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ON

MANDERA COUNTY TEACHING AND REFERRAL LEVEL 5 HOSPITAL

FOR THE YEAR ENDED 30 JUNE, 2026

COUNTY GOVERNMENT OF MANDERA

OFFICE OF THE AUDITOR - GENERAL
GARISSA REGIONAL OFFICE
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MANDERA COUNTY TEACHING AND REFERRAL LEVEL 5 HOSPITAL
(Mandera County Government)

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2026

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

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1. Acronyms & Definitions of Key Terms

A: Acronyms

CSR	Corporate Social Responsibility
OSHA	Occupational Health & Safety Act
FY	Financial year
MCTRH	Mandera County Teaching and Referral Level 5 Hospital
RCO	Registered clinical officer
SHA	Social Health Authority
AIE	Authority to incur expenditure
IPSAS	International public sector accounting standards
PFM	Public finance management
IPSASB	International public sector accounting standard board
CEO	Chief executive officer
KEMSA	Kenya medical suppliers' authority
PPE	Personal protective equipment
CoG	Council of governors
PFMA	Public Financial Management Act
MED SUP	Medical Superintendent

B: Definition of Key Terms

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

Comparative Year- Means the prior period.

2. Who we are

(a) Background information

Mandera County Teaching and Referral Level 5 Hospital is a Level 5 facility established under Gazette Notice No. 4379. It operates under the Health Department of Mandera County and is governed by a Board of Management. Located in Neboi Ward, Mandera East, the facility is recognized as a Ministry of Health primary care hospital, delivering healthcare services to the residents of Mandera County and beyond.

(b) Principal Activities

The principal activity of Mandera County Teaching and Referral Level 5 Hospital is to provide comprehensive, accessible, equitable, and quality healthcare services to the residents of Mandera County and its neighbouring regions. The Hospital offers promotive, preventive, curative, rehabilitative, and referral healthcare services, while also serving as a teaching and training institution for healthcare professionals and supporting medical research.

Vision
To have an efficient, high-quality healthcare system that is accessible, equitable, and affordable for every Kenyan in Mandera County.

Mission
To promote and lead in the provision of integrated and high-quality promotive, preventive, curative, and rehabilitative healthcare services to all Kenyans.

Core Objectives

- To provide accessible, affordable, and quality healthcare services.
- To strengthen preventive and promotive healthcare interventions.
- To deliver efficient curative and rehabilitative healthcare services.
- To serve as the county's primary referral and teaching hospital.
- To enhance patient safety and continuously improve the quality of healthcare services.
- To promote effective governance, accountability, and prudent management of hospital resources.

Core Values
The Hospital upholds the following core values:

- Commitment – Ensuring access to quality healthcare for all.
- Accountability – Responsible and efficient use of material, human, and financial resources.
- Respect – Valuing cultural sensitivity, dignity, and the will of the people.

- Integrity – Delivering services ethically, transparently, and with trust.
- Impartiality – Embracing unbiased and innovative ideas to enhance healthcare delivery.

(c) Assurance and Audit

Mandera County Teaching and Referral Level 5 Hospital applies a combined assurance model to enhance the reliability of this report. Assurance is provided through:

• Management reviews

• Internal audit assessments overseen by the Board Audit, Risk, and Compliance Committee

• External audit of financial statements by the Office of the Auditor-General

Legal, Compliance, and Corporate Governance Audits are conducted biannually to ensure adherence to applicable laws, regulations, and governance standards.

The Board has applied its collective judgment to this report and confirms that it provides a balanced and accurate reflection of Mandera County Teaching and Referral Level 5 Hospital performance, strategy, and value-creation approach.

Key Entity Information and Management (continued)

(d) Entity Headquarters

P.O. Box 7-70300
Mandera County Referral
Hospital Road,
Mandera, KENYA

(e) Entity Contacts

Telephone: (+254) 704988326
E-mail: manderacountyreferralhospital@yahoo.com

(f) Entity Bankers

Kenya Commercial Bank,
P.O. Box 275- 70300,
Mandera, Kenya.

National Bank Of Kenya
P.O. Box 275- 70300,
Mandera, Kenya.

(g) Entity Auditor

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

(h) Principal Legal Adviser

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

(i) County Attorney

P.O. Box.13-70300,
Mandera, Kenya.

3. Chairman's Statement

It is with immense pride that I present the Hospital's annual report and Financial Statements for the 2025/2026 period. The Management has made remarkable strides in advancing patient care this year, demonstrating our unwavering commitment to excellence. As the preeminent referral hospital in Mandera County, the scale and complexity of our operations are significant, and I am consistently inspired by the dedication and professionalism displayed by our staff. Their relentless pursuit of delivering outstanding service to patients is nothing short of extraordinary.

MCTRH stands as the public hospital of choice for Mandera and beyond, providing a comprehensive range of high-quality specialized healthcare services. We proudly serve not only residents of Mandera County but also patients from neighbouring regions, including Balad Hawo in Somalia and Suftu in Ethiopia. Our extensive offerings encompass surgical services, critical care, neonatal care, and renal treatments, among many others. Building on the solid groundwork established in prior years and reinforced by robust systems and efficient processes, we have solidified our commitment to delivering exceptional, personalized patient care.

Regulatory Environment: Our operations and hospital management are underpinned by the legal, policy, and institutional frameworks that govern the health sector, ensuring the efficient and effective delivery of services. The Kenyan Constitution of 2010 enshrines the right to the highest attainable standard of health for all individuals, including essential reproductive health services and emergency medical care. Moreover, the Health Act of 2016 establishes an integrated health system that streamlines the collaboration between national and county governments, regulating healthcare services, providers, and health products and technologies.

On the national stage, Universal Health Coverage (UHC) remains a national priority and is delivered through the Social Health Authority (SHA), established under the Social Health Insurance Act, 2023. This aligns with Kenya Vision 2030 and with the Bottom-Up Economic Transformation Agenda, under which health is a priority pillar. The Health Sector's overarching goal is to deliver equitable, affordable and quality healthcare to all citizens. Our strategic initiatives are driven by five-year medium-term plans, with the fourth Medium Term Plan (MTP IV), spanning 2023-2027, guiding sector priorities. MCTRH is fully committed to advancing selected projects and programmes aligned with MTP IV, particularly emphasizing Universal Health Coverage.

Acknowledgements:

On behalf of our Management team, I extend my heartfelt gratitude to all our stakeholders, especially the County Government of Mandera, the County Department of Health, the County Treasury, and our invaluable development partners. Their steadfast support has been pivotal in our achievements. As we proceed into the future, I want to personally thank the exceptional staff at MCTRH – our specialists, team leaders, and management personnel, whose dedication and pride in their work embody our hospital's

mission and values. I am confident that with our clear strategic vision and the skilled team we have assembled, we will continue to drive growth and excellence for many years to come, just as we have done in the past.



Signature
Name: Ubah Abdi Ibrahim
Chairperson to the Board

4. Report of The Chief Executive Officer

I am pleased to present the Annual Report and Financial Statements for the Mandera County Teaching and Referral Hospital (MCTRH) for the financial year 2025/2026. This report highlights our operational performance, financial position, and strategic direction as we continue to pursue our mission of delivering high-quality, accessible healthcare to the people of Mandera County and beyond.

Operational Performance

Mandera County Teaching and Referral Hospital specializes in delivering a wide array of healthcare services tailored to the unique needs of our community. Our medical staff comprises highly skilled specialists across various fields of medicine, ensuring that our patients receive care that is not only safe and timely but also equitable, efficient, effective, and centred around their needs.

During the financial year 2025/2026, the hospital catered to a total of 270,670 patients, comprising 264,425 outpatient attendances and 6,245 inpatient admissions. This represents an increase of 20% in outpatient visits and 20% in inpatient admissions compared to the previous financial year. This growth reflects our commitment to providing accessible healthcare and enhancing our service delivery mechanisms, including our efficient laboratory services.

Patient Safety

At Mandera County Teaching and Referral Hospital, patient safety remains a cornerstone of our healthcare delivery system. We have undertaken a comprehensive approach to minimize hospital-acquired infections and reduce medical errors. Our initiatives also focus on decreasing the incidence of patient falls and venous thrombosis. To facilitate these goals, we established the Quality Healthcare (QHC) department, which encompasses critical operations related to patient safety, clinical governance, infection prevention, control measures, and ongoing monitoring and evaluation. We have developed and implemented standardized operating procedures (SOPs) and clinical guidelines to ensure the highest standards in patient management.

Effective Communication

Mandera County Teaching and Referral Hospital places a strong emphasis on enhancing communication with our patients, their families, and all other stakeholders. We recognize that effective communication is essential for delivering timely and accurate information. Therefore, we have invested in training our staff in customer care and effective communication strategies while maintaining the highest standards of compassion and professionalism. In our effort to foster engagement between patients and caregivers, we have established robust mechanisms for receiving and addressing customer feedback. This has allowed us to strengthen our customer service capabilities and streamline process improvements aimed at enhancing the overall patient experience.

Financial Review

In terms of financial sustainability, the recurrent grant received from the County Government for the financial year 2025/2026 amounted to Kshs. 398,440,000,

supplemented by in-kind contributions of Kshs. 571,867,577 in respect of salaries and wages met directly by the County. Revenue from the rendering of medical services amounted to Kshs. 166,787,926, comprising Kshs. 126,987,060 in Social Health Authority (SHA) revenue and Kshs. 39,800,866 in other own-source revenue. Total revenue was therefore Kshs. 1,137,095,503 against total expenditure of Kshs. 1,077,321,668, yielding a surplus of Kshs. 59,773,835. The reported surplus should be read alongside the Hospital's cash position. Cash received from the Social Health Authority during the year was Kshs. 55,240,404, leaving Kshs. 118,948,979 in claims unsettled at the close of the year, and the Hospital held cash of Kshs. 5,227 against trade and other payables of Kshs. 59,157,143. Accelerating settlement of SHA claims remains the Hospital's most urgent priority.

Acknowledgment

We extend our heartfelt gratitude to the thousands of patients we serve, who stand as a testament to the exceptional care, love, and support provided daily by our dedicated staff. We also wish to express our sincere appreciation to all stakeholders and sponsors whose kindness, compassion, unwavering support, and dedication contribute immensely to the mission of Mandera County Referral Hospital. Your contributions play a vital role in helping us continue our commitment to serve our community with excellence at Mandera County Teaching and Referral Hospital



Signature

Name: Okash A. Abdullahi

Chief Executive Officer

5. Corporate Governance Statement

Part A: Board of Directors profiles:

Ref	Directors	Details
1.	**Mrs.Ubah Abdi Ibrahim**  **Chairperson**	Mrs. Ubah Abdi is the Chairperson of the Mandera County Teaching and Referral Hospital Board. She holds a Bachelor of Arts in Gender, Women & Development Studies from Egerton University and a Diploma in Social Work & Community Development. She brings extensive experience from both government and non-governmental sectors. Prior to her current role, she served as Chair of the Finance and General-Purpose Committee at the Water Sector Trust Fund (2019–2022) and has been the Chairperson of Maendeleo Ya Wanawake in Mandera County since 2014. She has also held key leadership positions at the Center for Advocacy & Development of Muslim Women (CEADEMUW) and the National Muslim Council of Kenya. Mrs. Ubah is a seasoned community development expert with over 10 years of experience in sustainable development, monitoring and evaluation, and gender advocacy. She has worked with organizations such as UNICEF, CARE, UNHCR, and other international and local NGOs, focusing on socio-economic development and the empowerment of women and marginalized groups.
2.	**Abdirahman Sheikh**	Mr. Ahmed Abdirahman Sheikh is the Vice Chairperson of the Mandera County Teaching and Referral Hospital (MCTRH) Board. He holds a Bachelor's degree in Human Nutrition and Dietetics, a Diploma in Nursing from KMTC, and is currently pursuing a Master's degree in Community

	 **Vice Chair PersonAhmed**	Development. Mr. Ahmed has over 14 years of experience working with international NGOs both within and outside Kenya. He currently serves as the Programs Director for an international organization operating in Kenya. His broad experience in collaborating with international partners and local communities has strengthened his ability to foster effective relationships and promote sustainable development initiatives.
3.	**Mrs. Halima Dahir**  **Board Member**	Mrs. Halima Dahir is a Board Member of the Mandera County Teaching and Referral Hospital (MCTRH). She holds a Bachelor of Business Administration (BBA) degree from Kenya Methodist University, Nairobi. Mrs. Dahir has worked with the Ministry of Information and Communication and later joined the Ministry of Interior, where she is currently serving. She also served as a Board Member of the Kenya Red Cross for more than 10 years, during which the district received recognition for outstanding service. In addition, Mrs. Dahir has contributed to Habiba International Women and Youth Affairs as the Treasurer, organizing workshops and community barazas on issues related to FGM and child abuse across Mandera County. With over 25 years of professional experience, Mrs. Dahir brings a wealth of knowledge and commitment to community development and public service.
4.	**Mr. Anis Sheikh Ibrahim**	Mr. Anis Sheikh Ibrahim is a Board Member of the Mandera County

	 **Board Member**	Teaching and Referral Hospital (MCTRH). He holds a Bachelor of Education (Science) degree from Kenyatta University, along with certifications in the Growing Leadership Programme and Environmental Management. With six years of experience as a teacher under the Teachers Service Commission (TSC) and training as a KNEC examiner, Mr. Anis has developed strong competencies in assessment, mentorship, and quality assurance. On the Board, he contributes to policy formulation, strategic planning, and service delivery oversight. His background in environmental management and ICT enhances his participation in public health, environmental safety, and digital governance. These diverse experiences have strengthened his capabilities in leadership, analytical thinking, and institutional governance
5.	**Mrs. Sahara Mohamed Noor**  **Board Member**	Mrs. Sahara Mohamed Noor is a Board Member of the Mandera County Teaching and Referral Hospital (MCTRH). She attended Al Qalam Academy for her primary education and later joined Moi Girls Mandera for her secondary studies. After completing high school, she pursued a Bachelor's degree in Education at Mount Kenya University (MKU). Since graduating, Mrs. Sahara has been serving as a teacher at Moi Girls Mandera, where she has accumulated over ten years of valuable teaching experience. In her role as a board member, she contributes to the governance, policy oversight, and strategic direction of healthcare

		services in Mandera County.
6.	**Mr. Abdishakur Daud Adan**  **Board Member**	Mr. Abdishakur Daud Adan is a Board Member at the Mandera County Teaching and Referral Hospital (MCTRH). He holds a Bachelor of Education degree, a Diploma in Education Leadership and Management, and a Certificate in Monitoring and Evaluation. Mr. Abdishakur has six years of experience in both the public and private education sectors, where he has developed strong leadership and governance skills. His commitment to accountability, innovation, and community-centred service continues to drive his efforts to enhance healthcare delivery in Mandera County.
7.	**Ibrahim Mohamed Ali**  **CCO**	Ibrahim Mohamed Ali holds a Bachelor's degree in Public Health. He brings over ten years of experience from the private sector, including work with both local and international NGOs. Through his own initiative. Mr. Ibrahim has continuously sought to expand his knowledge, experience, and skills to keep pace with evolving professional dynamics. He currently serves as the Chief Officer for Medical Services and is a member of the Audit Committee at the Mandera County

	Medical Services	Teaching and Referral Hospital (MCTRH)
8.	**Okash Abdullahi Adan**  **Chief Executive Officer**	Mr. Okash Abdullahi Adan is the Secretary to the Mandera County Teaching and Referral Hospital Board and serves as the Accounting Officer for the Mandera County Teaching and Referral Hospital (MCTRH). Prior to his current position, Mr. Okash was the Head of the Efficiency and Monitoring Unit at the County Government of Mandera, a role he has held since September 2021. In this capacity, he was responsible for overseeing the implementation of county projects and ensuring that they met established efficiency standards. He also served as the first County Secretary of Mandera County, a position he held until August 2016. During his tenure, he was actively involved in the administrative functions of the county government, contributing to the establishment and strengthening of governance structures and service delivery systems.

Part B: Management Profile

Ref	Directors	Details
1	**Okash Abdullahi Adan**  **Chief Executive Officer**	Mr. Okash Abdullahi Adan is the Secretary to the Mandera County Teaching and Referral Hospital Board and serves as the Accounting Officer for the Mandera County Teaching and Referral Hospital (MCTRH). Prior to his current position, Mr. Okash was the Head of the Efficiency and Monitoring Unit at the County Government of Mandera, a role he has held since September 2021. In this capacity, he was responsible for overseeing the implementation of county projects and ensuring that they met established efficiency standards. He also served as the first County Secretary of Mandera County, a position he held until August 2016. During his tenure, he was actively involved in the administrative functions of the county government, contributing to the establishment and strengthening of governance structures and service delivery systems.
2	**Mr. Hassan Aliow Guyow**  **Hospital Administrator**	Mr. Hassan Aliow Guyow serves as an Assistant Director of Hospital Administration at the Mandera County Teaching and Referral Hospital (MCTRH). He holds a Master of Science degree in Health Systems Management.

Ref	Directors	Details
3	**CPA Ali Issack Mohamed**  Head Of Finance and Revenue Service	CPA Ali Issack Mohamed holds a Bachelor's degree in Business Management (Banking and Finance option). He began his career with the Town Council of Mandera as a Finance Officer, a role that later transitioned into the County Government of Mandera. Over the years, he has served in several key departments, including Finance and Economic Planning (Treasury), Health Services, and the Ministry of Education. Currently, CPA Ali contributes his financial expertise to the Mandera County Teaching and Referral Hospital (MCTRH), where he plays a vital role in enhancing financial management and improving service delivery in the health sector.
4.	**CPSP Mohamednur Mohamed Dahir**  **Head of Supply Chain**	CPSP Mohamednur Mohamed Dahir holds a Bachelor's degree in Business Management with a specialization in Supply Chain Management. Over the years, he has served in several key departments, including the Department of Water, Public Works and Roads, Public Service, and the Ministry of Health Services. Currently, CPSP Dahir contributes his extensive supply chain management expertise to the Mandera County Teaching and Referral Hospital (MCTRH), where he supports efficient procurement processes and enhances service delivery in the health sector.

Part C: Governance arrangements

Commitment to good corporate governance is fundamental in ensuring sustainable stakeholder value and meeting their expectations. Our structures, procedures, and processes are anchored on accountability, transparency, responsibility, and fairness — the

tenets of good corporate governance. Through the Management, Mandera County Referral Hospital remains steadfast in complying with statutory requirements and the Code of Governance for State Corporations (Mwongozo Code, 2015), among others.

Role of the Chairman

The Chairman is responsible for the strategic leadership of the Board and is pivotal in creating conditions for overall effectiveness of management. He promotes an open environment for debate and ensures all members are able to speak freely and contribute effectively. The Chairman ensures that the management plays a full and constructive role in the development and determination of the Hospital's strategies and policies. He also ensures that Board meetings are held as and when necessary, and that members are supplied with accurate, timely, and sufficient information to enable them to discharge their duties effectively.

Roles and Responsibilities of the Board

1. Planning and monitoring clinical and preventive services.
2. Providing oversight in financial reporting to the County Government and ensuring communication to stakeholders.
3. Safeguarding hospital assets by instituting appropriate internal control systems.
4. Ensuring the hospital complies with all relevant laws and regulations.
5. Approving the annual budget of the hospital.
6. Monitoring hospital performance and ensuring sustainability.
7. Ensuring availability of adequate resources for the achievement of hospital objectives.

Accountability and Audit

The Management prepares annual financial statements that reflect a true and fair view of the hospital's financial position as at the end of each fiscal year. The Management ensures that suitable accounting policies supported by reasonable and prudent judgments and estimates are consistently applied. It also ensures that financial statements for each financial year are duly audited.

During the year, the Management ensured that the hospital maintained proper, reasonable, and accurate accounting records showing and explaining the transactions and financial position of the hospital in compliance with the Public Finance Management Act No. 18 of 2012 and the prescribed accounting standards.

The hospital's financial statements are audited by the Office of the Auditor-General, an independent office whose roles and responsibilities are defined under the Constitution of Kenya. In furtherance of its duties, Management ensures that processes, structures, and internal controls are maintained and adhered to, supported by internal risk and audit staff to carry out such functions.

6. Financial Performance Overview

1. Revenue

Revenue FY 2025/2026

The Hospital reported total revenue of KShs. 1,137,095,503, representing an increase of KShs. 217,180,157 (23.6%) from KShs.919,915,346 recorded in FY 2024/2025.

Revenue Analysis

The increase in revenue was mainly attributed to:

- Increased transfers from the County Government.
- Improved medical service income resulting from enhanced service delivery and increased patient utilization.

Continued recognition of in-kind contributions from the County Government.

Revenue by Nature

Revenue Source	FY 2025/26 (KShs.)	% of Total Revenue
In-kind contributions	571,867,577	50.30%
Transfers from County Government	398,440,000	35.00%
Medical Service Income	166,787,926	14.70%
Total Revenue	**1,137,095,503**	**100%**

The Hospital remains highly dependent on County Government support, with approximately 85% of total revenue comprising County transfers and in-kind contributions.

2. Expenditure

Expenditure FY 2025/2026

Total expenditure amounted to KShs. 1,077,321,668, compared to KShs. 819,521,038 in FY 2024/2025, representing an increase of KShs. 257,800,630 (31.5%).

Expenditure Analysis

The increase in expenditure was mainly due to:

- Increased employee costs.
- Significant increase in repairs and maintenance expenditure.
- Higher medical and general operating costs associated with expanded healthcare services.

Despite the increase in expenditure, the Hospital generated a surplus of KShs.59,773,835.

Expenditure by Nature

Expense	FY 2025/26 (KShs.)	% of Total Expenses
Employee Costs	664,424,481	61.70%
Medical/Clinical Costs	192,490,900	17.90%
General Expenses	115,120,728	10.70%
Repairs and Maintenance	105,109,559	9.80%
Board Expenses	176,000	0.02%
Total	**1,077,321,668**	**100%**

Employee costs remained the largest expenditure item, accounting for approximately 62% of total expenditure.

Expenditure by Function

Hospital expenditure was mainly incurred in:

- Employee compensation
- Provision of medical and clinical services
- Repairs and maintenance of hospital infrastructure and medical equipment
- General administration and operational support
- Governance through Board of Management activities

3. Revenue and Expenditure per Budget Estimates

Revenue Variance Explanation

Actual receipts of KShs.493,494,045 were below the final budget of KShs.560,198,564 by KShs.66,704,519, representing 88% realisation of budgeted receipts. The shortfall arose mainly from:

- Transfers from the County Government of KShs.398,440,000 against a final budget of KShs.450,185,789 (89% realisation), owing to exchequer releases falling below the approved allocation.
- Medical service income received in cash of KShs.95,041,270 against a final budget of KShs.110,000,000 (86% realisation), attributable to delayed settlement of Social Health Authority claims.
- The only adjustment to the approved budget during the year was the carryover of KShs.12,775 from the previous financial year.
- Expenditure Variance Explanation
- Actual payments of KShs.493,488,818 were below the final budget of KShs.560,198,564 by KShs.66,709,746, representing 88% budget absorption. The material variances were:
- General expenses absorbed KShs.105,995,773 against a final budget of KShs.146,791,836 (72%), the underspend arising from supplier invoices unsettled at year end.

- Board of Management expenses absorbed KShs.176,000 against a final budget of KShs.500,000 (35%), owing to fewer Board sittings held during the year.
- Medical and clinical costs, employee costs and repairs and maintenance each absorbed 94% of their respective final budgets.
- No capital expenditure was budgeted for or incurred during the year.

Overall budget performance of 88% on both receipts and payments reflects the constrained exchequer position and the delay in settlement of Social Health Authority claims.

4. Assets of the Entity

Total assets increased from KShs.177.3 million to KShs.242.3 million, representing an increase of approximately 36.7%.

The increase was mainly due to:

Growth in receivables from exchange transactions from KShs.47.2 million to KShs.118.9 million, reflecting Social Health Authority claims unsettled at the reporting date.

Although inventory reduced slightly, it remained substantial at KShs.123.4 million, indicating adequate stock levels for hospital operations.

5. Liabilities of the Entity

Total liabilities increased from KShs.53.9 million to KShs.59.2 million, representing an increase of approximately 9.8%.

The liabilities comprised trade and other payables arising from operational activities, including amounts brought forward from the previous financial year which remained unsettled at the reporting date.

Although total current assets exceeded total current liabilities at year end, the Hospital's liquidity position remained constrained. Of total current assets of KShs.242.3 million, only KShs.5,227 was held in cash and KShs.118.9 million represented unsettled Social Health Authority claims.

6. **Multi-Year Operational and Financial Performance (2024–2026)**

Operational Performance

The Hospital continued expanding healthcare services while improving revenue generation through increased patient services and enhanced County Government support. Operational activities also focused on improving infrastructure through increased repairs and maintenance.

Financial Performance

Revenue Highlights

Year	Revenue (Kshs.)
FY 2023/24	730,149,077
FY 2024/25	919,915,346
FY 2025/26	1,137,095,503

Revenue increased by 23.6%.

Revenue Analysis

The Hospital continues to rely primarily on County Government support while internally generated revenue from medical services also improved significantly.

Expense Analysis

Expenses increased by 31.5%, largely driven by employee costs, medical supplies, and maintenance.

Performance Metrics

Indicator	FY 2025/26
Revenue Growth	23.60%
Expenditure Growth	31.50%
Surplus Margin	5.30%
Current Ratio	4.10 : 1
Employee Costs as % of Expenses	61.70%

The Hospital reported a surplus for the year, but its financial position remains dependent on County Government support and on the timely settlement of Social Health Authority claims.

Balance Sheet Summary

Item	FY 2025/26
Total Assets	242.3 million
Total Liabilities	59.2 million
Net Assets	183.2 million

Net assets increased by approximately 48.4%.

7. **Key Projects and Investment Decisions**

During the year, the Hospital continued investing in:

- Repairs and maintenance of hospital infrastructure.
- Improvement of medical equipment and facilities.
- Procurement of medical supplies.
- Strengthening healthcare service delivery.
- Continued implementation of County-funded healthcare programmes.

8. **Risk Analysis and Statutory Compliance**

Major Risks

The Hospital continues to face several operational risks including:

- Delays in reimbursement from Social Health Authority (SHA) and other health insurance schemes.
- Rising healthcare operational costs.
- Aging medical infrastructure.
- Delayed settlement of receivables.

Management continued implementing the Public Finance Management Act, IPSAS Accrual standards, Public Procurement and Asset Disposal Act, and other applicable health sector laws and regulations.

9. **Economic and Sector Outlook**
Review of the Economy

The Kenyan economy continued experiencing moderate growth despite inflationary pressures, increasing healthcare demand, and fiscal constraints affecting public sector financing.

Review of the Health Sector
The health sector continued prioritizing:

- Universal Health Coverage (UHC)
- Strengthening referral healthcare services
- Expansion of Social Health Authority (SHA)
- Improved access to quality healthcare
- Digital transformation of health services
- Future Developments

The Hospital intends to:

- Increase internally generated revenue.
- Improve collection of medical service income.
- Modernize medical equipment.
- Strengthen financial sustainability.
- Improve patient care and service quality.
- Continue expanding specialised healthcare services.

7. Statement of Performance Against Predetermined Objectives

Mandera County Teaching and Referral Level 5 Hospital has two strategic pillars/themes/issues and objectives within the current Strategic Plan for the FY 2022/2023 – FY 2027/2028. These strategic pillars/themes/issues are as follows:

1. Excellence in Clinical Outcomes
2. Digital Transformation Roadmap

MCTRH develops its annual work plans based on the above two pillars/themes/issues. Assessment of the Board's performance against its annual work plan is conducted on a quarterly basis. MCTRH achieved its performance targets set for the **FY 2025/2026** period for its two strategic pillars, as indicated in the diagram below.

Strategic Pillar/Theme/Issues	Objective	Key Performance Indicators	Activities	Achievements
Pillar/ theme/ issue 1: Excellence in clinical outcomes.	Access to quality health care	Commitment of patient care.	Efficient, high quality healthcare system that is accessible, equitable and affordable for every Kenyan in Mandera County.	Improved quality health care
Pillar/ theme/ issue 2:Digital transformation roadmap.	Enhanced patient Experience and satisfaction	Enhance to service delivery.	Seamlessly connecting all information systems to enable care givers provide consistent patient experience.	Enable timely operational and clinical decision making and create process efficiencies.

1) Excellence in clinical outcome

Mandera County Teaching and Referral Level 5 Hospital needs to deliver a better overall patient care by aligning processes, reducing timelines and making excellence in clinical out from visit to exit a fast and efficient system. To achieve this goal, the hospital will focus on the following objectives:

- Achieve operational excellence through process reengineering and policies
- Reduce waiting times through automation
- Review and institutionalize robust quality assurance processes
- Maintain excellent outcomes of treatment to reduce morbidity and mortality

2) Digital transformation roadmap

Mandera County Teaching and Referral Level 5 Hospital has developed digital transformation aimed at enhancing health delivery to the overall strategic objectives of the organization. To achieve this goal, the hospital will focus on the following objectives:

- Enhanced patient experience and satisfaction through digitization of the patient touch points.
- Data driven decision making by providing insight into data. This is to enable timely operational and clinical decision making and create process efficiencies.

Seamlessly connecting all information systems to enable care givers provide consistent patient experiences, further enhancing productivity of our clinical staff

8.Environmental And Sustainability Reporting

Mandera County Teaching and Referral Level 5 Hospital exists to transform lives. It's what guides us to deliver our strategy, putting the client/Citizen first, delivering health services, and improving operational excellence. Below is an outline of the organisation's policies and activities that promote sustainability.

Sustainability strategy and profile

Sustainability report continues to reflect the hospital's performance as well as the hospital strategy and vision for the future. As a regional and referral hospital, we recognize that we must conduct our operations in a manner that considers the environmental and social impact to ensure the success and longevity of the business. We are committed to being transparent, candid and open about our business and this report is a reflection of that commitment. At MCTRH, we have a pragmatic approach to sustainability. We focus on identifying and putting into practice initiatives and programs that deliver real world and lasting benefits under the three areas of our sustainability activities. These areas include; maintaining a sustainable supply chain, minimizing our environmental footprint and caring for our people

i) Environmental performance

In our offices and clinical areas, we continue to encourage employees to help reduce energy consumption by switching of their computers and lights at the end of the day, adopting energy efficient technologies and reduce our total product waste. In packaging of medicine, we are using environmentally friendly bags. In medical waste, we are also using bags which are clearly marked for clinical waste, bottles and left over foods. Staff s are also provided with personal protective equipment.

ii) Employee welfare

We invest in providing the best working environment for our employees. Recognition and appreciation of our employees is a core part of this. Our employee Reward and Sanctions policy allows all employees to recognise their teammates for demonstrating one or more of our corporate value behaviours with a recognition letter. Directors and Head of units are also given to reward those employees who consistently go above and beyond what is required in their roles.

MCTRH promotes a healthy lifestyle and provides all employees with health cover at the hospital with their dependants with no limits which provide free annual health screening that helps to identify any problems early on. Employees are encouraged and supported to continually build on their skills and knowledge.

The hospital invests heavily in learning and development program for employees. These include courses on leadership, management and technical competencies relevant to each employee. We also offer a tuition program for employees seeking to further educate or advance themselves through formal programs relating to their current or prospective jobs. We also have a policy on disability mainstreaming and a recruitment policy where at least a third is not of more than one gender or one regional representation. The hospital has also allowed staff to join unions for collective bargaining agreements.

iii) Corporate Social Responsibility / Community Engagements

MCTRH seeks to impact people's lives through its Corporate Social Responsibility (CSR) initiatives. These initiatives are aimed at improving lives and enhancing engagement with the public. Central to this philosophy is the commitment to enhance the quality of life of people from marginalised and vulnerable communities, by empowering them and catalysing change through creating awareness on diseases and available interventions. Our CSR initiatives are guided by three core principles: transparency, accountability and sustainability.

Climate change and energy transition: The Hospital recognises that its reliance on diesel-powered generators, which accounted for a significant portion of the fuel and lubricants cost of KShs.23,760,000 incurred during the year, contributes to greenhouse gas emissions. In response to the matter raised by the external auditor, Management has initiated an energy assessment of the facility and has included a provision for solar installation and energy-efficiency measures in the FY 2026/2027 budget proposal submitted to the County Department of Health.

9. Report of The Board of Management

The Board members submit their report together with the Audited Financial Statements for the year ended June 30, 2026, which show the state of the hospital's affairs.

Principal activities

The principal activities of MCTRH are to receive patients on referral from other hospitals or institutions within the region for specialized health care;

Results

The results of MCTRH for the year ended 30 June 2026 are set out on page 1.

Board of Management

The members of the Board who served during the year are shown in the Corporate Governance Statement (Part A: Board of Directors profiles).

Auditors

The Auditor General is responsible for the statutory audit of the facility in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 for the year/period ended June 30, 2026.

By Order of the Board

Signature

Name: Okash A. Abdullahi

Secretary to the Board

10. Statement of Board of Management's Responsibilities

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

The Board of Management is responsible for the preparation and presentation of the MCTRH's financial statements, which give a true and fair view of the state of affairs of the MCTRH for and as at the end of the financial year (period) ended on June 30, 2026. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period, (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the MCTRH, (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud, (iv) safeguarding the assets of MCTRH; (v) selecting and applying appropriate accounting policies, and (vi) making accounting estimates that are reasonable in the circumstances.

The Board of Management accepts responsibility for the MCTRH's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012. The Board members are of the opinion that the MCTRH's financial statements give a true and fair view of the state of MCTRH's transactions during the financial year ended June 30, 2026, and of the MCTRH's financial position as at that date. The Board members further confirm the completeness of the accounting records maintained for MCTRH, which have been relied upon in the preparation of the MCTRH's financial statements as well as the adequacy of the systems of internal financial control.

In assessing the Hospital's ability to continue as a going concern, the Board of Management has considered that the Hospital held cash of Kshs.5,227 at 30 June 2026 against unsettled Social Health Authority claims of Kshs.118,948,979 and trade and other payables of Kshs.59,157,143, which include amounts brought forward from the previous financial year. The Board has taken account of the Hospital's continued dependence on County transfers and in-kind support and of the measures being taken to accelerate settlement of Social Health Authority claims. Nothing has come to the Board's attention to indicate that MCTRH will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Hospital's financial statements were approved by the Board on 11/09/2026 and signed on its behalf by:

.....	.....
Name: Mrs. Ubah Abdi Ibrahim	**Name: Okash A. Abdullahi**
Chairperson **Board of Management**	**Accounting Officer (CEO)**

REPUBLIC OF KENYA

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REPUBLIC OF KENYA
OFFICE OF THE AUDITOR-GENERAL
Enhancing Accountability

HEADQUARTERS
Anniversary Towers
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P.O Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON MANDERA COUNTY TEACHING AND REFERRAL LEVEL 5 HOSPITAL FOR THE YEAR ENDED 30 JUNE, 2026 - COUNTY GOVERNMENT OF MANDERA

PREAMBLE

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

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

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

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

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

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, Cap.412A, and the Public Audit Act, Cap.412B. The three parts of the report when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Mandera County Teaching and Referral Hospital – County Government of Mandera set out on pages 1 to 46,

which comprise of the statement of financial position as at 30 June, 2026 and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, Cap.412B. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Mandera County Teaching and Referral Hospital as at 30 June, 2026 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the County Government Act, Cap.265, the Health Act, Cap.241 and the Public Finance Management Act, Cap.412A.

Basis for Qualified Opinion

Undisclosed Property, Plant and Equipment Balance

The statement of financial position reflects nil balance on property, plant and equipment. However, review of the asset register and a physical inspection carried out in August, 2026 confirmed the existence of various assets, including land, buildings, medical equipment, furniture and computers which were not disclosed in the financial statements, contrary to Paragraph 27 of IPSAS 1 on fair presentation. In addition, the asset register maintained lacked key details including acquisition date, cost, valuation and net book values.

Further, major repairs on buildings, motor vehicles and acquisition of other assets all totalling Kshs.104,438,032 were not capitalized as there was no disclosure of the non-current assets.

In addition, ownership documents for land and logbooks for motor vehicles were not provided for audit verification.

In the circumstances, the accuracy and completeness of the property, plant and equipment balance as at 30 June, 2026 could not be confirmed.

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

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.560,198,564 and Kshs.493,494,045 respectively resulting in under-funding of Kshs.66,704,519 or 12% of the budget.

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

My opinion is not modified in respect to this matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the effects of the matter described in the Basis for Qualified Opinion, I have determined that there are no other key audit matters to communicate in my report.

Other Matters

1. Unresolved Prior Year Matters

In the previous year's audit report, several issues were raised under the Report on Financial Statements, Lawfulness and Effectiveness in Use of Public Resources, and Effectiveness of Internal Controls, Risk Management and Governance. Review of the status during the audit of the Hospital in 2025/2026 revealed that the following six matters remained unresolved:

No.	Financial Year	Audit Issue
1	2024/2025	Unconfirmed Property, Plant and Equipment Balance
2	2024/2025	Deficiencies in Implementation of Universal Health Coverage
3	2024/2025	Non-Compliance with Hospital Board Composition Requirements
4	2024/2025	Expired Medical Items and Lack of Risk Management Policy
5	2024/2025	Lack of Disaster Recovery Plan
6	2024/2025	Lack of Information Technology (IT) Plan

2. Unsettled Social Health Authority Claims

The statement of financial position reflects receivables from exchange transactions balance of Kshs.118,948,979, in respect of unpaid Social Health Authority (SHA) claims as disclosed in Note 15 to the financial statements. However, the Authority failed to settle the claims, contrary to Section 36(1) of the Social Health Insurance Act, 2023, which provides that the Authority shall make settlement of claim payable to

a contracted healthcare provider or healthcare facility upon submission of a claim by the Claims Management Office.

The delays in settling these approved claims have adversely affected the Hospital's operations and cash flow management.

Other Information

Management is responsible for the Other Information set out on pages iv to xxx which comprise of Who We Are, Chairman's Statement, Report of the Chief Executive Officer, Corporate Governance Statement, Financial Performance Overview, Statement of Performance Against Predetermined Objectives, Environmental and Sustainability Reporting, Report of the Board of Management and Statement of Board of Management's Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

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

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Non-Compliance with Kenya Quality Model for Health Standards

Review of Hospital records, interviews with Management and a physical inspection carried out in August, 2026 revealed that the Hospital did not meet the staffing, infrastructure and equipment standards prescribed under the Kenya Quality Model for Health (KQMH) for Level 5 Hospitals, 2018. The Hospital had one hundred and fifty-two (152) staff in post against a prescribed establishment of three hundred and twenty-three (323), resulting in an overall shortfall of one hundred and seventy-one

(171) personnel, with deficits noted in medical officers twenty-two (22), anesthesiologists seven (7), gynecologists two (2), pediatricians two (2), radiologists two (2) and Kenya Registered Community Health Nurses, one hundred and thirty-six (136). The Hospital also lacked other specialist cadres including a nephrologist.

Shortfalls were further noted in infrastructure and equipment including beds, one hundred and eighty (180), newborn unit incubators, two (2), newborn unit cots, eight (8), functional intensive care unit beds, six (6), high dependency unit beds, six (6) and functional operational theatres, four (4).

These deficiencies contravene the First Schedule of the Health Act, Cap.241 and imply that the highest attainable standard of health, which includes the right to health care services as required by Article 43(1) of the Constitution of Kenya, 2010, may not be achieved.

In the circumstances, the Hospital may not be able to deliver on its mandate.

2. Failure to Implement Electronic Government Procurement System

During the year under review, Management acquired goods, works and services amounting to Kshs.381,653,704. However, the Hospital had not implemented the Electronic Government Procurement System (E-GPS) and the goods, works and services were procured through the manual system. This was contrary to the Office of the President Executive Order Ref: OP/CAB.6/2A dated 5 June, 2025 and the National Treasury Circular Ref: NT/PPD/1/3/14 Vol. VI dated 26 March, 2025 which require all procuring entities to transact through the E-GPS.

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

3. Non-Deduction of Public Procurement Capacity Building Levy

During the year under review, the Hospital made payments amounting to Kshs.381,653,704 in respect of procurement contracts entered into with suppliers and contractors. However, the public procurement capacity building levy of 0.03% of the contract sum was not deducted and remitted. This was contrary to the Public Procurement Capacity Building Levy Order, 2023 (Legal Notice No. 206 of 2023) which requires a procuring entity to deduct and remit the levy on every procurement contract.

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

4. Non-Compliance with Hospital Board Composition Requirements

During the year under review, the Hospital had an established Board of Management. However, the Board's composition lacked a representative of persons with disabilities. This was contrary to Section 12(2)(c)(ii) of the Mandera County Health Services Improvement Financing Act, 2024, which requires the County Executive Committee Member for Health to appoint one person representing youth and persons with disabilities to the Hospital Management Board.

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

5. Expired Medical Items

A physical inspection carried out at the Hospital stores in July, 2026 revealed that the Hospital was holding assorted expired medical items with a total carrying value of Kshs.154,345, comprising pharmaceuticals, injectables, test kits and reagents and other medical consumables. This was contrary to Section 162(3) of the Public Procurement and Asset Disposal Act, Cap.412(C) which requires an accounting officer to ensure that stores are not held beyond their useful life.

In the circumstances, the expired medical items represent an ineffective use of public resources which would have been avoided if proper controls were put in place.

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standards require that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements comply in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, Cap. 412B, based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Ineffective Internal Audit Function

During the year under review, the Hospital had an Internal Audit Unit in place. However, the unit did not undertake any audit reviews of the Hospital's operations during the year. This was contrary to Section 155(1)(a) of the Public Finance Management Act, Cap.412 A which provides that a County Government entity shall ensure that it puts appropriate arrangements for conducting internal audit according to the guidelines issued by the Public Sector Accounting Standards Board.

In the circumstances, the effectiveness of checks and balances in the Hospital could not be confirmed.

2. Lack of Audit Committee

The Hospital did not have an Audit Committee. This was contrary to Regulation 167 of the Public Finance Management (County Governments) Regulations, 2015 which provides that each County Government entity shall establish an audit committee.

In the circumstances, the effectiveness of checks and balances in the Hospital could not be confirmed.

3. Lack of Key Management Policies

The Hospital had not put in place key policies like Human Resource Policy Manual, Credit Management Policy, Finance Manual, Risk Management Policy, and Business Continuity Plan during the year under review.

Lack of key policies and manuals may result to the Hospital deviating from its goals and overall strategic objectives which may affect overall governance of the Hospital.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, risk Management and overall governance were operating effectively in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and the Board of Management

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

In preparing the financial statements, Management is responsible for assessing the Hospital's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, Cap.412B.

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

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

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, Cap.412B and the International Standards of Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, Cap.412B. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way. In addition, I consider the entity's control environment in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, Cap.412B.

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

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

FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

25 September, 2026

12. Statement of Financial Performance for The Year Ended 30 June 2026

Description	Note	2025-2026	2024-2025
		Kshs	Kshs
Revenue from non-exchange transactions			
Transfers from the County Government	6	398,440,000	21,800,000
Transfers From Other Government Entities		-	-
In- kind contributions from the County	7	571,867,577	793,839,299
Revenue from exchange transactions			
Rendering of services- Medical Service Income	8	166,787,926	104,276,047
Total revenue		**1,137,095,503**	**919,915,346**
Expenses			
Medical/Clinical costs	9	192,490,900	125,930,525
Employee Costs	10	664,424,481	586,760,466
Board of Management Expenses	11	176,000	460,000
Repairs and maintenance	12	105,109,559	23,915,979
General expenses	13	115,120,728	82,454,068
Transfer to CRF		-	-
Total expenses		**1,077,321,668**	**819,521,038**
Other gains/(losses)			
Gain/Loss on disposal of non-Current assets		-	-
Total other gains/(losses)		-	-
Net Surplus / (Deficit) for the year		**59,773,835**	**100,394,308**

The Hospital's financial statements were approved by the Board on 11/09/2026 and signed on its behalf by:

.....	.....	.....
Name: Mrs. Ubah Abdi Ibrahim	**Name: Okash A. Abdullahi**	**Name: Ali Issack Mohamed**
Chairman	**Chief Executive Officer**	**Head of Finance**
Board of Management		**ICPAK No: 15737**
Date 11/09/2026	**Date** 11/09/2026	**Date** 11/09/2026

13. Statement of Financial Position As At 30th June 2026

Description	Note	2025-2026	2024-2025
		Kshs	Kshs
Assets			
Current assets			
Cash and cash equivalents	14	5,227	12,775
Receivables from exchange transactions	15	118,948,979	47,202,323
Inventories	16	123,363,525	130,047,832
Total Current Assets		**242,317,731**	**177,262,930**
Non-current assets			
Property, plant, and equipment		-	-
Total Non-current Assets		-	-
Total assets (A)		**242,317,731**	**177,262,930**
Liabilities			
Current liabilities			
Trade and other payables	17	59,157,143	53,876,177
Total Current Liabilities		**59,157,143**	**53,876,177**
Non-current liabilities			
Social Benefits		-	-
Total non-current liabilities		-	-
Total Liabilities (B)		**59,157,143**	**53,876,177**
Net assets (A-B)		**183,160,588**	**123,386,753**
Represented by:			
Accumulated surplus/Deficit		183,160,588	123,386,753
Net Assets		**183,160,588**	**123,386,753**

The Hospital's financial statements were approved by the Board on 11/09/2026 and signed on its behalf by:

.....	.....	.....
Name: Mrs. Ubah Abdi Ibrahim	**Name: Okash A. Abdullahi**	**Name: Ali Issack Mohamed**
Chairman	**Chief Executive Officer**	**Head of Finance**
Board of Management		**ICPAK No: 15737**
Date 11/09/2026	**Date** 11/09/2026	**Date** 11/09/2026

14. Statement of Changes in Net Assets for The Year Ended 30 June 2026

Description	Accumulated surplus/Deficit	Total
As at 1 July 2024 (previous year)	615	615
Adjust for inventory	22,991,830	22,991,830
Surplus for the year	100,394,308	100,394,308
As at 30 June 2025	**123,386,753**	**123,386,753**
As at 1 July 2025	**123,386,753**	**123,386,753**
Surplus for the year	59,773,835	59,773,835
At June 30, 2026 (current year)	**183,160,588**	**183,160,588**

15. Statement of Cash Flows for The Year Ended 30 June 2026

Description	Note	2025/26	2024/25
		Kshs	Kshs
Cash flows from operating activities			
Receipts			
Transfers from the County Government		398,440,000	21,800,000
Rendering of services- Medical Service Income		95,041,270	104,276,047
Adjust for -Increase in receivable		-	(40,715,481)
Total Receipts		**493,481,270**	**85,360,566**
Payments			
Medical/Clinical costs		180,751,252	125,930,525
Employee costs		96,820,625	586,760,466
Board of Management Expenses		176,000	460,000
Repairs and maintenance		109,745,168	23,915,979
General expenses		105,995,773	82,454,068
Adjust for :			
-Non cash-In kind Inventory Drugs used during the year		-	-110,537,918
-Non Cash-In Kind Salary		-	-576,245,379
-Increase in payable -Medical		-	-7,001,797
-Increase in payable -Salary		-	-4,263,720
-Increase in payable-Repair		-	(5,638,779)
-Increase in payable-General Expense		-	-7,493,209
-non-cash opening inventory carried forward but it was not a cash asset			**(22,991,830)**
Total Payments		**493,488,818**	**85,348,406**
Net cash flows from operating activities		**(7,548)**	**12,160**
Cash flows from investing activities			
Purchase of property, plant, equipment		-	-
Net cash flows used in investing activities		**-**	**-**
Cash flows from financing activities			
Proceeds from borrowings		-	-
Net cash flows used in financing activities		**-**	**-**
Net increase/(decrease) in cash and cash equivalents		**(7,548)**	**12,160**
Cash and cash equivalents as at 1 July	14	12,775	615
Cash and cash equivalents as at 30 June		**5,227**	**12,775**

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

16. Statement of Comparison of Budget and Actual Amounts for Year Ended 30 June 2026

Description	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% of utilisation
	a	B	c=(a+b)	d	e=(c-d)	f=d/c%
	Kshs	Kshs	Kshs	Kshs	Kshs	
Budget carryovers from the previous year	-	12,775	12,775	12,775	-	**100%**
Receipts			-			
Transfers from the County Government	450,185,789		450,185,789	398,440,000	51,745,789	89%
Transfers from other Government entities	-	-	-	-	-	
Rendering of services- Medical Service Income	110,000,000	-	110,000,000	95,041,270	14,958,730	86%
Total Receipts	**560,185,789**	**12,775**	**560,198,564**	**493,494,045**	**66,704,519**	88%
Payments						
Medical/Clinical costs	192,808,390	-	192,808,390	180,751,252	12,057,138	94%
Employee costs	103,350,000	-	103,350,000	96,820,625	6,529,375	94%
Board of Management Expenses	500,000	-	500,000	176,000	324,000	35%
Repairs and maintenance	116,748,338	-	116,748,338	109,745,168	7,003,170	94%
General expenses	146,779,061	**12,775**	146,791,836	105,995,773	40,796,063	72%
Total Payments	**560,185,789**	**12,775**	**560,198,564**	**493,488,818**	**66,709,746**	88%
Capital project	-	-	-	-	-	
Surplus/Deficit				**5,227**	**(5,227)**	

Budget Reconciliation

	Description of Particulars	Amount in Kshs
	Actual Surplus Amounts as per the statement of Budget	**5,227**
	Closing Cash and Cash Equivalent as per the statement of Cash flows	**5,227**

17. Notes to the Financial Statements

1. General Information

Mandera County Teaching and Referral Hospital is a level 5 health facility established by the County Government of Mandera in fulfilment of its constitutional mandate pursuant to the fourth schedule of the Constitution of Kenya 2010. The facility is wholly owned by the County Government of Mandera and its principal activity is provision of county health services.

2. Statement of Compliance and Basis of Preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The financial statements have been prepared and presented in Kenya Shillings, the Entity's functional and reporting currency. *The* financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, and International Public Sector Accounting Standards (IPSAS). The adopted accounting policies have been consistently applied to all years presented.

a) Basis of measurement

Under the historical cost basis, assets are recorded at the amount of cash or cash equivalents paid, or the fair value of the consideration given to acquire them at the time of acquisition, plus directly attributable transaction costs. Liabilities are recorded at the amount of consideration received to assume the obligation, less transaction costs incurred when the liability was assumed.

For those assets and liabilities measured at fair value, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring the fair value of an asset or a liability, the Entity uses market-to-observable data to the extent possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the Entity using valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs (e.g., by use of the market comparable approach that reflects recent transaction prices for similar items, or discounted cash flow analysis). Inputs used are consistent with the characteristics of the asset or liability that market participants would take into account.

Fair values are categorized into three levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety:

- **Level 1** fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities that the Entity can access at the measurement date.
- **Level 2** fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- **Level 3** fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).
- The Entity's accounting policy is to recognize transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred. This policy is consistently applied to transfers into and out of each level.

b) Use of Estimates

The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgment in the process of applying the Entity's accounting policies. The areas involving a higher degree of judgment or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 5 of these financial statements.

3. Adoption of New and Revised Standards

i. New and amended standards and interpretations in issue effective in the year ended 30 June 2026

Standard	Effective date and impact:
IPSAS 43	***Applicable 1st January 2025*** The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cashflows of an Entity. The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities.
IPSAS 44: Non- Current Assets Held for Sale and Discontinued Operations	***Applicable 1st January 2025*** The Standard requires, Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and: Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.
IPSAS 45- Property Plant and Equipment	***Applicable 1st January 2025*** The standard supersedes IPSAS 17 on Property, Plant and Equipment. IPSAS 45 has additional guidance/ new guidance for heritage assets, infrastructure assets and measurement. Heritage assets were previously excluded from the scope of IPSAS 17 in IPSAS 45, heritage assets that satisfy the definition of PPE shall be recognised as assets if they meet the criteria in the standard. IPSAS 45 has an additional application guidance for

Standard	Effective date and impact:
	infrastructure assets, implementation guidance and illustrative examples. The standard has clarified existing principles e.g valuation of land over or under the infrastructure assets, under- maintenance of assets and distinguishing significant parts of infrastructure assets.
IPSAS 46 Measurement	***Applicable 1st January 2025*** The objective of this standard was to improve measurement guidance across IPSAS by: i. Providing further detailed guidance on the implementation of commonly used measurement bases and the circumstances under which they should be used. ii. Clarifying transaction costs guidance to enhance consistency across IPSAS; iii. Amending where appropriate guidance across IPSAS related to measurement at recognition, subsequent measurement and measurement related disclosures. The standard also introduces a public sector specific measurement bases called the current operational value.

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2026.

IPSAS 47- Revenue	***Applicable 1st January 2026*** This standard supersedes IPSAS 9- Revenue from exchange transactions, IPSAS 11 Construction contracts and IPSAS 23 Revenue from non-exchange transactions. This standard brings all the guidance of accounting for revenue under one standard. The objective of the standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flow arising from revenue transactions.

IPSAS 48-Transfer Expenses	***Applicable 1st January 2026*** The objective of the standard is to establish the principles that a transfer provider shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of expenses and cash flow arising from transfer expense transactions. This is a new standard for public sector entities geared to provide guidance to entities that provide transfers on accounting for such transfers.
IPSAS 49-Retirement Benefit Plans	***Applicable 1st January 2026*** The objective is to prescribe the accounting and reporting requirements for the public sector retirement benefit plans which provide retirement to public sector employees and other eligible participants. The standard sets the financial statements that should be presented by a retirement benefit plan.
IPSAS 50: Exploration For & Evaluation of Mineral Resources	***Applicable 1st January 2027*** The objective of this Standard is to specify the financial reporting for the exploration for and evaluation of mineral resources. The Standard requires: i. Limited improvements to existing accounting practices for exploration and evaluation expenditures. ii. Entities that recognize exploration and evaluation assets to assess such assets for impairment in accordance with this Standard and measure any impairment in accordance with IPSAS 26. iii. Disclosures that identify and explain the amounts in the entity's financial statements arising from the exploration for and evaluation of mineral resources and help users of those financial statements understand the amount, timing and certainty of future cash flows from any exploration and evaluation assets recognized.
IPSAS 51: Tangible Natural Resources Held For Conservation	***Applicable 1st January 2028*** The objective of this standard is toestablish the principles that an entity shall apply to report relevant information to users of financial statements about the nature, amounts, timing, and uncertainties arising from tangible natural resources held for conservation. A tangible natural resource held for conservation is a naturally occurring tangible asset that is managed to prevent its degradation.

IPSASB SRS 1: Climate Related Disclosures	***Applicable 1st January 2028*** This standard provides principles for an entity toaddress climate-related risks and opportunities arising from an entity's activities and operations. The standard provides disclosures on governance, strategy, risk management, and metrics and targets.

4. Summary of Significant Accounting Policies

a. Revenue recognition

i) Revenue from non-exchange transactions

Transfers from other Government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the *MCTRH* and can be measured reliably. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, the amount is recorded in the statement of financial position and realised in the statement of financial performance over the useful life of the asset that has been acquired using such funds.

ii) Revenue from exchange transactions

Rendering of services

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

Sale of goods

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

Interest income

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

Rental income

Rental income is accounted for on a straight-line basis over the lease terms and included in revenue.

b. Budget information

The original budget for FY 2025/26 was approved by Board on **30th June, *2025.*** Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by MCTRH upon receiving the respective approvals in order to conclude the final budget. Accordingly, MCTRH recorded additional appropriations on the FY 2025/26 budget following the Board's approval. The MCTRH's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget.

A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget. A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section 16 of these financial statements.

c. Taxes

Sales tax/ Value Added Tax

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

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

Notes to the Financial Statements (Continued)

d. Investment property

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

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

e. Property, plant and equipment

Recognition and Measurement

The Entity's Property, Plant, and Equipment (PPE) are tangible items held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and are expected to be used for more than one reporting period.

An item of PPE is recognized as an asset if, and only if:

- It's **probable** that the future economic benefits or service potential associated with the item will flow to the ministry.
- The cost or fair value of the item can be measured **reliably**.

Items acquired through non-exchange transactions (e.g., donations) are measured at their **deemed cost**, which is the fair value at the date of acquisition. For all other acquisitions, initial measurement is at **cost**, which includes all expenses directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The entity has adopted the **Historical cost model** for the subsequent measurement of its PPE. Under this model, after initial recognition, an asset is carried at its cost less any accumulated depreciation and accumulated impairment losses.

Depreciation and Impairment

The entity applies the straight-line method of depreciation, as it best reflects the pattern of the asset's consumption of its future economic benefits or service potential. Depreciation begins when the asset is available for use and ceases at the earlier of the date the asset is classified as held for sale or the date of derecognition. The depreciable amount is the cost of the asset less its residual value. The residual value and the useful life of an asset are reviewed at least at each annual reporting date. The table below indicates the various classes of assets and the depreciation rates.

PPE Item	**Depreciation Rate**
Land	N/A
Buildings	2-10%
Motor vehicles	16.67%
Infrastructure assets	2-20%
Furniture and fittings	12.5%
Computers & ICT Equipment	33.3%
Work in progress (WIP)	**N/A**
Service concession assets	**N/A**
Others*(Specify)*	**N/A**

Impairment The entity assesses at each reporting date whether there is any indication that an asset may be impaired. If an indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognized immediately in the statement of financial performance.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in statement of financial performance.

f. Leases

Right-of-Use (ROU) Assets

A right-of-use asset represents the entity's right to use an underlying leased asset over the lease term. At the commencement date of a lease, the entity recognises a right-of-use asset and a lease liability, except for short-term leases and leases of low-value assets as allowed under IPSAS 43.

Recognition
The entity recognises a right-of-use asset at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises:

- The amount of the initial lease liability;
- Any lease payments made at or before the commencement date, less any lease incentives received;
- Any initial direct costs incurred; and
- An estimate of the costs to be incurred in dismantling and removing the underlying asset or restoring the site.

Measurement
Right-of-use assets are initially measured at cost. After initial recognition, right-of-use assets are measured using the cost model, where the asset is carried at:Cost less accumulated depreciation, and Any accumulated impairment losses. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

Depreciation of right-of-use assets is charged to expenditure in accordance with the entity's depreciation policy applicable to owned assets of the same class.Right-of-use assets are assessed for impairment in accordance with IPSAS 21 – Impairment of Non-Cash-Generating Assets or IPSAS 26 – Impairment of Cash-Generating Assets, as applicable.

Leases Liability

The lease liability is measured at the present value of lease payments that are not paid at that date. The lease payments have been discounted using the interest rate implicit in the lease, and the rate can be readily determined. If the rate cannot be readily determined, the entity uses the incremental borrowing rate.

Subsequently, the lease liability is measured at amortized cost using the effective interest method and reduced by lease payments. Interest expense is recognized in the statement of financial performance.

g. Tangible Natural Resources

The *Hospital* recognises a tangible natural resource if, and only if: It is probable that service potential associated with the natural resource will flow to the *Hospital;* the

Hospital controls the tangible natural resource as a result of past events; and The tangible natural resource can be measured reliably. Where these criteria are not met, the *Hospital* discloses the tangible natural resource in the notes to the financial statements. Where a tangible natural resource is recognized as an asset as the result of an event that is not a transaction in an orderly market, including non-exchange transactions, the asset shall be measured initially at its deemed cost. A h*ospital* shall apply IPSAS 46, Measurement, when calculating the deemed cost of such a recognized tangible natural resource. A recognized tangible natural resource acquired through an exchange transaction shall be measured at its cost. The historical cost model is applied after initial recognition less any depreciation and impairment losses.

h. Intangible assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred. The useful life of the intangible assets is assessed as either finite or indefinite.

i. Non-Current Assets Held for Sale and Discontinued Operations

Non-current assets or disposal groups are classified as held for sale when their carrying amount is expected to be recovered through sale rather than continued use. They are measured at the lower of carrying amount and fair value less costs to sell and have been presented separately in the Statement of Financial Position. Depreciation has ceased for the assets classified as held for sale.

The assets classified as held for sale have met the following required criteria: management has made a commitment to sell, the asset is actively being marketed for sale at a reasonable price, the sale will be completed within one year of the classification date, an active program to find a buyer has been initiated, and there are no significant changes to the plan that might impact the sale.

Discontinued operations are the major components that have been disposed of or are held for sale. Their results have been presented separately in the Statement of Financial Performance

Notes to the Financial Statements (Continued)

k. Biological Assets

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

l. Research and development costs

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

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

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

m. Financial instruments

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

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

Financial assets

Classification of financial assets

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

Subsequent measurement

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

Amortized cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at fair value

through surplus or deficit, are measured at amortized cost. A gain or loss on an instrument that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is de-recognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

Fair value through net assets/ equity

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

Fair value through surplus or deficit

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

Trade and other receivables

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

Impairment

The entity assesses, on a forward-looking basis, the expected credit loss ('ECL') associated with its financial assets carried at amortized cost and fair value through net assets/equity. The entity recognizes a loss allowance for such losses at each reporting date. Critical estimates and significant judgments made by management in determining the expected credit loss (ECL) are set out in Note 15 and in the credit risk disclosures in Note 18.

Financial liabilities

Classification

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

n. Inventories

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

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

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

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

o. Provisions

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

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

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

Notes to the Financial Statements (Continued)

p. Social Benefits

Social benefits are cash transfers provided to i) specific individuals and / or households that meet the eligibility criteria, ii) mitigate the effects of social risks and iii) Address the need of society as a whole. The entity recognises a social benefit as an expense for the social benefit scheme at the same time that it recognises a liability. The liability for the social benefit scheme is measured at the best estimate of the cost (the social benefit payments) that the entity will incur in fulfilling the present obligations represented by the liability.

q. Contingent liabilities

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

r. Contingent assets

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

s. Nature and purpose of reserves

The Entity creates and maintains reserves in accordance with applicable legislation, accounting standards, and approved financial management policies. The reserves maintained by the Entity include the revaluation reserve, which records the cumulative net gains arising from the revaluation of property, plant and equipment and is adjusted upon disposal or derecognition of the related assets; the capital reserve, which comprises capital grants, donations, and other capital contributions received for the acquisition or development of capital assets and is utilized solely for the intended capital purposes; and the accumulated surplus/(deficit), which represents the cumulative results of the Entity's operations after recognizing all revenues, expenses, gains, and losses. Transfers to and from reserves are

made only in accordance with approved policies and the relevant statutory and governance requirements.

t. Changes in accounting policies and estimates

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

Notes to the Financial Statements (Continued)

u. Employee benefits

Retirement benefit plans

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

v. Foreign currency transactions

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

w. Borrowing costs

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

construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

x. Related parties

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

y. Service concession arrangements

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

z. Cash and cash equivalents

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

aa. Comparative figures

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

Restatement of comparative figures: Comparative figures for the year ended 30 June 2025 have been amended in three respects. Cash and cash equivalents at 30 June 2025 are stated at Kshs.12,775 (previously Kshs.12,774) and the accumulated surplus brought forward at 1 July 2024 at Kshs.615 (previously Kshs.614), being the amounts at which the prior-year statements cast and at which the prior-year cash flow statement closed. The adjustment for the increase in receivables in the comparative cash flow statement is stated at Kshs.40,715,481, being the movement from Kshs.6,486,842 to Kshs.47,202,323. Trade payables in respect of general expenses are stated at Kshs.36,971,881 as previously reported. In addition, the nil balance previously presented separately as transfers from other government entities has been omitted and note numbering has accordingly been re-sequenced; prior-year note references quoted in Appendix I refer to the numbering used in the signed FY 2024/2025 financial statements.

Basis of measurement of expenditure: Expenditure is recognised on the accrual basis, being cash paid during the year plus accruals outstanding at the reporting date less accruals brought forward from the previous year. Trade and other payables of Kshs.59,157,143 at 30 June 2026 comprise amounts incurred during the year together with amounts brought forward from the year ended 30 June 2025 which remained unsettled at the reporting date. Accruals brought forward of Kshs.53,876,177 have been analysed by expense category from the schedule of liabilities for the year ended 30 June 2025 and deducted from the relevant line in Notes 9, 10, 12 and 13. Opening inventory of Kshs.130,047,832 is supported by the stock take carried out as at 1 July 2025. Receivables from exchange transactions of Kshs.118,948,979 represent Social Health Authority claims raised during the year and unsettled at the reporting date; claims of Kshs.47,202,323 outstanding at 1 July 2025 were settled during the year, total receipts from the Authority amounting to Kshs.55,240,404.

bb. Subsequent events

There have been no events subsequent to the financial year end having a significant impact on the financial statements for the year ended 30 June 2026.

5. Significant Judgments and Sources of Estimation Uncertainty

The preparation of the Entity's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates

could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions.

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

Useful lives and residual values

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in the relevant notes to these financial statements. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Notes to Financial Statements Continued

6. Transfers from the County Government

Description	2025-2026	2024-2025
	Kshs	Kshs
Unconditional grants		
Operational grant	398,440,000	21,800,000
Total government grants and subsidies	**398,440,000**	**21,800,000**

7. In Kind Contributions from The County Government

Description	2025-2026	2024-2025
	Kshs	Kshs
Salaries and wages	571,867,577	576,245,379
Medical supplies-Drawings Rights (KEMSA)	-	217,593,920
Total grants in kind	**571,867,577**	**793,839,299**

8. Rendering of Services-Medical Service Income

Description	2025-2026	2024-2025
	Kshs	Kshs
Pharmaceuticals	4,538,500	2,233,645
Laboratory	8,765,420	3,293,006
Edi	4,163,946	6,910,150
Orthopaedic and Trauma Technology	625,800	223,721
Dental services	2,836,950	1,749,223
Clinic	154,630	978,613
Inpatient	9,845,620	1,271,180
Outpatient	3,548,500	2,457,349
Other medical services income	5,321,500	2,010,823
SHA-Medical Service Revenue	126,987,060	83,148,337
Total revenue from the rendering of services	**166,787,926**	**104,276,047**

Notes to the Financial Statements (Continued)

9. Medical/ Clinical Costs

Description	2025-2026	2024-2025
	Kshs	Kshs
Food and Ration	7,588,560	10,417,435
Dressing and Non-Pharmaceuticals	117,012,720	4,875,172
X-ray Radiology Supplies	-	100,000
Other medical related clinical costs	61,205,313	-
Stock Movement in the year	6,684,307	110,537,918
Total medical/ clinical costs	**192,490,900**	**125,930,525**

10. Employee Costs

Description	2025-2026	2024-2025
	Kshs	Kshs
Salaries, wages, and allowances	92,556,904	10,515,087
In kind contribution	571,867,577	576,245,379
Employee costs	**664,424,481**	**586,760,466**

11. Board of Management Expenses

Description	2025-2026	2024-2025
	Kshs	Kshs
Sitting allowance	176,000	460,000
Total	**176,000**	**460,000**

12. Repairs And Maintenance

Description	2025-2026	2024-2025
	Kshs	Kshs
Property- Buildings	48,043,478	9,318,800
Medical equipment	52,159,821	12,997,179
Furniture and fittings	-	700,000
Motor vehicle expenses	4,906,260	900,000
Total repairs and maintenance	**105,109,559**	**23,915,979**

13. General Expenses

Description	2025-2026	2024-2025
	Kshs	Kshs
Advertising and publicity expenses	-	-
Bank charges	30,304	21,230
Electricity expenses	30,569,957	15,295,681
Fuel and Lubricants	17,760,000	20,370,000
Cleaning services	10,951,950	3,603,000
Courier and postal services	140,000	90,000
Printing and stationery	7,902,430	14,038,480
Hire charges	135,000	405,000
Water and sewerage costs	6,450,400	4,117,300
Firewood and Charcoal	399,500	1,000,500
Staff training and development	3,743,610	8,886,370
Supply of assorted items	37,037,577	14,626,507
Total General Expenses	**115,120,728**	**82,454,068**

14. Cash and Cash Equivalents

Description	2025-2026	2024-2025
	Kshs	Kshs
Current accounts	5,227	12,775
Cash in hand	-	-
Total cash and cash equivalents	**5,227**	**12,775**

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

Description		2025-2026	2024-2025
Financial institution	Account number	Kshs	Kshs
a) **Current account**			
Kenya Commercial bank	1149105127	5,227	12,775
National Bank	7717457245	-	-
Grand total		**5,227**	**12,775**

15. Receivables From Exchange Transactions

Description	2025-2026	2024-2025
	Kshs	Kshs
Medical services receivables-SHA	118,948,979	47,202,323
Total receivables	**118,948,979**	**47,202,323**

15 (a). Ageing Analysis of Receivables from Exchange Transactions

Description	2025-2026 Kshs	% of total	2024-2025 Kshs	% of total
Less than 1 year	118,948,979	100.0%	47,202,323	100.0%
Between 1 and 2 years	-	-	-	-
Between 2 and 3 years	-	-	-	-
Over 3 years	-	-	-	-
Total	**118,948,979**	**100.0%**	**47,202,323**	**100.0%**

16. Inventories

Description	2025-2026	2024-2025
	Kshs	Kshs
Pharmaceutical supplies	123,018,747	126,419,632
Food supplies	99,378	2,300,700
General supplies	245,400	1,327,500
Total	**123,363,525**	**130,047,832**

16 (a). Detailed disclosure on inventories

	2025-2026	2024-2025
Opening balance	130,047,832	22,991,830
Additional Inventory in the year	185,806,593	217,593,920
Inventory expensed in the year	(192,490,900)	(110,537,918)
Write-downs and expiries in the year	-	-
Closing balance	**123,363,525**	**130,047,832**

17. Trade and other Payables

Description	2025-2026	2024-2025
	Kshs	Kshs
Trade payables: General Expense	46,096,835	36,971,881
Repair	1,003,170	5,638,779
Medical Equipment	12,057,138	7,001,797
Employee dues	-	4,263,720
Total trade and other payables	**59,157,143**	**53,876,177**

17 (a). Ageing Analysis of Trade and Other Payables

Description	2025-2026 Kshs	% of total	2024-2025 Kshs	% of total
Under one year	59,157,143	100.0%	20,068,976	37.2%
Between 1 and 2 years	-	-	33,807,201	62.8%
Over 2 years	-	-	-	-
Total	**59,157,143**	**100.0%**	**53,876,177**	**100.0%**

Notes to the Financial Statements (Continued)

18. Financial Risk Management

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

(i) Credit risk

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

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

(ii) Liquidity risk management

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

(iii) Market risk

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

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

(a) Foreign currency risk

The MCTRH has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate. The carrying amount of the MCTRH's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period:

The MCTRH manages foreign exchange risk from future commercial transactions and recognised assets and liabilities by projecting expected sales proceeds and matching the same with expected payments.

Foreign currency sensitivity analysis

The Hospital held no monetary assets or liabilities denominated in foreign currency at 30 June 2026 and during the year, and no foreign currency sensitivity analysis is therefore presented.

(b) Interest rate risk

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

Management of interest rate risk

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

Sensitivity analysis

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

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

(iv) Capital risk management

The objective of the MCTRH's capital risk management is to safeguard the Hospital's ability to continue as a going concern.

19. Related Party Balances

Nature of related party relationships

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

Mandera County Government is the principal shareholder of the MCTRH, holding 100% of the MCTRH's equity interest. The MCTRH had no borrowings during the year and none at the reporting date. The related parties include:

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

Transactions with related parties

Description	2025-2026 Kshs	2024-2025 Kshs
Transfers from the County Government (Note 6)	398,440,000	21,800,000
In-kind contributions from the County Government (Note 7)	571,867,577	793,839,299
Total transactions with the County Government	**970,307,577**	**815,639,299**

20. Events after the Reporting Period

There have been no events after the reporting period having a significant impact on these financial statements for the year ended 30 June 2026.

21. Ultimate and Holding Entity

Mandera County Teaching and Referral Level 5 Hospital under Mandera County Health Department. Its ultimate parent is the County Government of Mandera. Other related parties include:

i) The National Government;
ii) Key management;

iii) Board of directors

22. Currency

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

18. Appendices

Appendix I: Progress on Follow Up of Auditor Recommendations

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*	Focal Point person to resolve the issue
1.	**Unconfirmed Property, Plant and Equipment Balance** The statement of financial position reflects nil balance of property, plant and equipment. Review of the asset register and a physical inspection carried out in October, 2025 confirmed the existence of various assets, including land, buildings, medical equipment, furniture and computers. However, Management did not disclose values of	Management acknowledges that property, plant and equipment held by the Hospital have not been recognised in the financial statements. The assets, including land, buildings, motor vehicles and medical equipment, remain under the custody and legal ownership of the County Government of Mandera (Department of Health Services). Management has formally requested the County Government to effect transfer of the assets to the Hospital and to provide a valuation, and has commenced compiling a complete fixed assets register capturing acquisition date, cost, location, identification number and depreciation particulars. The	***Not Resolved***	18th September 2026	Head of Supply Chain / Head of Finance

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*	Focal Point person to resolve the issue
	property, plant and equipment in the financial statements. In addition, the asset register maintained lacked key details including acquisition date, cost, location, registration number, land size, net book values, tag numbers and depreciation rate and amounts. Although the Hospital holds an allotment letter for the land, it has not obtained the formal title deed to confirm legal ownership and therefore the ownership interests are not fully secured. Further, logbooks for motor vehicles were not provided for audit verification.	assets will be recognised once the transfer and valuation are concluded.			

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*	Focal Point person to resolve the issue
	In the circumstances, the accuracy and completeness of property, plant and equipment balance could not be confirmed.				
2.	**Unsettled Social Health Authority Claims** The statement of financial position reflects receivables from exchange transactions balance of Kshs. 47,202,323, as disclosed in Note 16 to the financial statements, in respect of unpaid Social Health Authority (SHA) claims. However, the Authority failed to settle the claims, contrary to Section 36(1) of the Social Health Insurance Act, 2023, which provides that the Authority shall make	Management confirms that all claims are submitted to the Social Health Authority within the prescribed timelines and are reconciled on a monthly basis. Management continues to engage the Authority and the County Department of Health to expedite settlement of the outstanding balance and has escalated the matter through the Council of Governors health committee.	***Partially Resolved***	18th September 2026	Head of Finance and Revenue Service

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*	Focal Point person to resolve the issue
	settlement of claim payments to a contracted healthcare provider or healthcare facility upon submission of a claim by the Claims Management Office. The delays in settling these approved claims have adversely affected the Hospital's operations and cash flow management.				
3.	**Long Outstanding Trade and Other Payables** The statement of financial position and as disclosed in Note 19 to the financial statements reflects trade and other payables balance of Kshs. 53,876,177. Included in the balance is Kshs. 33,807,201 that	Management acknowledges the balance outstanding beyond one year. The delay in settlement arises from exchequer releases falling below the approved allocation. Management has submitted the schedule of outstanding payables to the County Treasury for provision in the FY 2026/2027 budget and will prioritise settlement of the oldest balances as funds are released.	***Partially Resolved***	18th September 2026	Head of Finance and Revenue Service

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*	Focal Point person to resolve the issue
	was outstanding for more than one (1) year. This is contrary to Regulation 41(2) of the Public Finance Management (County Government) Regulations, 2015 which requires that debt service payments shall be a first charge on the County Revenue Fund and the Accounting Officer shall ensure this is done to the extent possible to prevent the County Government from defaulting on its debt obligations.				
4.	**Deficiencies in Implementation of Universal Health Coverage** Review of Hospital records and interviews conducted on	Management acknowledges the gaps identified against the Kenya Quality Model for Health Policy Guidelines. A gap analysis has been completed and a facility improvement plan prepared covering equipment, staffing and	***Not Resolved***	18th September 2026	Medical Superintendent

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*	Focal Point person to resolve the issue
	verification of services offered, equipment used and medical specialists in the Hospital at the time of audit in October, 2025 revealed that the Hospital did not meet the requirements of Kenya Quality Model for Health Policy Guidelines as detailed below:	specialist establishment. Implementation is dependent on funding from the County Department of Health and is being undertaken in phases.			
5.	**Non-Compliance with Climate Change Requirements** The statement of financial performance, as disclosed in Note 14 to the financial statements, reflects general expenses amounting to Kshs.82,454,068. Included in the amount is Kshs.20,370,000 for fuel and lubricants out	Management acknowledges the Hospital's reliance on diesel-powered generators. An energy assessment of the facility has been initiated and a provision for solar installation and energy-efficiency measures has been included in the FY 2026/2027 budget proposal submitted to the County Department of Health. The Hospital has also commenced monitoring of generator running hours to reduce consumption.	***Not Resolved***	18th September 2026	Hospital Administrator

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*	Focal Point person to resolve the issue
	of this, Kshs.14,370,000 relates to fuel for diesel-powered electricity generators. This indicates significant reliance on fossil fuels, which are a major source of greenhouse gas emissions and contribute to environmental pollution and the national carbon footprint. Despite this, review of the Hospital's strategic plan and budget revealed that no measures, plans, or budgetary allocations were made to transition to cleaner energy sources such as solar power or to implement energy efficiency initiatives to reduce reliance on fossil fuels.				

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*	Focal Point person to resolve the issue
	In the circumstances, the continued use of diesel generators releases harmful emissions that may negatively affect air quality within and around the Hospital, posing potential health risks to patients.				

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Name:OkashA.Abdullahi
Accounting Officer

Appendix II: Inter-Entity Confirmation Letter
Name of Transferring Entity: County Government of Mandera
Name of Beneficiary Entity: Mandera County Teaching and Referral Hospital

Confirmation of amounts received by Mandera County Teaching and Referral Hospital as at 30th June 2026					
Reference Number	Date Disbursed	Recurrent (A)	Development (B)	Total(C)=(A+B)	Remarks
A03403001	11.09.2025	97,000,000.00	0.00	97,000,000.00	Received
A03403002	02.11.2025	30,000,000.00	0.00	30,000,000.00	Received
A03403003	02.11.2025	25,000,000.00	0.00	25,000,000.00	Received
A0342008	21.11.2025	20,000,000.00	0.00	20,000,000.00	Received
A03420411	24.12.2025	15,000,000.00	0.00	15,000,000.00	Received
A03403006	30.01.2026	6,340,000.00	0.00	6,340,000.00	Received
A03403005	11.03.2026	16,370,000.00	0.00	16,370,000.00	Received
A03403004	20.05.2026	42,500,000.00	0.00	42,500,000.00	Received
A03403007	29.05.2026	20,000,000.00	0.00	20,000,000.00	Received
A03403009	03.06.2026	12,230,000.00	0.00	12,230,000.00	Received
A03403010	03.06.2026	7,000,000.00	0.00	7,000,000.00	Received
A03403013	26.06.2026	47,000,000.00	0.00	47,000,000.00	Received
A03403015	30.06.2026	60,000,000.00	0.00	60,000,000.00	Received
TOTAL		**398,440,000.00**	**0.00**	**398,440,000.00**	

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

Head of accounts Department- Disbursing Entity: County Treasury
Name: Hassan Abdi: Sign……Date……11/9/2026

Head of Accounts Department-Beneficiary Entity: Mandera County Teaching and Referral Hospital
Name: Ali Issack Mohamed: Sign……Date……11/09/2026