patient care; and**
- iii). the Accounting Officer responsible for the hospital and the County Executive Committee Member should develop an implementation matrix with clear timelines on how the non-operational departments will be operationalized and share the same with the Auditor-General for monitoring of progress and verification.**

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

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

### **1. Lack of Usage Trail on Medical/Clinical Costs**

The statement of Financial Performance reflects medical/clinical costs of Kshs. 9,407,582 for the financial year ended 30 June, 2022 and as disclosure in disclosure Note 15 to the financial statements. However, the following anomalies were noted –

#### **1.1. Laboratory Chemicals and Reagents**

Include in medical/clinical costs is Kshs. 1,084,564 on laboratory chemicals and reagents which were procured, received, inspected and issued in bulky to the laboratory due to lack of supply chain control store equipped with freezers and refrigerators. The issuance of the reagents in bulk to the end-user/laboratory staff compromised the internal controls on the accountability of the reagents. Further, the reagents could not be traced to specific patients and the amount charged for the test. In addition, there was no reconciliation on issued items, used item, tests conducted, breakages, spillage, expired and revenue generated.

#### **Management Response**

The laboratory department participates in inspection and acceptance for all the laboratory reagents. Once the reagents are accepted by the inspection & acceptance committee, the same is issued to laboratory unit for refrigeration. The unit has two (2) refrigerators for storing reagents that require freezer/refrigeration. Reagents are issued to the laboratory unit using a counter requisition and issue voucher (S11). The laboratory manager is in charge of recording the items in the store cards and ensure there is someone manning and controlling the refrigerators temperatures.

In case of service provision and charges, the hospital's fees & charges are collected and recorded by the revenue collection system (Medboss). The system report can be extracted from the daily collections (detailed analysis). A Medboss system report extract was provided for review.

Also, the laboratory unit has a monthly data contained in the laboratory tests summary report from where they record all tests done on daily basis.

However, the hospital's management will look for funding from the County Department of Health Services to build a modern storage facility to store the sensitive laboratory materials and other supplies.

#### **Committee Observation**

The Committee observed that the query remains unresolved as –



- i). laboratory chemicals and reagents were delivered in bulk directly to the laboratory unit due to lack of supply chain control store equipped with freezers and refrigerators, compromising internal controls and accountability;
- ii). reagents could not be traced to specific patients or the amount charged for tests; and
- iii). there was no reconciliation on issued items, used items, tests conducted, breakages, spillage, expired items, and revenue were generated.

### **Committee Recommendations**

**The Committee recommends that –**

- i). **the governor should ensure that the hospital has enhanced supply chain controls by establishing a dedicated storage facility equipped with the necessary freezers and refrigerators to store laboratory reagents and chemicals securely. This includes resource allocation for establishing a modern storage facility to store the sensitive laboratory materials and other supplies;**
- ii). **the Accounting Officer should implement stringent internal control measures to ensure accountability for all reagents, including proper tracking from procurement to usage;**
- iii). **the Accounting Officer should ensure that within 60 days of the adoption of this report, the hospital puts in place, robust reconciliation mechanisms to track issued items, used items, tests conducted, breakages, spillage, expired items, and generated revenue on a monthly basis;**
- iv). **the Accounting Officer should ensure that the hospital progressively implements automation and system integration by integrating the laboratory system to the revenue collection system for ease of traceability of laboratory reagents to specific patients and the charges involved for each test; and**
- v). **Auditor-General should monitor the matter and provide a status update in the subsequent audit cycle.**

### **1.2. Food and Ration**

Included in medical/clinical costs is food and ration of Kshs. 2,037,319 which includes Kshs. 1,125,980 for food items issued to the kitchen in bulk without the support of patients register from the nurse in-charge and diet sheet from the nutritionist.

### **Management Response**

Due to lack of a general store to accommodate all supplies in a central place, the hospital has a small store near the kitchen that stores all food items after they are supplied, inspected and received. The store is under the custody of the procurement/stores department. The kitchen department makes orders for non-perishables twice a week. The perishable items are inspected, received and stored in the kitchen store's refrigerator and issued when needed depending on the consumption which is guided by patient numbers and any specific instructions from the medical and nutrition department.

However, the management will ensure that it continues to instil sufficient internal controls to manage the patient's food and ration expense and also follow up on construction of a well-equipped central store/warehouse for all supplies.

#### **Committee Observation**

The Committee observed that the query remains unresolved as –

- i). food items amounting to Kshs. 1,125,980 were supplied in bulk directly to the kitchen without the support of patients register from the nurse in-charge and diet sheet from the nutritionist, an indication of weak internal control and accountability; and
- ii). the hospital has inadequate storage facility to accommodate food supplies.

#### **Committee Recommendations**

The Committee recommends that –

- i). the governor, through the County Department of Health should progressively avail resources to put up a modern well-equipped central store/warehouse for all supplies to the hospital;
- ii). the Accounting Officer should within 60 days of the adoption of this report implement stringent internal control measures to ensure accountability for all food supplies;
- iii). the Accounting Officer should ensure that the hospital progressively implements automation and system integration by integrating the kitchen system to the revenue collection system for ease of traceability of food rations to specific patients and the charges involved; and
- iv). Auditor-General should monitor the matter and provide a status update in the subsequent audit cycle.

### **1.3. Pharmaceutical Supplies**



Included in Medical/clinical costs is pharmaceutical supplies expenditure of Kshs. 2,524,650 which includes Kshs. 2,119,200 on drugs supplied, inspected and accepted but issued in bulk to the pharmacy without control from the main store. Further, the drugs could not be traced to specific patients and the revenue or amount charged. In addition, there was no reconciliation on received drugs, drugs issued to the patients, breakages, spillage, expired and revenue generated.

### **Management Response**

The hospital's management are finalizing the process of putting into place measures to ensure that the procurement department takes full control of the main pharmacy store and the pharmacy department orders on a weekly basis just like the other departments. The management remains committed to strengthening internal controls off all hospital supplies. Additional supply chain officer was recently deployed to the facility to support the hospital's supplies management unit in coordinating all departments on matters to do with internal controls as well as issuing and accounting for inventory.

### **Committee Observation**

The Committee observed that the query remains unresolved as –

- i). drugs were issued in bulk to the pharmacy from the main store without control;
- ii). drugs were could not be traced to specific patients and the revenue or amount charged compromising internal controls and accountability; and
- iii). there was no reconciliation on received drugs, drugs issued to the patients, breakages, spillage, expired and revenue generated.

### **Committee Recommendations**

The Committee recommends that –

- i). the governor, through the County Department of Health should progressively avail resources to put up a modern well-equipped central store/warehouse for all supplies to the hospital;
- ii). the Accounting Officer should within 60 days of the adoption of this report implement stringent internal control measures to ensure accountability for all drugs supplies;
- iii). the Accounting Officer should ensure that within 60 days of the adoption of this report, the hospital puts in place, robust reconciliation mechanisms to track received drugs, drugs issued to the patients, breakages, spillage, expired and revenue generated on a monthly basis;

- iv). **the Accounting Officer should ensure that the hospital progressively implements automation and system integration by integrating the pharmacy system to the revenue collection system for ease of traceability of drugs to specific patients and the charges involved; and**
- v). **Auditor-General should monitor the matter and provide a status update in the subsequent audit cycle.**

## **2. Non-Functional Operating Theatre**

During the year under audit review, it was revealed that hospital's operating theatre have not been functional since the year 2018. Though, the theatre house was under renovation, no documentation or pre-renovation report was provided on the conditions of the theatre and its equipment which were still in the same building under renovation. In addition, the hospital does not have theatre surgeons and theatre nurses and no plans had been put in place to confirm availability after the renovation.

This is contrary to Section 153(1) of the Public Finance Management Act, 2012 which require the Accounting Officer for a County Government entity is responsible for the management of the entity's assets and liabilities and shall manage those assets in such a way as to ensure that the County Government entity achieves value for money in acquiring, using or disposing of those assets.

In the circumstances, the theatre equipment may become damaged, obsolete resulting loss of public funds and the facilities may remain unused due to lack of surgeons and theatre nurses.

### **Management Response**

The theatre was not functional due to lack of theatre staff and some structural defects that made the theatre unfit for usage as well as the designation of Mt. Kenya Sub-County Hospital as a COVID 19 Isolation Centre during the pandemic.

The hospital management has informed the department of health of the structural defects and the staffing needs including the theatre. Some of these issues has been addressed; the renovation works has been done, and the county public service board conducted interviews for anaesthetists and medical officers. The hospital management will continue to lobby for an anaesthetist and an extra medical officer so as to fully operationalize the theatre.

Theatre items/equipment were safely stored in one of the rooms in the ward (due to lack of enough storage space in the hospital) so as to safeguard them from damage.

### **Committee Observation**



The Committee observed that the query partially addressed as the renovation works have been done, and the county public service board conducted interviews for anaesthetists and medical officers. However, the theatre was still not operational as the staffing process was yet to be concluded.

#### **Committee Recommendation.**

**The Committee recommends that the Accounting Officer should prioritize the recruitment of theatre surgeons, theatre nurses and other theatre staff to ensure the theatre can be fully operational post-renovation. The Auditor-General to monitor and report the status of implementation of the recommendation in the subsequent audit cycle.**

### **3. Lack of Risk Assessment Policy**

During the financial year under review, Mt. Kenya Sub-County Hospital did not have a risk management strategy in place and therefore, had no approved processes and guidelines on how to mitigate operational, legal and financial risks. Consequently, the Management did not perform formal risk assessments on all key financial risk areas such as cash, revenue and expenditure. Further, it was noted that the Management lacks a disaster recovery plan/business continuity plan and therefore crucial information may not be recovered in the event of a disaster. This was contrary to Regulation 158 of the Public Finance Management (County Government Regulations) 2015.

In the absence of a risk management policy, the Management is not in a position to identify individual risks, significance areas, likelihood of occurrence of identified risks and the appropriate control measures.

#### **Management Response**

The hospital has been relying on the existing county risk management policy 2020 that was developed by the county treasury for the entire county.

However, the hospital management will work with the County Department of Health Services as well as the County Treasury to customize the County Risk Management Policy 2020 attached herein to suit the Hospital operations. It should also be noted that the hospital played a crucial role in the risk management of the Coronavirus by acting as an isolation centre for patients during the pandemic.

#### **Committee Observation**

The Committee observed that the hospital operates without its own risk management policy and relied on the risk management policy by the County Government.

## **Committee Recommendations**

**The Committee recommends that, within 90 days of the adoption of this report, the Accounting Officer responsible for the hospital should put in place a Risk Management Policy in line with regulation 158(1) of the Public Finance Management (County Government) Regulation, 2015. The policy should be adopted by the hospital board and evidence of the same submitted to the Auditor-General for verification. The Auditor-General to provide a status update on the matter in the subsequent audit cycle.**

### **4. Inadequate Storage Space**

During the year under review, the hospital did not have sufficient space for orderly receipt, warehousing, and dispatch of food items, vaccines and drugs. The refrigerated and freezing storage environments were not fitted with signals to indicate that refrigeration has failed. In addition, no written procedures and programs for pest control and no appropriate written procedures for the clean-up of any spillage to ensure the complete removal of any risk of contamination.

### **Management Response**

The management will consider and prioritize building a store/warehouse for all commodities procured by the hospital fitted with modern refrigerators.

The public health officer attached to the hospital has written procedures and programs for pest control and for cleanliness within all the hospital's premises.

### **Committee Observation**

The Committee observed that whereas the written procedures for the clean-up of any spillage was put in place, the query remains unresolved as –

- i). the hospital does not have sufficient space for orderly receipt, warehousing, and dispatch of food items, vaccines and drugs; and
- ii). the refrigerated and freezing storage environments were not fitted with signals to indicate that refrigeration has failed.

### **Committee Recommendations**

**The Committee recommends that –**

- i). **the Governor, through the County Department of Health to avail resources and prioritize construction of a dedicated store/warehouse for the hospital with proper refrigeration to handle all procured commodities efficiently;**



- ii). **the Accounting Officer should ensure that all refrigerated and freezing storage units are fitted with signals to indicate when refrigeration has failed; and**
- iii). **the Auditor-General to monitor the matter and provide a status update in the subsequent audit cycle.**

## **5. Lack of Land Ownership Documents**

Mt. Kenya Sub-County Hospital sits on eight acres of land however the title deed was not provided to confirm ownership. The land occupied by the hospital could be encroached or allocated for other purposes.

### **Management Response**

The process of acquiring title deed for the hospital is in process. One of the main challenge the hospital/county is experiencing is delayed handing over of assets by Inter-Governmental Relation Technical Committee (IGRTC).

The valuation for fixed assets which covers parcels of land and buildings is in progress and plans are underway to complete the exercise.

### **Committee Observation**

The Committee observed that the query remains unresolved as the hospital did not have the title deed for the piece of land it occupied. However, the process of acquiring the title deed was underway.

### **Committee Recommendation**

**The Committee recommends that the Accounting Officer should ensure the title deeds are acquired and evidence of the same submitted to the Auditor-General for verification. The Auditor-General to provide a status update on the matter in the subsequent audit cycle.**

## CHAPTER ELEVEN

### REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR MUKURWEINI SUB-COUNTY HOSPITAL FOR THE FINANCIAL YEAR 2021/2022

The Governor of Nyeri County, Hon. Edward Mutahi Kahiga, EGH, appeared before the Committee on Monday, 23<sup>rd</sup> September, 2024 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Mukurweini Sub County Level 4 Hospital for the financial year 2021/2022. He was accompanied by –

1. Mr. Robert Thuo Mwangi - CECM Finance
2. Dr. Joseph Maina Kiragu - CECM Health
3. Mr. Ibrahim Adan - Chief Officer

### REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **qualified opinion** on the financial statements of Mukurweini Sub County Level 4 Hospital for the period under review on the following basis –

#### 1.0. Non-Disclosure of Property, Plant and Equipment

The financial statements provided did not include hospitals property, plant and equipment as at 30<sup>th</sup> June 2022. However, Physical verification carried out revealed that the hospital had assets with undetermined value that has not been disclosed in the financial statements.

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

#### Management Response

The hospital has assets of undetermined value that include land, plant and equipment. According to PSASB guidelines on transition from cash to accrual accounting 2023, the transition to accrual accounting requires careful planning and preparation. The following factors will ensure a seamless transition process:

- a) Staff capacity.
- b) Nature of the entity's operations; and
- c) Availability, accuracy and comprehensiveness of documentation surrounding current processes.

An entity has an option of transitioning to accrual accounting at one go (Big Bang transition) or through a phased approach. The transition path taken by the entity will



depend on the complexity, size and scope of the entity. It is the decision of the entity to assess what transaction types should be transitioned first and the timing of the associated transition.

On 10th May 2022, the PSAB issued guidelines on the implementation of International Public Sector Accounting Standards (IPSAS) for level four and five public hospitals in Kenya. Mukurweini hospital adopted the IPSAS accrual accounting standards while reporting their financial statements & reports for the period ending 30th June 2022 (FY 2021/2022).

However, International Public Sector Accounting Standard (IPSAS) 33 grants transitional exemptions to entities adopting accrual basis IPSASs for the first time.

It allows first-time adopters three (3) years to recognize specified assets and liabilities. This provision allows sufficient time to develop reliable models for recognizing and measuring assets and liabilities during the transition period.

Mukurweini Hospital is in its 1st year of reporting and the management through the county department of health services headquarter is working on verification and costing / valuation of various assets like equipment, furniture and fittings, etc. The exercise is expected to conclude before the end the 3-year period allowed by IPSAS.

One of the challenges the hospital/county is experiencing in recognition of some of their assets like land and motor vehicles, is delayed handing over of these assets by Inter-Governmental Relation Technical Committee (IGRTC). On May 2024, the team from IGRTC handed over motor vehicles and motorbikes to Nyeri County and this will be captured in the financial statements for this FY 2023/2024.

According to IGRTC, there will be another round of transfer of resources, including land, buildings, and many other accessories, from the national government to the county governments. The valuation for fixed assets which covers parcels of land and buildings is still in progress and plans are underway to complete the pending work.

Thus, the hospital management will to work closely with the County Department of Health and the County Treasury to ensure that fixed assets such as land and buildings are properly valued. Without correct valuations, the completeness and accuracy of the hospital's financial statements may not be achieved.

It's therefore our hope that the office of the Auditor General will consider allowing the 3-year exemption as indicated in IPSAS 33 to give sufficient time to develop reliable models for recognizing and measuring assets and liabilities during the transition period.

### **Committee Observation**

The Committee observed that the query remains unresolved for the following reasons –

- i). the financial statements did not include the hospital's property, plant, and equipment as of 30<sup>th</sup> June 2022;
- ii). physical verification revealed that the hospital has assets with undetermined value that were not disclosed; and
- iii). the financial statements were not in line with the reporting template guidelines issued by the Public Sector Accounting Standards Boards (PSASB) as the omission of the property, plant, and equipment is an indication that the financial statements did not reflect the fair value of the hospital's assets.

#### **Committee Recommendations**

- i). **the County Executive Committee Member responsible for finance should ensure total compliance with section 105(1)(d) and (g) of the Public Finance Management Act, Cap. 412A with respect to enforcement of compliance by county entities with all applicable norms or standards regarding accounting practices as prescribed by the Accounting Standards Board. Further, the County Executive Committee Member responsible for finance should ensure that there is seamless transition to accrual accounting by ensuring staff are adequately trained and that the Accounting Officer maintains documentation is accurate in line with section 149(2)(b) of the Public Finance Management Act, Cap. 412A.;**
- ii). **the Accounting Officer responsible for the hospital should ensure total compliance with section 164(1) of the Public Finance Management Act, Cap. 412A with respect to preparation of financial statements failure to which penalties under section 199 of the Act shall apply; and**
- iii). **the Governor should ensure that, within 60 days of the adoption of this report, the hospital has full ownership of all its assets, the assets are valued, and the Accounting Officer maintains an accurate up to date asset register line with section 149(2)(o) of the Public Finance Management Act, Cap. 412A and submit the same to Auditor-General for verification, failure to which penalties under section 199 of the Act shall apply.**

#### **2.0. Budgetary Controls and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of kshs 49,868,278 and 38,371,862 respectively resulting in under collection of kshs 11,496,416 or 23% of the budget. The hospital expended 34,831,009 against an approved budget of kshs 49,868,278 resulting on under expenditure of kshs 15,037,269 or 30% of the budget.



That the underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

### **Management Response**

Management stated that the hospital budget was 49,868,278 revenue collection based. The under collection of kshs 11,496,416 was occasioned by the revenue collected between 11<sup>th</sup> and 30<sup>th</sup> June 2022 amounting to kshs 3,975,815 being budgeted for in the next financial year 2022/2023 as per the provided minutes. The fourth quarter budget included collections up to 10<sup>th</sup> June to allow time for payment of goods and services before the closure of the financial year. The balance of kshs 7,520,601 was occasioned by services provide to NHIF clients whose claims had not been settled by 30<sup>th</sup> June 2022.

The underutilization of kshs 15,037,269 was occasioned by the 3, 975,815 collected and budgeted for in the following year and the unsettled claims by NHIF.

Management committed to preparing a more accurate budget based on costed services and ensure utilization of funds for the planned activities before the end of the financial year.

### **Committee Observation**

The Committee observed that the query remains unresolved as there was a revenue under collection of kshs 11,496,416 and an under expenditure of kshs 15,037,269 affected the planned activities and may have impacted negatively on service delivery to the public. Management stated that was occasioned by the revenue collected between 11<sup>th</sup> and 30<sup>th</sup> June 2022 amounting to kshs 3,975,815 being budgeted for in the next financial year 2022/2023 and a delay by NHIF to remit kshs. 7,520,601 to the hospital.

### **Committee Recommendations**

**The Committee recommends that –**

- i). the Accounting Officer should implement strategies to ensure timely collection and settlement of revenues, especially from major sources like NHIF, to avoid under collection;**
- ii). the Accounting Officer should ensure strict compliance with section 149(2)(h) and (i) of the Public Finance Management Act, Cap. 412A and the standards prescribed by the Public Sector Accounting Standard Board under IPSAS 24 on the presentation of budget information in the financial statements for an entity that prepares financial statements under the accrual basis of financial reporting, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply; and**

- iii). **the Accounting Officer should comply with regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply.**

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

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

### **1. Lack of Internal Audit Function**

During the year under review, the hospital had not established an internal audit department. This is contrary to regulations of public finance management (county Governments) regulations 2015. Which stipulates the role of the internal audit as reviewing and evaluating budgetary performance, financial management, transparency and accountability mechanisms and processes in county government entities.

In the circumstances, the effectiveness of internal control could not be confirmed.

### **Management Response**

The Management indicated that the hospital is a subsidiary entity of the County Government of Nyeri. As such, it benefits from service support from other county Government entities. Such support includes internal audit, procurement, public works, fire services, etc.

Due to the human resource and infrastructure required to establish an internal audit department, the facility shares functions with other county government departments including audit and procurement.

During the financial year, Mukurweini hospital was audited by the county internal auditor as per the letter of notice to undertake auditing and the audit report provided as evidence in the spirit of keeping the county wage bill below 35%.

### **Committee observation**

The Committee observed that the query remains unresolved as the hospital, being a self-reporting county entity, did not have its own internal audit unit contrary to section 155(1)(a) of the Public Finance Management Act, Cap. 412A.

### **Committee Recommendation**



**The Committee recommends that, within 90 days of the adoption of this report, the Accounting Officer responsible for the hospital should put in place an internal audit function in the hospital in line with section 155 of the Public Finance Management Act, Cap. 412A and ensure that it is adequately resourced to undertake its functions in accordance with regulation 153 of the Public Finance Management (County Government) Regulations, 2015. The Accounting Officer to submit evidence of the same to the Auditor-General for verification. The Auditor-General to provide a status update on the matter in the subsequent audit cycle.**

## **2. Non-Compliance with Universal Health Care Services Delivery**

Review of service output from the Kenya Health Information System against basic essential health care services that hospital offers revealed that the hospital does not offer some services accredited to a level 4 hospital. That this is contrary to Gazette Notice No. 786 vol. cxxii No. 24 of 4<sup>th</sup> February 2020 that provides classification of health care facilities including the basic essential primary services each level should carry out.

In the circumstances, the hospital is in breach of the gazette notice.

### **Management Response**

The hospital management indicated that they were aware of the shortages in staffing, infrastructure and offering of essential services in accordance with the Kenya Quality Model for Health checklist. The challenges are progressively being address due to financial constraints and management of the wage bill. The hospital has planned to construct an outpatient block to accommodate more clinical areas. In the past 2 years, significant progress has been made by the County Department of Health to address these staffing shortcomings as illustrated below.

#### Staffing

- Posting of an additional physician
- Posting of an addition surgeon
- Posting of 6 nurses
- Posting of an obstetrician/gynecologist
- An Anesthetist.

Other cadres posted include

- An additional laboratory technologist
- 2 Support staff

- An additional clerical officer
- An Occupational Therapist
- 2 registered clinical officers
- 1 community oral health officer

The hospital management has requested for additional staff from the department of health and as a result, there is an ongoing recruitment of health care workers where the hospital is one of the facilities that are being prioritized in terms of staffing. The management is optimistic that the staffing gap will greatly be bridged and the hospital will be able to offer more services.

The hospital has been progressively increasing the scope of service delivery to achieve its level of service delivery.

During the year the hospital operationalized a 4 bed High Dependency Unit as available resources allowed. The county human resource wage bill is above the recommended 35% hence progressive addition of services as more staff to provide the services are employed. The management will recommend to county department of health and lobby for employment of staff in the identified service gap areas.

It is envisaged that full realization of universal health care services delivery will be achieved progressively as financial resources are made available.

### **Committee Observation**

The Committee observed that despite some interventions by the County Government to address the non-compliance, the query remains unresolved as the hospital does not offer some services expected of a Level 4 hospital, as per Gazette Notice No. 786 vol. cxxii No. 24 of 4th February 2020 and also faces inadequacies with respect to staffing, infrastructure, and essential services.

### **Committee Recommendations**

**The Committee recommends that –**

- i). **the management should work closely with the County Government and ensure that there is progressive funding and resource allocation necessary in ensuring that the hospital achieves its desired level of service delivery as required under the Kenya Quality Model for Health;**



- ii). **the management should expedite the construction of the outpatient block to accommodate more clinical areas, ensuring alignment with Level 4 hospital requirements;**
- iii). **the Governor should prioritize the recruitment of additional healthcare workers, focusing on specialties currently lacking, to fully staff the hospital as per Level 4 standards; and**
- iv). **the County Executive Committee Member responsible for health should implement continuous evaluation mechanisms to assess service delivery against the Kenya Quality Model for Health checklist, ensuring progressive compliance.**

### **3. Lack of Risk Management Policy**

During the year under review, the hospital did not have a risk management policy in place. This is contrary to regulation 158 of the Public Finance Management (County Governments) Regulation 2015 which provides for county government entity shall develop risk management strategies, which include fraud prevention mechanisms and a system of risk management and internal that builds robust business operations.

In the circumstances, the effectiveness of risk management could not be confirmed.

#### **Management Response**

The management has consolidated all identified risks and mitigation measures and is working on it to develop a risk management policy. There are ongoing activities aimed at mitigating against various risks. Market price survey is conducted during procurement of items in addressing market risk. In managing credit risks, credit services are extended to contracted service providers such as NHIF, BRITAM, MINET, etc. and follow up done for prompt payment as per terms of the contract.

In managing reputation risk, the hospital conducts annual customer satisfaction survey, reviews customers and clients' complaints and complements quarterly, conducts servicing of the fire equipment and training of staff on fire safety, induction and orientation of new staff, clinical and mortality audits to mitigate against medical risks.

A draft risk management plan was provided for audit review.

#### **Committee Observation**

The Committee observed that the query remains unresolved as at the time of audit, the hospital did not have a Risk Management Policy in place but a draft Policy has been prepared and that it awaits approval.

### **Committee Recommendation**

**The Committee recommends that, within 90 days of the adoption of this report, the Accounting Officer responsible for the hospital should put in place a Risk Management Policy in line with regulation 158(1) of the Public Finance Management (County Government) Regulation, 2015. The policy should be adopted by the hospital board and evidence of the same submitted to the Auditor-General for verification. The Auditor-General to provide a status update on the matter in the subsequent audit cycle.**



## CHAPTER TWELVE

### REPORT ON THE AUDITED FINANCIAL STATEMENTS FOR OTHAYA SUB COUNTY LEVEL 4 HOSPITAL FOR THE FINANCIAL YEAR 2021/2022

The Governor of Nyeri County, Hon. Edward Mutahi Kahiga, EGH, appeared before the Committee on Monday, 23<sup>rd</sup> September, 2024 to respond (under oath) to audit queries raised in the report of the Auditor-General on financial statements for Othaya Sub County Level 4 Hospital for the financial year 2021/2022. He was accompanied by –

1. Mr. Robert Thuo Mwangi - CECM Finance
2. Dr. Joseph Maina Kiragu - CECM Health
3. Mr. Ibrahim Adan - Chief Officer
4. Dr. George Kiongo Maina - Medical Superintendent

### REPORT ON THE FINANCIAL STATEMENTS

The Auditor-General rendered a **qualified opinion** on the financial statements of the Othaya Sub County Level 4 Hospital for the period under review on the following basis –

#### 1.0 Unsupported Revenue from Non-Exchange Transactions

The statement of financial performance reflects income from exchange transaction medical services of Kshs. 23,840,169 as disclosed in note 11 to the financial statements. However, the monthly income schedules were not supported with departmental daily schedules, monthly departmental reconciliations, amount paid, write-offs, waivers, exemptions and amount banked.

In the circumstances, the accuracy and completeness of receipts from exchange transaction-medical services of Kshs. 23,840,169 could not be confirmed.

#### Management Response

The hospital management is lobbying for funding to improve the existing the revenue system or procure a robust revenue collection and management system that can generate various reports including departmental daily schedules, monthly departmental reconciliations, amount paid, waivers, exemptions and integrate with Mpesa Pay bill.

Currently, the facility has engaged the system developer to upgrade the existing revenue system to generate the above reports and integrate with other systems and Mpesa.

However, a monthly revenue report has been provided which is a breakdown of all revenue collected via Mpesa, Britam, Nhif, CBHF.

#### Committee Observation

The Committee observed that the query remains unresolved as –

- i). the management only provided a monthly revenue report comprising of a breakdown of all revenue collected via Mpesa, Britam, Nhif, CBHF for verification but failed to provide other various reports such as departmental daily schedules, monthly departmental reconciliations, amount paid, waivers and exemptions; and
- ii). the revenue system used by the hospital had inadequacies as it could not generate the various reports required to support the revenue collected, an indication of weakness in internal controls. However, the hospital management was in the process of upgrading the system to enable it generate all the required reports.

### **Committee Recommendations**

**The Committee recommends that-**

- i). **the Governor should ensure that the hospital is adequately resourced to strengthen its internal controls;**
- ii). **the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9(1)(e) of the Public Audit Act, Cap 412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act, 412B in the subsequent audit cycle; and**
- iii). **the Accounting Officer responsible for the hospital should ensure that the revenue system upgrade is concluded within six (6) months of the adoption of this report and the Auditor-General to monitor implementation of the recommendations and provide a status update in the subsequent audit cycle.**

### **2.0 Unsupported Employee Costs**

The statement of financial performance and as disclosed in Note 16 to the financial statements reflects employee costs of Kshs. 2,130,613. However, the expenditure was not supported with employees' schedule, contracts of employment, muster rolls and payment schedules.

In the circumstances, the accuracy, completeness and validity of employee costs could not be confirmed.

### **Management Response**

Due to shortage of staff, the hospital engaged casual workers to assist with cleaning the facility. The employee costs of Kshs. 2,130,613 include salaries for 20 casuals'



employees for the 12 months in the financial year 2021-2022 which formed the employee cost and reported as in kind contribution in the financial statement.

Salaries for the permanent and contractual employees are paid at the county level and not at the facility thus the cost is reported in their financial statement and reports for the County Executive.

Every casual employee engaged by the facility has a contract with the facility and they always sign the muster roll before payment is made. The muster roll, the employees contracts and the payment schedules have been provided.

### **Committee Observation**

The Committee observed that the query was partially addressed for the following reasons

- i). the staff expenses are related to salaries for casual workers hired due to a staff shortage;
- ii). supporting documents, such as contracts and muster rolls, were provided to the Auditor-General and verified, albeit outside the timelines contemplated under the Public Audit Act, Cap 412B; and
- iii). however, permanent and contractual employee costs are managed at the county level, which explains their absence in the facility's financial records; and

### **Committee Recommendations**

The Committee recommends that-

- i). **within 60 days of the adoption of this report the County Executive Committee Members responsible for health and finance and the Accounting Officer responsible for the hospital should engage and ensure that the hospital operates its payroll management. Auditor-General to monitor implementation of this recommendation and provide a status update on the same in the subsequent audit cycle; and**
- ii). **the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9(1)(e) of the Public Audit Act, Cap 412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act, 412B in the subsequent audit cycle.**

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

The statement of financial position reflects cash and cash equivalents balance of Kshs. 3,635,729. However, the cashbook balance was not supported with a cash survey report

and was not reconciled with the bank balances of Kshs. 11,546,392 resulting to an unreconciled variance of Kshs. 7,910,662.

In the circumstance, the accuracy and completeness of the reported cash and cash equivalents balance of Kshs. 3,635,729 could not be confirmed.

#### **Management Response**

The cash and cash equivalents balance of Kshs. 3,635,729 was supported by a bank reconciliation and cashbook for the month of June 2022. Kshs. 7,910,662 as per the provided cashbook includes unpresented cheques amounting to Kshs. 7,874,542 and deposits of Kshs. 36,120.

#### **Committee Observation**

The Committee observed that the response provided by the management and as verified by the Auditor-General was satisfactory and thus the matter was addressed.

#### **Committee Recommendations**

**The Committee recommends that the Accounting Officer should ensure timely submission of documents during the audit process in line with section 9(1)(e) of the Public Audit Act, Cap 412B, failure to which the Committee shall recommend for their investigation and prosecution in accordance with section 62(2) of the Public Audit Act, 412B in the subsequent audit cycle.**

#### **Other Matter**

The Auditor-General raised the following issues under other matter -

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

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on a comparable basis of Kshs. 55,529,127 and Kshs. 41,493,255 respectively resulting to an under realization of the budget by Kshs. 14,035,877 or 25% of the budget. Similarly, the actual expenditure reflects a balance of Kshs. 38,082,041 against an approved budget of Kshs. 55,529,127 resulting in an under expenditure of Kshs. 17,447,086 or 31% of the budget.

The under realization budgeted revenue and budget under absorption affected the planned activities and may have impacted negatively on service delivery towards achieving universal health care.

#### **Management Response**



The reason why final income budget and final expenditure budget did not balance was because the hospital did not achieve its target for revenue attributed to the following reasons:

- i. The facility closed its female ward, male ward and pediatric ward after it was converted into an isolation unit for Covid 19 between the months of June 2021 and February 2022.
- ii. Intense competition from the adjacent Othaya Level 6 hospital with a significant number of NHIF patients transferring their choice of hospital from Othaya level 4 to Othaya level 6.

Efforts made to address the shortfall included:

- i. Support in kind was received from the county government in form of payment of casual workers, electricity, drugs and non-pharmaceuticals
- ii. Revenue measures including additional services has seen the facility gradually lead to increase its revenue collection.

### **Committee Observation**

The Committee observed that-

- i). there was an under realization of the budget by Kshs. 14,035,877 or 25% of the budget and an under expenditure of Kshs. 17,447,086 or 31% of the budget;
- ii). there are challenges with budgeting and expenditure controls.

### **Committee Recommendations**

The Committee recommends that—

- i. the Accounting Officer should ensure strict compliance with section 149(2)(h) and (i) of the Public Finance Management Act, Cap. 412A and the standards prescribed by the Public Sector Accounting Standard Board under IPSAS 24 on the presentation of budget information in the financial statements for an entity that prepares financial statements under the accrual basis of financial reporting, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply; and
- ii. the Accounting Officer should comply with regulation 42(1)(b) of the Public Finance Management (County Government) Regulations, 2015 on exerting budgetary control measures, failure to which the provisions of section 199 of the Public Finance Management Act on penalties for offences shall apply.

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

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

### **2. Inadequacies in universal Health Care Under Quality Health Model**

#### **2.1 Under Staffing of Health Workers**

During the year under review, the hospital had one medical officer contrary to 16 recommended by the Kenya quality model for health which represents a deficit of 94%. Further, the hospital did not have an anesthesiologist, a general surgeon, a gynecologist, a pediatrics and a radiologist. The quality health model recommends two of each of the specialist representing 100% deficit. Further, Kenya Registered community health nurses were 36 from the recommended 75 representing a deficit of 52%.

#### **Management Response**

Employment of health workers is a responsibility of the health department through the county public service board. Similarly, the management commits to follow up with the health department management and the County Management Service Board to ensure compliance with the quality health model for achievement of universal health care.

#### **Committee Observation**

The Committee observed that the query remains unresolved as the hospital had challenges in implementing the staffing levels required under the Kenya Quality Model for Health Policy Guidelines due to inadequate resources.

#### **Committee Recommendations**

**The Committee recommends that the Governor should prioritize addressing the hospital's resource challenges by ensuring that there is a systematic and innovative approach to resource mobilization. This should include securing adequate funding for employing adequate personnel required under the Kenya Quality Model for Health Policy Guidelines and providing regular updates on progress and evidence of efforts being made to address these staffing deficiencies to the Auditor-General for verification. The Auditor-General should monitor progress and provide a status update in the subsequent audit cycle.**

#### **2.2 Inadequate Services Offered in the Hospital**



During the year under review, the Hospital had only offered three fully operational services (in-patients with 77 beds, Radiology and tuberculosis management) out of the ten surveyed. Further, pediatric services were partially operational without a pediatrician, while surgical, gynecological, renal dialysis, mortuary and autopsy, advanced life support, caesarian sections and surgical operations services were not available.

### **Management Response**

The hospital management is committed to equipping the hospital with all the required equipment gradually as the funds become available. The hospital management will continue to lobby for more funds from the health department headquarters to procure the relevant medical equipment and employ medical professionals to ensure adequate services are offered in the facility.

### **Committee Observation**

The Committee observed that the query remains unresolved, as the hospital faces challenges in offering the services required under the Kenya Quality Model for Health Policy Guidelines due to insufficient resources for acquiring the necessary equipment and personnel. Despite assurances from management that efforts were underway to address the issue, no evidence was provided to support this claim, and the situation remained unchanged over the period.

### **Committee Recommendations**

**The Committee recommends that the Governor should prioritize addressing the hospital's resource challenges by ensuring that there is a systematic and innovative approach to resource mobilization. This should include securing adequate funding for essential equipment and personnel and providing regular updates on progress and evidence of efforts being made to address these critical deficiencies to the Auditor-General for verification. The Auditor-General should monitor progress and provide a status update in the subsequent audit cycle.**

### **2.3 Inadequate Operational Equipment**

During the year under review, the hospital had 77 inpatients beds from the recommended 150 beds representing 49% deficit. Further, the hospital had no resuscitative unit in theatre against the recommended one, and one in labor ward against the recommend two, zero new born unit cots against the recommended five, zero functional intensive care unit beds against the recommended six, zero high dependency unit beds from the recommended six and zero renal unit dialysis machines against the recommended five. In addition, the hospital had no functional operating theaters maternity and general against the recommended two.

### **Management Response**

The hospital management is committed to equip the hospital with all the required equipment gradually as the funds become available. The hospital management will continue to lobby for more funds from the health department headquarter to ensure adequate operational equipment and services are offered.

#### **Committee Observation**

The Committee observed that the query remains unresolved, as the hospital had inadequate operational equipment as required under the Kenya Quality Model for Health Policy Guidelines due to insufficient resources. Despite assurances from management that efforts were underway to address the issue, no evidence was provided to support this claim, and the situation remained unchanged over the period.

#### **Committee Recommendations**

**The Committee recommends that –**

- i). the Governor should prioritize addressing the hospital's resource challenges by ensuring a systematic and innovative approach to resource mobilization to facilitate the hospital in progressive acquisition of adequate operational equipment;**
- ii). the Accounting Officer responsible for the hospital and the County Executive Committee Member should develop an implementation matrix with clear timelines on how the critical deficiencies will be addressed and providing regular updates on the progress to the Auditor-General for verification; and**
- iii). the Auditor-General should monitor progress and provide a status update in the subsequent audit cycle.**

#### **2.4 Inadequate Operational Departments**

During the year under review, the hospital had only six operational departments out of the twenty-four recommended departments representing 79% deficit. The operational departments included: laboratory department class D, imaging department, general ward unit, dental department, infectious disease department and pediatric department which was operational without a pediatrician.

#### **Management Response**

The hospital management will continue to lobby for more funds from the health department headquarter to ensure adequate services are offered in the facility.

#### **Committee Observation**

The Committee observed that the query remains unresolved, as the hospital had inadequate operational departments as required under the Kenya Quality Model for



Health Policy Guidelines due to insufficient resources. Despite assurances from management that efforts were underway to address the issue, no evidence was provided to support this claim, and the situation remained unchanged over the period.

### **Committee Recommendations**

**The Committee recommends that the Governor should prioritize addressing the hospital's resource challenges by ensuring a systematic and innovative approach to resource mobilization. This should include securing adequate funding for the operational departments and providing regular updates on progress and evidence of efforts being made to address these critical deficiencies to the Auditor-General for verification. The Auditor-General should monitor progress and provide a status update in the subsequent audit cycle.**

### **2.5 Inadequate Storage Facilities**

During the year under review, the hospital did not have sufficient space for orderly receipt, warehousing, and dispatch of food items, vaccines and drugs. The refrigerated and freezing storage environments were not fitted with signals to indicate the refrigeration had failed. In addition, there was no written procedures and programs for pest control and appropriate written procedures for the clean-up of any spillage to ensure the complete removal of any risk of contamination was not available.

### **Management Response**

Initially we had a storage problem but currently we have moved from the old stores to the new stores in October 2023, so there is sufficient space for orderly receipt, warehousing and dispatch of commodities. We are in the process of renovating the kitchen stores for food commodities and installation of various refrigeration facilities at the new stores has been budgeted and will be implemented as the year progresses. Written standard operating procedures for pest control and store operations are now available as attached.

### **Committee Observation**

The Committee observed that the query remains unresolved as –

- i). the new stores launched in 2023 did not have functional refrigeration facilities whereas the old storage facility lacked sufficient space for orderly storage and had inadequate refrigerated environments without failure indicators;
- ii). the food storage was also inadequate; and
- iii). at the time of audit, there were no written procedures for pest control or cleanup of spills to prevent contamination. The written standard operating procedures for pest control and store operations provided after the audit period had not been verified by the Auditor-General.

### **Committee Recommendations**

**The Committee recommends that the Governor and the hospital management continue to prioritize the enhancement of storage facilities. This should include the timely completion of the ongoing renovations and installation of refrigeration facilities with failure indication systems. Additionally, the Accounting Officer must ensure that all written procedures for pest control and spill cleanup are not only developed but are regularly reviewed and updated. The Auditor-General should monitor the progress of these improvements and provide a status update in the subsequent audit cycle.**



## APPENDICIES

## **ANNEX I: MINUTES OF THE COMMITTEE**





### 13<sup>TH</sup> PARLIAMENT 3<sup>RD</sup> SESSION

**MINUTES OF THE TWO HUNDRED AND TWENTY FIRST SITTING OF THE COUNTY PUBLIC INVESTMENTS AND SPECIAL FUNDS ON THE CONSIDERATION OF THE REPORTS ON THE SCRUTINY OF THE AUDITOR-GENERAL'S REPORTS ON HOSPITALS IN COUNTIES HELD ON WEDNESDAY, 6<sup>TH</sup> NOVEMBER, 2024 AT PRIDE INN HOTEL, MACHAKOS COUNTY AT 3.00 P.M.**

#### **PRESENT**

- |                                          |                      |
|------------------------------------------|----------------------|
| 1. Sen. Godfrey Atieno Osotsi, MP        | - <b>Chairperson</b> |
| 2. Sen. (Prof.) Tom Odhiambo Ojienda, MP | - Vice-Chairperson   |
| 3. Sen. William Kipkemai Kisang, MP      | - Member             |
| 4. Sen. Maureen Tabitha Mutinda, MP      | - Member             |
| 5. Sen. Miraj Abdillahi Abdulrahman, MP  | - Member             |
| 6. Sen. Hamida Kibwana Ali, MP           | - Member             |

#### **ABSENT WITH APOLOGY**

- |                                  |          |
|----------------------------------|----------|
| 1. Sen. Ledama Olekina, MP       | - Member |
| 2. Sen. Paul Karungu Thangwa, MP | - Member |
| 3. Sen. Eddy Gicheru Oketch, MP  | - Member |

#### **SECRETARIAT**

- |                        |                       |
|------------------------|-----------------------|
| 1. Mr. Yussuf Shimoy   | - Clerk Assistant I   |
| 2. Mr. David Angwenyi  | - Clerk Assistant I   |
| 3. Mr. Erick Njogu     | - Clerk Assistant II  |
| 4. Mr. Godfrey Nyaga   | - Clerk Assistant III |
| 5. Ms. Zeinab Jirma    | - Legal counsel       |
| 6. CPA. Kennedy Owuoth | - Fiscal Analyst      |
| 7. Ms. Raisa Mwithi    | - Researcher          |
| 8. Ms. Linet Aseka     | - Researcher          |
| 9. Mr. Martin Mulandi  | - Researcher          |
| 10. Mr. Joseph Otieno  | - Audio officer       |
| 11. Mrs. Julia Gachoki | - Serjeant-at-arms    |

#### **IN ATTENDANCE**

##### **A. OFFICE OF THE AUDITOR GENERAL**

- |                      |                   |
|----------------------|-------------------|
| 1. Mr. Mark Gachanja | - Liaison Officer |
|----------------------|-------------------|

**B. OFFICE OF THE CONTROLLER OF BUDGET**

1. Ms. Nancy Kendi - Liaison Officer

**C. OFFICE OF THE NATIONAL TREASURY**

1. Dr. Jackson Ndungu - Liaison Officer

**MIN. NO. SEN/CPICSF/10254/2024 PRAYER**

The meeting was called to order by the Chairperson at ten O'clock followed by a word of prayer.

**MIN. NO. SEN/CPICSF/10255/2024 ADOPTION OF THE AGENDA**

The agenda of the meeting was adopted having been proposed by Sen. William Kipkemoi Kisang, MP and seconded by Sen. Maureen Tabitha Mutinda, MP, as follows –

1. Prayer;
2. Adoption of the Agenda;
3. Consideration of reports on the scrutiny of audited reports of hospitals in counties;
4. Any Other Business; and
5. Date of the Next Meeting and Adjournment.

**MIN. NO. SEN/CPICSF/10256/2024 CONSIDERATION OF THE DRAFT REPORTS OF THE AUDITOR-GENERAL ON BURSARY FUNDS ANDVARIOUS HOSPITALS IN COUNTIES**

The Committee considered the draft reports on the scrutiny of Auditor-General's reports on financial statements of the under listed hospitals in counties as follows-

| No. | Hospital                           | County |
|-----|------------------------------------|--------|
| 1.  | Kapsabet County Referral Hospital  | Nandi  |
| 2.  | Karatina Sub County Hospital       | Nyeri  |
| 3.  | Kilifi Health Improvement Fund     | Kilifi |
| 4.  | Kinango Sub-County Hospital        | Kwale  |
| 5.  | Kwale Sub County Hospital          | Kwale  |
| 6.  | Longisa County Referral Hospital   | Bomet  |
| 7.  | Lunga Lunga Sub County Hospital    | Kwale  |
| 8.  | Migori County Level 4 Hospital     | Migori |
| 9.  | Msambweni Sub-County Hospital      | Kwale  |
| 10. | Mt. Kenya Sub County Hospital      | Nyeri  |
| 11. | Mukurweini Sub County Hospital     | Nyeri  |
| 12. | Othaya Sub County Level 4 Hospital | Nyeri  |



The Committee made amendments to the aforementioned reports and directed the secretariat to incorporate the same and present them for further consideration in the following day.

**MIN. NO. SEN/CPICSF/10257/2024      ANY OTHER BUSINESS**

The Committee resolved to undertake the following activities—

- i. A report writing retreat in the last week of November, 2024; and
- ii. To undertake a capacity building programme in Arusha, Tanzania in the month of December, 2024.

**MIN. NO. SEN/CPICSF/10258/2024      DATE OF NEXT MEETING & ADJOURNMENT**

The Chairperson adjourned the meeting at two o'clock in the afternoon. The next meeting would be called by notice.



**2/12/2024**

**SIGNED: .....DATE: .....  
(CHAIRPERSON: SEN. GODFREY ATIENO OSOTSI, MP.)**



### 13<sup>TH</sup> PARLIAMENT 3<sup>RD</sup> SESSION

**MINUTES OF THE TWO HUNDRED AND TWENTY SECOND SITTING OF THE COUNTY PUBLIC INVESTMENTS AND SPECIAL FUNDS ON THE CONSIDERATION OF THE REPORTS ON THE SCRUTINY OF THE AUDITOR-GENERAL'S REPORTS ON BURSARY FUNDS AND HOSPITALS IN COUNTIES HELD ON THURSDAY, 7<sup>TH</sup> NOVEMBER, 2024 AT PRIDE INN HOTEL, MACHAKOS COUNTY AT 11.00 A.M.**

#### **PRESENT**

- |                                          |                      |
|------------------------------------------|----------------------|
| 1. Sen. Godfrey Atieno Osotsi, MP        | - <b>Chairperson</b> |
| 2. Sen. (Prof.) Tom Odhiambo Ojienda, MP | - Vice-Chairperson   |
| 3. Sen. William Kipkemai Kisang, MP      | - Member             |
| 4. Sen. Maureen Tabitha Mutinda, MP      | - Member             |
| 5. Sen. Miraj Abdillahi Abdulrahman, MP  | - Member             |
| 6. Sen. Hamida Kibwana Ali, MP           | - Member             |

#### **ABSENT WITH APOLOGY**

- |                                  |          |
|----------------------------------|----------|
| 1. Sen. Ledama Olekina, MP       | - Member |
| 2. Sen. Paul Karungo Thangwa, MP | - Member |
| 3. Sen. Eddy Gicheru Oketch, MP  | - Member |

#### **SECRETARIAT**

- |                        |                       |
|------------------------|-----------------------|
| 1. Mr. Yussuf Shimoy   | - Clerk Assistant I   |
| 2. Mr. David Angwenyi  | - Clerk Assistant I   |
| 3. Mr. Erick Njogu     | - Clerk Assistant II  |
| 4. Mr. Godfrey Nyaga   | - Clerk Assistant III |
| 5. Ms. Zeinab Jirma    | - Legal counsel       |
| 6. CPA. Kennedy Owuoth | - Fiscal Analyst      |
| 7. Ms. Raisa Mwithi    | - Researcher          |
| 8. Ms. Linet Aseka     | - Researcher          |
| 9. Mr. Martin Mulandi  | - Researcher          |
| 10. Mr. Joseph Otieno  | - Audio officer       |
| 11. Mrs. Julia Gachoki | - Serjeant-at-arms    |

#### **IN ATTENDANCE**

##### **A. OFFICE OF THE AUDITOR GENERAL**

- |                      |                   |
|----------------------|-------------------|
| 1. Mr. Mark Gachanja | - Liaison Officer |
|----------------------|-------------------|



**B. OFFICE OF THE CONTROLLER OF BUDGET**

1. Ms. Nancy Kendi - Liaison Officer

**C. OFFICE OF THE NATIONAL TREASURY**

1. Dr. Jackson Ndungu - Liaison Officer

**MIN. NO. SEN/CPICSF/10259/2024 PRAYER**

The meeting was called to order by the Chairperson at ten O'clock followed by a word of prayer.

**MIN. NO. SEN/CPICSF/10260/2024 ADOPTION OF THE AGENDA**

The agenda of the meeting was adopted having been proposed by Sen. William Kipkemai Kisang, MP and seconded by Sen. Maureen Tabitha Mutinda, MP, as follows –

1. Prayer;
2. Adoption of the Agenda;
3. Consideration of reports on the scrutiny of audited reports of bursary funds and hospitals in counties;
4. Any Other Business; and
5. Date of the Next Meeting and Adjournment.

**MIN. NO. SEN/CPICSF/10261/2024 CONSIDERATION OF THE DRAFT REPORTS OF THE AUDITOR-GENERAL ON BURSARY FUNDS ANDVARIOUS HOSPITALS IN COUNTIES**

The Committee considered the draft reports on the scrutiny of Auditor-General's reports on financial statements of bursary funds and hospitals in counties as follows-

**A. HOSPITALS**

| No. | Hospital                          | County |
|-----|-----------------------------------|--------|
| 1.  | Kapsabet County Referral Hospital | Nandi  |
| 2.  | Karatina Sub County Hospital      | Nyeri  |
| 3.  | Kilifi Health Improvement Fund    | Kilifi |
| 4.  | Kinango Sub-County Hospital       | Kwale  |
| 5.  | Kwale Sub County Hospital         | Kwale  |
| 6.  | Longisa County Referral Hospital  | Bomet  |
| 7.  | Lunga Lunga Sub County Hospital   | Kwale  |
| 8.  | Migori County Level 4 Hospital    | Migori |
| 9.  | Msambweni Sub-County Hospital     | Kwale  |
| 10. | Mt. Kenya Sub County Hospital     | Nyeri  |

|     |                                    |       |
|-----|------------------------------------|-------|
| 11. | Mukurweini Sub County Hospital     | Nyeri |
| 12. | Othaya Sub County Level 4 Hospital | Nyeri |

## **B. BURSARY FUNDS**

| <b>NO</b> | <b>BURSARY FUND</b>                                   | <b>COUNTY</b>   |
|-----------|-------------------------------------------------------|-----------------|
| 1.        | Baringo County Education Bursary And Scholarship Fund | Baringo         |
| 2.        | Bomet County Bursary Fund                             | Bomet           |
| 3.        | Bomet County Education Revolving Fund                 | Bomet           |
| 4.        | Bungoma County Education Support Scheme               | Bungoma         |
| 5.        | Elgeyo Marakwet County Education Fund                 | Elgeyo Marakwet |
| 6.        | Garissa County Scholarship Fund                       | Garissa         |
| 7.        | Homa Bay County Bursary Fund                          | Homabay         |
| 8.        | Kajiado County Bursary Grants and Scholarship Fund    | Kajiado         |
| 9.        | Kericho County Bursary Fund                           | Kericho         |
| 10.       | Kiambu County Education Bursary Fund                  | Kiambu          |
| 11.       | Kilifi Ward Scholarship Fund                          | Kilifi          |
| 12.       | Kirinyaga County Education Bursary Fund               | Kirinyaga       |
| 13.       | Kisii County Bursary Fund                             | Kisii           |
| 14.       | Kwale County Bursary Fund                             | Kwale           |
| 15.       | Laikipia County Bursary Fund                          | Laikipia        |
| 16.       | Lamu County Bursary And Scholarship Fund              | Lamu            |
| 17.       | Machakos County Bursary Fund                          | Machakos        |
| 18.       | Makueni County Bursary Fund                           | Makueni         |
| 19.       | Mandera County Education Bursary Fund                 | Mandera         |
| 20.       | Marsabit County Education Fund Migori                 | Marsabit        |
| 21.       | County Ward Development Fund                          | Migori          |
| 22.       | Mombasa County Elimu Fund                             | Mombasa         |
| 23.       | Nakuru County Bursary Fund                            | Nakuru          |



|     |                                                                |               |
|-----|----------------------------------------------------------------|---------------|
| 24. | Nandi County Education Fund                                    | Nandi         |
| 25. | Narok County Bursary Fund                                      | Narok         |
| 26. | Nyamira County Education Bursary Fund                          | Nyamira       |
| 27. | Nyandarua County Bursary Fund                                  | Nyandarua     |
| 28. | Nyeri County Elimu Fund                                        | Nyeri         |
| 29. | Samburu County Bursary Fund                                    | Samburu       |
| 30. | Siaya County Education Bursary Fund                            | Siaya         |
| 31. | Taita Taveta County Education Fund                             | Taita Taveta  |
| 32. | Tana River County Ward Bursary Fund                            | Tana River    |
| 33. | Tharaka Nithi County Bursary Development Fund                  | Tharaka Nithi |
| 34. | Trans Nzoia County Elimu Bursary Fund                          | Trans Nzoia   |
| 35. | Turkana County Education And Skills Development Fund           | Turkana       |
| 36. | Uasin Gishu County Bursary And Skills Development Support Fund | Uasin Gishu   |
| 37. | Uasin Gishu County Education Revolving Fund                    | Uasin Gishu   |
| 38. | Vihiga County Education Fund                                   | Vihiga        |
| 39. | Wajir County Bursary Fund                                      | Wajir         |

The Committee considered the aforementioned reports and resolved to adopt the same at a later date.

**MIN. NO. SEN/CPICSF/10262/2024      ANY OTHER BUSINESS**

There was no any other business.

**MIN. NO. SEN/CPICSF/10263/2024      DATE OF NEXT MEETING & ADJOURNMENT**

The Chairperson adjourned the meeting at two o'clock in the afternoon. The next meeting would be called by notice.



**2/12/2024**

**SIGNED: ..... DATE: .....  
(CHAIRPERSON: SEN. GODFREY ATIENO OSOTSI, MP.)**



### **13<sup>TH</sup> PARLIAMENT 3<sup>RD</sup> SESSION**

**MINUTES OF THE TWO HUNDRED AND THIRTY FIRST SITTING OF THE COUNTY PUBLIC INVESTMENTS AND SPECIAL FUNDS ON THE CONFIRMATION OF MINUTES AND THE ADOPTION OF THE REPORTS, HELD ON MONDAY, 2<sup>ND</sup> DECEMBER, 2024 AT COMMITTEE ROOM 10, SECOND FLOOR, BUNGE TOWER AT 1.30 P.M.**

#### **PRESENT**

- |                                         |               |
|-----------------------------------------|---------------|
| 1. Sen. Godfrey Atieno Osotsi, MP       | - Chairperson |
| 2. Sen. William Kipkemai Kisang, MP     | - Member      |
| 3. Sen. Eddy Gicheru Oketch, MP         | - Member      |
| 4. Sen. Hamida Kibwana Ali, MP          | - Member      |
| 5. Sen. Miraj Abdillahi Abdulrahman, MP | - Member      |
| 6. Sen. Maureen Tabitha Mutinda, MP     | - Member      |

#### **ABSENT WITH APOLOGY**

- |                                          |                    |
|------------------------------------------|--------------------|
| 1. Sen. (Prof.) Tom Odhiambo Ojienda, MP | - Vice-Chairperson |
| 2. Sen. Ledama Olekina, MP               | - Member           |
| 3. Sen. Paul Karungo Thangwa, MP         | - Member           |

#### **SECRETARIAT**

- |                        |                       |
|------------------------|-----------------------|
| 1. Mr. Yussuf Shimoy   | - Clerk Assistant I   |
| 2. Mr. David Angwenyi  | - Clerk Assistant I   |
| 3. Mr. Erick Njogu     | - Clerk Assistant II  |
| 4. Mr. Godfrey Nyaga   | - Clerk Assistant III |
| 5. Mr. Andrew Nyairo   | - Legal counsel       |
| 6. CPA. Kennedy Owuoth | - Fiscal Analyst      |
| 7. Ms. Raisa Mwithi    | - Researcher          |
| 8. Ms. Winnie Atieno   | - Audio officer       |
| 9. Mr. Julia Gachoki   | - Serjeant-at-arms    |

#### **IN ATTENDANCE**

##### **A. OFFICE OF THE AUDITOR GENERAL**

- |                      |                   |
|----------------------|-------------------|
| 1. Mr. Tom Ratemo    | - OAG             |
| 2. Mr. Mark Gachanja | - Liaison Officer |

##### **B. OFFICE OF THE CONTROLLER OF BUDGET**



1. Ms. Constance Wasike - Liaison Officer

### **C. THE NATIONAL TREASURY**

1. Ms. Edith Nkanata - Liaison Officer

### **MIN. NO. SEN/CPICSF/10310/2024 PRAYER**

The meeting was called to order by the Chairperson at thirty minutes past one O'clock in the afternoon followed by a word of prayer.

### **MIN. NO. SEN/CPICSF/10311/2024 ADOPTION OF THE AGENDA**

The agenda of the meeting was adopted having been proposed by Sen. William Kipkemoi Kisang, MP and seconded by Sen. Maureen Tabitha Mutinda, MP, as follows –

1. Prayer;
2. Adoption of the Agenda;
3. Confirmation of Minutes;
4. Matters arising from the Previous Minutes;
5. Adoption of Reports on Bursary Funds, Hospitals and Municipalities;
6. Any Other Business; and
7. Date of the Next Meeting and Adjournment.

### **MIN. NO. SEN/CPICSF/10312/2024 CONFIRMATION OF THE MINUTES**

The Committee confirmed the following sets of minutes-

- i) The Minutes of the Two Hundred and Twentieth Sitting held on Wednesday, 6<sup>th</sup> November, 2024; were confirmed as a true record of the proceedings and signed by the Chairperson after being proposed by Sen. Maureen Tabitha Mutinda, MP and seconded by Sen. Miraj Abdillahi Abdulrahman, MP.
- ii) The Minutes of the Two Hundred and First Sitting held on Wednesday, 6<sup>th</sup> November, 2024; were confirmed as a true record of the proceedings and signed by the Chairperson after being proposed by Sen. William Kipkemoi Kisang, MP and seconded by Sen. Miraj Abdillahi Abdulrahman, MP.
- iii) The Minutes of the Two Hundred and Second Sitting held on Thursday, 7<sup>th</sup> November, 2024; were confirmed as a true record of the proceedings and signed by the Chairperson after being proposed by Sen. Maureen Tabitha Mutinda, MP and seconded by Sen. William Kipkemoi Kisang, MP.
- iv) The Minutes of the Two Hundred and Third Sitting held on Friday, 8<sup>th</sup> November, 2024; were confirmed as a true record of the proceedings and signed by the Chairperson after being proposed by Sen. Maureen Tabitha Mutinda, MP and seconded by Sen. Miraj Abdillahi Abdulrahman, MP.

### **MIN. NO. SEN/CPICSF/10313/2024 MATTERS ARISING FROM THE PREVIOUS MINUTES**

There was no matter arising from the previous minutes.

**MIN. NO. SEN/CPICSF/10314/2024**

**ADOPTION OF THE REPORTS OF  
AUDITOR-GENERAL'S REPORTS  
ON THE FINANCIAL  
STATEMENTS ON BURSARY  
FUNDS, HOSPITALS AND  
MUNICIPALITIES**

The Committee adopted the following reports on audited financial statements of Bursary Funds, Hospitals and Municipalities in counties having been proposed by Sen. Maureen Tabitha Mutinda, MP and seconded by Sen. Miraj Abdillahi Abdulrahman, MP-

1. Reports of the Select Committee on County Public Investments and Special Funds on The Consideration of the Audit Reports of the following County Bursary Funds for the Financial Year 2019/202, 2020/2021 and 2021/2022

| NO. | BURSARY FUND                                          | COUNTY             |
|-----|-------------------------------------------------------|--------------------|
| 1.  | Baringo County Education Bursary and Scholarship Fund | Baringo            |
| 2.  | Bomet County Bursary Fund                             | Bomet              |
| 3.  | Bomet County Education Revolving Fund                 | Bomet              |
| 4.  | Bungoma County Education Support Scheme               | Bungoma            |
| 5.  | Elgeyo Marakwet County Education Fund                 | Elgeyo<br>Marakwet |
| 6.  | Garissa County Scholarship Fund                       | Garissa            |
| 7.  | Homa Bay County Bursary Fund                          | Homabay            |
| 8.  | Kajiado County Bursary Grants and Scholarship Fund    | Kajiado            |
| 9.  | Kericho County Bursary Fund                           | Kericho            |
| 10. | Kiambu County Education Bursary Fund                  | Kiambu             |
| 11. | Kilifi Ward Scholarship Fund                          | Kilifi             |
| 12. | Kirinyaga County Education Bursary Fund               | Kirinyaga          |
| 13. | Kisii County Bursary Fund                             | Kisii              |
| 14. | Kwale County Bursary Fund                             | Kwale              |
| 15. | Laikipia County Bursary Fund                          | Laikipia           |
| 16. | Lamu County Bursary and Scholarship Fund              | Lamu               |
| 17. | Machakos County Bursary Fund                          | Machakos           |
| 18. | Makueni County Bursary Fund                           | Makueni            |



|     |                                                                |               |
|-----|----------------------------------------------------------------|---------------|
| 19. | Mandera County Education Bursary Fund                          | Mandera       |
| 20. | Marsabit County Education Fund Migori                          | Marsabit      |
| 21. | County Ward Development Fund                                   | Migori        |
| 22. | Mombasa County Elimu Fund                                      | Mombasa       |
| 23. | Nakuru County Bursary Fund                                     | Nakuru        |
| 24. | Nandi County Education Fund                                    | Nandi         |
| 25. | Narok County Bursary Fund                                      | Narok         |
| 26. | Nyamira County Education Bursary Fund                          | Nyamira       |
| 27. | Nyandarua County Bursary Fund                                  | Nyandarua     |
| 28. | Nyeri County Elimu Fund                                        | Nyeri         |
| 29. | Samburu County Bursary Fund                                    | Samburu       |
| 30. | Siaya County Education Bursary Fund                            | Siaya         |
| 31. | Taita Taveta County Education Fund                             | Taita Taveta  |
| 32. | Tana River County Ward Bursary Fund                            | Tana River    |
| 33. | Tharaka Nithi County Bursary Development Fund                  | Tharaka Nithi |
| 34. | Trans Nzoia County Elimu Bursary Fund                          | Trans Nzoia   |
| 35. | Turkana County Education and Skills Development Fund           | Turkana       |
| 36. | Uasin Gishu County Bursary and Skills Development Support Fund | Uasin Gishu   |
| 37. | Uasin Gishu County Education Revolving Fund                    | Uasin Gishu   |
| 38. | Vihiga County Education Fund                                   | Vihiga        |
| 39. | Wajir County Bursary Fund                                      | Wajir         |
| 40. | West Pokot County Bursary Fund                                 | West Pokot    |

2. Report of the Select Committee on County Public Investments and Special Funds on the Consideration of the Audit Reports of the following County Hospitals for the Financial Year 2021/2022.

| NO. | HOSPITAL                          | COUNTY |
|-----|-----------------------------------|--------|
| 1.  | Kapsabet County Referral Hospital | Nandi  |
| 2.  | Karatina Sub County Hospital      | Nyeri  |
| 3.  | Kilifi Health Improvement Fund    | Kilifi |
| 4.  | Kinango Sub-County Hospital       | Kwale  |
| 5.  | Kwale Sub County Hospital         | Kwale  |
| 6.  | Longisa County Referral Hospital  | Bomet  |
| 7.  | Lunga Lunga Sub County Hospital   | Kwale  |
| 8.  | Migori County Level 4 Hospital    | Migori |

|     |                                    |       |
|-----|------------------------------------|-------|
| 9.  | Msambweni Sub-County Hospital      | Kwale |
| 10. | Mt. Kenya Sub County Hospital      | Nyeri |
| 11. | Mukurweini Sub County Hospital     | Nyeri |
| 12. | Othaya Sub County Level 4 Hospital | Nyeri |

3. Reports of the Select Committee on County Public Investments and Special Funds on the Consideration of the Audit Reports of the following Municipalities for Financial Years 2020/2021, 2021/2022 and 2022/2023.

**a. Financial Year 2020/2021**

| NO. | MUNICIPALITY          | COUNTY       |
|-----|-----------------------|--------------|
| 1.  | Eldoret Municipality  | Uasin Gishu  |
| 2.  | Kisii Municipality    | Kisii        |
| 3.  | Kitale Municipality   | Trans Nzoia  |
| 4.  | Lamu Municipality     | Lamu         |
| 5.  | Mwatate Municipality  | Taita Taveta |
| 6.  | Rumuruti Municipality | Laikipia     |

**b. Financial Year 2021/2022**

| NO. | MUNICIPALITY          | COUNTY       |
|-----|-----------------------|--------------|
| 1.  | Eldoret Municipality  | Uasin Gishu  |
| 2.  | Kakamega Municipality | Kakamega     |
| 3.  | Kisii Municipality    | Kisii        |
| 4.  | Kitale Municipality   | Trans Nzoia  |
| 5.  | Lamu Municipality     | Lamu         |
| 6.  | Migori Municipality   | Migori       |
| 7.  | Mumias Municipality   | Kakamega     |
| 8.  | Muranga Municipality  | Muranga      |
| 9.  | Mwatate Municipality  | Taita Taveta |
| 10. | Rongo Municipality    | Migori       |
| 11. | Rumuruti Municipality | Laikipia     |

**c. Financial Year 2022/2023**

| NO. | MUNICIPALITY         | COUNTY      |
|-----|----------------------|-------------|
| 1.  | Eldoret Municipality | Uasin Gishu |



|    |                       |             |
|----|-----------------------|-------------|
| 2. | Kakamega Municipality | Kakamega    |
| 3. | Kitale Municipality   | Trans Nzoia |
| 4. | Migori Municipality   | Migori      |
| 5. | Mumias Municipality   | Kakamega    |
| 6. | Muranga Municipality  | Muranga     |
| 7. | Rongo Municipality    | Migori      |
| 8. | Rumuruti Municipality | Laikipia    |

**MIN. NO. SEN/CPICSF/10315/2024      ANY OTHER BUSINESS**

There was no any other business.

**MIN. NO. SEN/CPICSF/10316/2024      DATE OF NEXT MEETING & ADJOURNMENT**

The Chairperson adjourned the meeting at fifteen minutes to two o'clock in the afternoon. The next meeting would be on Thursday, 5<sup>th</sup>, December 2024 at 9:00 am.



**2/12/2024**

**SIGNED: ..... DATE: .....  
(CHAIRPERSON: SEN. GODFREY ATIENO OSOTSI, MP.)**