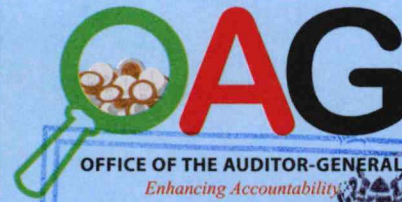


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL
Enhancing Accountability

THE NATIONAL ASSEMBLY
PAPERS LAID

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REPORT

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ON

**REPRODUCTIVE HEALTH - OUTPUT BASED
APPROACH (RH-OBA) PROGRAM – PROJECT
NUMBER BMZ NO. KENYA 2010 65 853)**

**FOR THE YEAR ENDED
30 JUNE, 2025**

MINISTRY OF HEALTH



1947

1948

1949

1950



**PROJECT NAME:
REPRODUCTIVE HEALTH - OUTPUT BASED APPROACH (RH-OBA)**

**IMPLEMENTING ENTITY:
MINISTRY OF HEALTH**

**PROJECT GRANT/CREDIT NUMBER:
BMZ No. KENYA 2010 65 853**

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2025

**Transitional IPSAS Financial Statements/Prepared in accordance with the Accrual Basis of Accounting
Method under the International Public Sector Accounting Standards (IPSAS)**

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*Reproductive Health - Output Based Approach Project
Annual Report and Financial Statements for the financial year ended June 30, 2025*

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Reproductive Health - Output Based Approach Project
Annual Report and Financial Statements for the financial year ended June 30, 2025

1. Acronyms and Definition of Terms

| | |
|----------------|--|
| CBK | Central Bank of Kenya |
| ICPAK | Institute of Certified Public Accountants of Kenya |
| IMF | International Monetary Fund |
| IPSAS | International Public Sector Accounting Standards |
| CT | County Treasury |
| NT | National Treasury |
| PFM | Public Finance Management. |
| PSASB | Public Sector Accounting Standards Board |
| WB | World Bank |
| Comparative FY | Financial year preceding the current financial year. |
| OAG | Office of the Auditor General |
| VMA | Voucher Management Agency |
| VSP | Voucher Service Provider |
| VSD | Voucher Service Distributor |
| SDG | Sustainable Development Goals |
| KfW | Kreditanstalt für Wiederaufbau (German Development Bank) |

2. Project Information and Overall Performance

2.1 Name and registered office

Name

The project's official name is Reproductive Health-Output Based Approach (RH-OBA) Program.

Objective

The Output Based Approach (OBA) offered a unique way to improve the health of the poorer members of the community. The Government of Kenya through the Ministry of Health supported by its German development partners through BMZ and KfW implementing this approach in the field of reproductive health care. The Programme was intended to contribute significantly to the Government's goal of creating an efficient and quality health care system that is accessible, equitable and affordable by every Kenyan household.

The OBA concept in Kenya envisaged financing agreed outputs by selling vouchers/smart cards at subsidised prices to patients for safe motherhood and family planning services and to support gender violence recovery services by making direct payments to approved providers. The programme was implemented in 5 counties namely: Kiambu (in 8 sub-counties), Nairobi (Korogocho and Viwandani informal settlement schemes), Kitui, Kisumu and Kilifi counties. OBA provided a direct subsidy to the poorer members of the community and allowed them to access safe motherhood, family planning and gender-based violence recovery services without fear of the costs.

By giving target beneficiaries choices on the service provider/ health facility to go to, OBA gave the consumer leverage on the quality of facilities'/service providers' offer. Through linking payments to services provided, OBA's impact on the people was immediate. The need to compete for clients and the income received for providing services contributed to improving the quality of the services being offered and the way in which clients/target beneficiaries were treated.

Address

During the financial year 2024/25, the VMA had its office at PwC Tower, Waiyaki Way/Chiromo Road, Westlands, Nairobi County, Kenya. PricewaterhouseCoopers Ltd is the Voucher Management Agency (VMA) for the Reproductive Health-Output Based Approach (RH-OBA) Program.

Reproductive Health - Output Based Approach Project
Annual Report and Financial Statements for the financial year ended June 30, 2025

Contacts:

The following are the project contacts:

Telephone: (254) 020 285500

E-mail: alex.nyaga@pwc.com

*Reproductive Health - Output Based Approach Project
Annual Report and Financial Statements for the financial year ended June 30, 2025*

Project information and overall performance (continued)

2.2 Project Information

| | |
|------------------------------|--|
| Project Start Date: | 01/11/2005 |
| Project End Date: | 31/01/2017 |
| Project Coordinator: | Mr Simon Mutinda |
| Project Development Partner: | KfW and the Government of Kenya through the Ministry of Health |

2.3 Project Overview

| | |
|--|---|
| Line Ministry or State departments/ County Department | Ministry of Health. |
| Project number | BMZ No. KENYA 2010 65 853 |
| Strategic goals of the project | The strategic goals of the project were as follows: (i) Offer quality reproductive health care services for economically disadvantaged populations by means of a voucher system; and (ii) Contribute to a reduction of both maternal and infant mortality rates in Kenya. |
| Summary of Project Strategies for achievement of strategic goals | The project management aimed to achieve the goals through the following means: (i) Contracting Voucher Service Providers (VSPs) and Voucher Service Distributors (VSDs); (ii) Developing and implementing a marketing and distribution mechanism for the vouchers/smart cards to the target population; (iii) Developing and implementing a system for claims processing; (iv) Collection and processing of claims; and (v) Monitoring and supervising quality of the services provided. |
| Other important background information of the project | The Output Based approach (OBA) reproductive health programme was intended to contribute to a reduction in both maternal and infant mortality rates by improving access to and utilisation of reproductive health services by the economically disadvantaged populations. Under Phase 1 (November 2005 to October 2008) OBA was financed through an agreement between the GoK and KfW with an overall budget of € 7.054m. The programme was piloted in three rural regions (Kisumu, Kiambu, and Kitui) and in two urban sites in Nairobi (Viwandani and Korogocho). |

Reproductive Health - Output Based Approach Project
Annual Report and Financial Statements for the financial year ended June 30, 2025

| | |
|--|---|
| | <p>Phase 2 was financed through a new financial agreement that was signed by GoK and KfW in May 2008. Phase 2 started in November 2008 with a budget of €10m.</p> <p>Under Phase 3 (November 2011 to October 2014), the programme was expanded to new regions covering Kitui, Kilifi, and Kisumu (entire counties), Nairobi (Korogocho and Viwandani) and Kiambu (sections of the county).</p> <p>Phase 4 of the program started in February 2015 covering the same regions as Phase 3.</p> |
| Areas that the project was formed to intervene | <p>The project was formed to intervene in the following problems/gaps:</p> <ul style="list-style-type: none"> (i) Reduce child mortality rate: Infant mortality and under-five mortality rates were at 52 deaths per 1,000 live births and 74 deaths per 1,000 live births respectively in 2012 (Kenya MDGs status Report); (ii) Improve maternal mortality ratio: maternal mortality ratio was at 362 per 100,000 live births in 2014 (Kenya Demographic and Health Survey, 2014); (iii) Improve access to long-acting family planning services: contraceptive prevalence rate was at 46 % in 2012 (Kenya MDGs status Report); (iv) Support gender violence recovery survivors to access services at accredited health facilities. |
| Project duration | <p>The project started in November 2005 and ran up to March 2018. Since the project has ended there were no program related activities during the 2024/2025 financial year. The project was phased as follows;</p> <ul style="list-style-type: none"> (i) Phase I-November 2005-October 2008 (ii) Phase II-November 2008-October 2011 (iii) Phase III-November 2011-October 2014 (iv) Phase IV-February 2015-January 2017 |

Project Information and Overall Performance (Continued)

2.4 Bankers

The following are the bankers for the project:

- (i) Standard Chartered Bank - Active
- (ii) Kenya Commercial Bank - Closed
- (iii) Equity Bank - Closed

2.5 Independent Auditor

The project is audited by:

Office of the Auditor General (OAG)
3rd Floor, Anniversary Towers, University Way.
P.O Box 30084-00100 Nairobi
Email : info@oagkenya.go.ke
Hotline: +254 708 000555
Phone : +254 20 3214000

2.6 Roles and Responsibilities

| No | Names | Title designation | Key qualification | Responsibilities |
|-----------|----------------|---|---|--|
| 1 | Julian Lenk | Program Manager - Health, KfW | Management of the donor aspects of the programme; providing linkage between the donor and the PMU & VMA; coordinating funding of the programme from the donor side. | +254 (20) 4228200 Julian.Lenk@kfw.de |
| 2 | Stephen Kaboro | Program Manager, PMU, Ministry of Health | Management of the MoH functions of the programme; oversight over the Voucher Management Agency; overall management of programme. | +254 (20) 2717077 mbugua.kaboro@gmail.com |
| 3 | Simon Mutinda | Project Director, Voucher Management Agency | Overall management of the VMA functions including contracting of VSPs, targeting strategy and distribution of vouchers, claims processing and reporting. | +254 (20) 2855000 simon.mutinda@pwc.com |
| 4 | Rose Mutunga | Project Manager, Voucher Management Agency | Support to the Project Director in the management of the VMA functions including contracting of VSPs, targeting strategy and distribution of vouchers, claims processing and reporting. | +254 (20) 2855000 rose.mutunga@pwc.com |

Reproductive Health - Output Based Approach Project
Annual Report and Financial Statements for the financial year ended June 30, 2025

| No | Names | Title designation | Key qualification | Responsibilities |
|----|-----------------|--------------------|--|-------------------------|
| 5 | Raphael Jackson | Project Accountant | Leading the finance and accounting aspects of the programme at the VMA and providing oversight of the project. | raphael.jackson@pwc.com |

2.7 Funding summary

Phase I (Oct 2005- Oct 2008) with a budget of € 6.5 million (KfW);

Phase II (Nov 2008- Oct 2011) budgeted at €10.00 million (KfW) and € 0.3 million (GoK);

Phase III (Nov 2011-Oct 2014) budgeted at €13.7 million (KfW) and €1.5 million (GoK); and Phase IV (April 2015 – January 2018) – Phase IV was to be funded from the unutilised balances from the GoK and donor commitments made in the previous Phases.

The cumulative commitment by the donor from Phase I - IV was Euro 30.2 million.

The total amount received by the project by 30 June 2025 was Euro 29,144,624 (equivalent to Kshs 3,381,929,185); therefore, the undrawn balance as at 30 June 2025 was Euro 1,055,376 (equivalent to Kshs 160,047,770). The table below shows the funding status:

Project information and overall performance (continued)

Below is the funding summary:

A. Source of Funds

| Source of funds | Development Partner Commitment | | Amount received to date – (30 th June 2025) | | Undrawn balance to date | |
|-----------------|--------------------------------|----------------------|--|----------------------|-------------------------|--------------------|
| | Euros | Kshs | Euros | Kshs | Euros | Kshs |
| | (A) | (A') | (B) | (B') | (A)-(B) | (A')-(B') |
| (i) Grant | | | | | | |
| KfW | 30,200,000 | 3,273,686,056 | 29,144,624 | 3,381,929,185 | 1,055,376 | 160,047,770 |
| Total | 30,200,000 | 3,273,686,056 | 29,144,624 | 3,381,929,185 | 1,055,376 | 160,047,770 |

Project information and overall performance (continued)

B. Application of Funds

| Application of funds | Amount received to date – (30 th June 2025) | | Cumulative amount paid to date – (30 th June 2025) | | Unutilised balance to date (30th June 2025) | |
|----------------------|--|----------------------|---|----------------------|---|------------------|
| | Development Partner currency | Kshs | Development Partner currency | Kshs | Development Partner currency | Kshs |
| | (A) | (A') | (B) | (B') | (A)-(B) | (A')-(B') |
| (i) Grant | 29,144,624 | 3,381,929,185 | 29,137,632 | 3,278,492,131 | 6,992.31 | 1,060,383 |
| Total | 29,144,624 | 3,381,929,185 | 29,137,632 | 3,278,492,131 | 6,992.31 | 1,060,383 |

Project information and overall performance (continued)

2.8 Summary of Overall Project Performance:

| | |
|--|---|
| <p>i) Budget performance against actual amounts for current year and for cumulative to-date,</p> | <ul style="list-style-type: none"> • The committed funding by KfW up to 30 June 2014 was Euro 30.2 million. As at 30 June 2025, the undrawn balance was Euro 1,055,376. |
| <p>ii) Physical progress based on outputs, outcomes, and impacts since project commencement,</p> | <ul style="list-style-type: none"> i. Increased the contracted VSPs from 54 in Phase 1 to 299 in Phase 4; ii. Over 400,000 successful deliveries catered for by the OBA program; iii. Introduction of smart card technology as an alternative to paper-based vouchers which enhanced the speed of claims processing and improved monitoring and reporting; iv. Improved access of health services by the poor and empowering OBA clients to exercise choice; v. Money earned by VSPs was spent to improve quality of services hence strengthening the health system; vi. System building – accreditation of service providers, quality management, transparent and fast processing of claims; |
| <p>iii) Indicate the absorption rate for each year since the commencement of the project.</p> | <ul style="list-style-type: none"> • The VMA has implemented strategies aimed at reducing the overhead costs of the project. In the year 2024/25 the project did not have any operational costs. |
| <p>iv) List the implementation challenges and recommended next steps.</p> | <ul style="list-style-type: none"> i. Slow uptake of services in some regions – this was addressed through vigorous marketing and collaborating with the administrative units, churches, community Health Workers, etc; ii. Ineligible individuals trying to access the voucher – this was addressed through a robust targeting strategy and utilisation of innovative eligibility identification tools; iii. Transition from Phase III to IV – the Ministry of Health granted a No-Cost-Extension to facilitate continuation of services with minimal disruption. |

Project information and overall performance (continued)

2.9 Summary of Project Compliance:

| | |
|--|---|
| <p>i) Include significant cases of non-compliance with applicable laws and regulations e.g. treasury circulars on project investment management, PFM Act 2012 and Kenya vision 2030 flagship projects, and essential external financing agreements/covenants</p> | <p>There have been no cases, significant or otherwise, of non-compliance with applicable laws and regulations, and essential external financing agreements/covenants.</p> |
| <p>ii) Include consequences suffered on account of non-compliance or likely to be suffered.</p> | <p>N/A</p> |
| <p>iii) Indicate mitigation measures taken or planned to be taken to alleviate the adverse effects of actual or potential consequences of non-compliance.</p> | <p>N/A</p> |

3. Statement of Performance against Project's Predetermined Objectives

Introduction

In accordance with Section 81(2)(f) of the Public Finance Management Act, 2012, this section provides a statement of the project's performance against its predetermined objectives for the financial year ended 30th June 2025.

Project Status

The Reproductive Health – Output Based Approach (RH-OBA) Project ceased its core programmatic activities in January 2017. Since then, the project has remained dormant with no new operational activities during the financial year 2024/25. However, the project continues to maintain active bank accounts to facilitate the resolution of pending legal obligations, including court cases involving Voucher Service Providers (VSPs). These accounts are also subject to ongoing audit and financial reporting requirements.

Administrative Continuity

Despite the dormancy in service delivery, the project has remained administratively active in the following areas:

- Responding to audit queries and implementing recommendations from the Office of the Auditor-General.
- Managing pending legal cases and related financial obligations.
- Maintaining accurate financial records and preparing annual financial statements in compliance with IPSAS

Project Achievements Summary

Although no new outputs were recorded in FY 2024/25, the project's cumulative achievements remain significant:

- Over 400,000 safe deliveries supported.
- Expansion from 54 to 299 contracted Voucher Service Providers (VSPs).
- Implementation of smart card technology for improved claims processing.
- Coverage across five counties: Nairobi, Kiambu, Kisumu, Kitui, and Kilifi.

These achievements are detailed in Section 2.3 of this report

Conclusion

The RH-OBA project fulfilled its core objectives and continues to uphold accountability through financial stewardship and legal compliance. The dormant status is expected to continue until all pending legal matters are resolved and the project bank accounts are formally closed.

4. Environmental and Sustainability Reporting

Introduction

The Reproductive Health – Output Based Approach (RH-OBA) Project was designed to improve access to quality reproductive health services for economically disadvantaged populations in Kenya. Although the project ceased core operations in 2017, its legacy continues through administrative and legal processes, including financial reporting and resolution of pending obligations.

This section outlines the project’s historical sustainability strategy and its environmental, social, and governance (ESG) considerations, as applicable during its operational period and in its current dormant state

Sustainability Strategy and Profile

The RH-OBA Project was aligned with Kenya’s Vision 2030 and the Sustainable Development Goals (SDGs), particularly SDG 3 (Good Health and Well-being) and SDG 5 (Gender Equality). The project’s strategy focused on:

- Reducing maternal and infant mortality.
- Promoting equitable access to reproductive health services.
- Strengthening health systems through performance-based financing.

Although the project is now dormant, its design and implementation were guided by principles of long-term impact, cost-effectiveness, and community empowerment.

Environmental Performance

The project had minimal direct environmental impact, as it did not involve infrastructure development or resource-intensive operations. However, it contributed indirectly to environmental sustainability by:

- Reducing the need for long-distance travel through decentralized service delivery.
- Promoting digital voucher systems (smart cards) to reduce paper use.

No environmental incidents or liabilities were reported during the project’s operational period.

Employee Welfare

During its active years, the project:

- Employed a diverse team through the Voucher Management Agency (VMA).
- Promoted gender balance and professional development.
- Complied with the Occupational Safety and Health Act (OSHA) 2007.

As of FY 2024/25, there are no active employees under the project.

Marketplace and Ethical Practices

The project maintained high standards of ethical conduct by:

- Ensuring transparent procurement and contracting of Voucher Service Providers (VSPs).
- Adhering to anti-corruption guidelines and donor compliance frameworks.

Reproductive Health - Output Based Approach Project
Annual Report and Financial Statements for the financial year ended June 30, 2025

- Honoring contractual obligations, including those under legal review.

Community Engagement

The RH-OBA Project had a strong community focus:

- Over 400,000 safe deliveries were supported.
- Services were delivered in five counties: Nairobi, Kiambu, Kisumu, Kitui, and Kilifi.
- Community Health Workers and local leaders were engaged in outreach and education.

Although no new community activities occurred in FY 2024/25, the project's past impact remains significant.

5. Statement of Project Management Responsibilities

The Principal Secretary State Department for Medical Services, Ministry of Health and the Project Coordinator Voucher Management Agency are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year ended on June 30, 2025. This responsibility includes:

- i. Maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period;
- ii. Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Project;
- iii. Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud;
- iv. Safeguarding the assets of the Project;
- v. Selecting and applying appropriate accounting policies; and
- vi. Making accounting estimates that are reasonable in the circumstances.

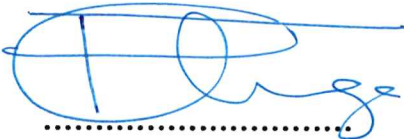
The Principal Secretary State Department for Medical Services, Ministry of Health and the Project Coordinator Voucher Management Agency accept responsibility for the Project's financial statements, which have been prepared on the accrual basis method of financial reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The Principal Secretary State Department for Medical Services, Ministry of Health and the Project Coordinator Voucher Management Agency are of the opinion that the Project's financial statements give a true and fair view of the state of the Project's transactions during the financial year ended June 30, 2025, and of the Project's financial position as at that date. The Principal Secretary State Department for Medical Services, Ministry of Health and the Project Coordinator Voucher Management further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements and the adequacy of the systems of internal financial control. The Principal Secretary State Department for Medical Services, Ministry of Health and the Project Coordinator Voucher Management Agency confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants and that Project funds received during the financial year under audit were used for the eligible purposes for which they were intended and were properly accounted for.

***Reproductive Health - Output Based Approach Project
Annual Report and Financial Statements for the financial year ended June 30, 2025***

Approval of the Project Financial Statements

The Project financial statements were approved by the Principal Secretary for the Ministry of Health and the Project Director (Coordinator) for The Reproductive Health - Output Based Approach project on _____ 2025 and signed by:



.....
Dr. Ouma Oluga
**Principal Secretary State Department for
Medical Services, Ministry of Health**



.....
Simon Mutinda
Project Director (Coordinator)

REPUBLIC OF KENYA

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



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

REPORT OF THE AUDITOR-GENERAL ON REPRODUCTIVE HEALTH - OUTPUT BASED APPROACH (RH-OBA) PROGRAM – PROJECT NUMBER BMZ NO. KENYA 2010 65 853) FOR THE YEAR ENDED 30 JUNE, 2025 - MINISTRY OF HEALTH

PREAMBLE

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

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

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

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Reproductive Health - Output Based Approach (RH-OBA) Program – Project Number BMZ No. Kenya 2010 65 853)

Report of the Auditor-General on Reproductive Health - Output Based Approach (RH-OBA) Program – Project Number BMZ No. Kenya 2010 65 853) for the year ended 30 June, 2025- Ministry of Health

set out on pages 1 to 25, which comprise of the statement of financial position as at 30 June, 2025 and the statement of financial performance, statement of changes in net assets, statement of cashflows and the statement of comparison of budget and actual amounts for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Reproductive Health - Output Based Approach (RH-OBA) Program – Project Number BMZ No. Kenya 2010 65 853) as at 30 June, 2025, and its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012 and the Financing Agreement Credit BMZ No.201065853 dated 07 October, 2011 between KfW (German Development Bank) and the Republic of Kenya.

Basis for Opinion

The audit was conducted in accordance with International Standards for Supreme Audit Institutions (ISSAIs). I am independent of Reproductive Health - Output Based Approach (RH-OBA) Program – Project Number BMZ No. Kenya 2010 65 853) Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matters

Lack of Financing Plan for Payables

The statement of financial position and as disclosed to Note 17 to the financial statements reflects a bank balance of Kshs.1,060,383. The statement further under Note 23 to the financial statements reflects pending accounts payable balance of Kshs.4,436,435 that was awarded following the arbitration on a legal suit which could not be settled fully by the current bank balance. The financing of the resultant deficit of Kshs.3,376,052 has not been explained. In addition, and as previously reported court cases with estimated contingent liabilities of Kshs.11,775,877 do not have provisions for its financing were it to crystalize.

In the circumstances, the financing of pending accounts payable of Kshs.4,436,435 and estimated claims arising from the court cases of Kshs.11,775,877 could not be confirmed.

My opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review

Other Matter

Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on the Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, Management has not resolved the issues.

Other Information

Conclusion

The Management is responsible for the Other Information set out on pages iii to xvi, which comprises Project Information and Overall Performance, Statement of Performance Against the Project's Predetermined Objectives and Statement of Project Management Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

Basis for Conclusion

In connection with my audit on the Project'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. In my opinion, except for the matter described below, I confirm that the Other Information is not materially inconsistent with the financial statements

Unimplemented Project Activities

Section 2.7A on project information and overall performance on source of funds indicates development partner total commitment of Euros 30,200,000 (Kshs.3,273,686,056). The total funds received by the project as at 30 June, 2025 amounted to Euros 29,144,624 (equivalent to Kshs.3,381,929,185). This indicates an undisbursed balance of Euros 1,055,376 (equivalent to Kshs.160,047,770) as at the time the project end date in January 2017.

The undrawn fund balance of Kshs.160,047,770 as at end of project in January 2017 is indicative of unimplemented project activities.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Late Submission of the Financial Statements

The financial statements for the year under review were received late on 7 October, 2025 instead of 30 September, 2025. This was contrary to Section 47 of the Public Audit Act, 2015 which states that the financial statements required under the Constitution, the Public Finance Management Act, 2012 and any other legislation, shall be submitted to the Auditor-General within three months after the end of the fiscal year to which the accounts relate.

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

2. Failure to Close the Project

The Project Financing Agreement indicates end date of 31 January, 2017. However, the Project continues to remain unclosed. During the year under review, the Project incurred avoidable bank charges of Kshs.33,275. Management has not rendered satisfactory explanation for the continued delays to close the Project and the related bank accounts.

In the circumstances, Management was in breach of the law while the Project continues to incur avoidable costs by way of bank charges.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The Standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Conclusion

As required by KfW (German Development Bank), I report based on my audit that:

- i. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. Adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and
- iii. The Project's financial statements are in agreement with the accounting records and returns.

Basis of Conclusion

The KfW (Germany Development Bank) requires that, I report on the legal or regulatory requirements, or on performance information disclosed. These matters require expressing a separate opinion as to the Projects' compliance with law and regulations. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

The 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 control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and overall governance.

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

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

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

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


Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards on Supreme Audit Institutions (ISSAIs). The standards requires that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way. In addition, I also consider the entity's control environment in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015.

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

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


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

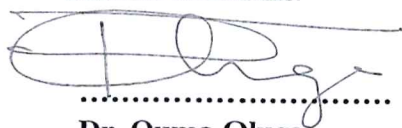
14 October, 2025

*Reproductive Health - Output Based Approach Project
Annual Report and Financial Statements for the financial year ended June 30, 2025*

7. Statement of Financial Performance for the Year Ended 30th June 2025.

| | Notes | 2025 Kshs |
|--|-------|------------------|
| Revenue | | |
| Revenue Transfers | 6 | - |
| Miscellaneous Revenue | 7 | - |
| Total revenue | | - |
| Expenses | | |
| Employee costs | 8 | - |
| Use of goods and services | 9 | 19,620.71 |
| Depreciation and amortization expense | 10 | - |
| Transfer to other Government Entities | 11 | - |
| Other Transfers/Subsidies/Grants | 12 | - |
| Certified Works | 13 | - |
| Total expenses | | 19,620.71 |
| Other gains/(losses) | | |
| Gain/Loss on sale of assets | 14 | - |
| Gain/Loss on foreign exchange transactions | 15 | 79,784.71 |
| Impairment loss | 16 | - |
| Surplus/ (deficit) | | 60,164.00 |

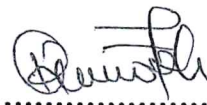
The accounting policies and explanatory notes to these financial statements are an integral part of the financial statements.



.....
Dr. Ouma Oluga
Principal Secretary State
Department for Medical
Services, Ministry of Health



.....
Simon Mutinda
Project Director
(Coordinator)



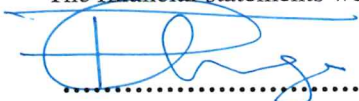
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Raphael Jackson
Project Accountant
ICPAK Member No: 23938

*Reproductive Health - Output Based Approach Project
Annual Report and Financial Statements for the financial year ended June 30, 2025*

8. Statement of Financial Position as at 30th June 2025

| | Note | 2025 | 1 st July 2024 |
|----------------------------------|------|-----------------------|---------------------------|
| | | Kshs | Kshs |
| Assets | | | |
| Current Assets | | | |
| Cash and Cash equivalents | 17 | 1,060,383.13 | 1,000,219.13 |
| Receivables | 18 | - | - |
| Inventories | 19 | - | - |
| Prepayment | 20 | - | - |
| Total Current Assets | | 1,060,383.13 | 1,000,219.13 |
| Non-Current Assets | | | |
| Property, Plant and Equipment | 21 | - | - |
| Intangible Assets | 22 | - | - |
| Total Non- Current Assets | | - | - |
| Total Assets (a) | | 1,060,383.13 | 1,000,219.13 |
| Liabilities | | | |
| Current Liabilities | | | |
| Trade and Other Payables | 23 | 4,436,435.04 | - |
| Third Party Deposits | 24 | - | - |
| Deferred Income | 25 | - | - |
| Total Current Liabilities | | 4,436,435.04 | - |
| Total Liabilities (b) | | 4,436,435.04 | - |
| Net Assets (a-b) | | (3,376,051.91) | 1,000,219.13 |
| Represented By: | | | |
| Accumulated Surplus | | (3,376,051.91) | 1,000,219.13 |
| Total Net Assets | | (3,376,051.91) | 1,000,219.13 |

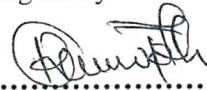
The financial statements were approved on 03/10 2025 and signed by:



.....
Dr. Ouma Oluga
Principal Secretary State
Department for Medical
Services, Ministry of Health



.....
Simon Mutinda
Project Director
(Coordinator)



.....
Raphael Jackson
Project Accountant
ICPAK Member No: 23938

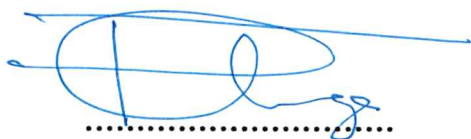
Reproductive Health - Output Based Approach Project
Annual Report and Financial Statements for the financial year ended June 30, 2025

9. Statement of Changes in Net Assets

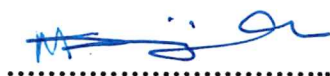
| Description | Accumulated Surplus |
|---------------------------------------|-----------------------|
| | Kshs |
| As at 30th June 2024 (Cash Basis) | 1,000,219.13 |
| Adjustments: | |
| Asset Recognition | - |
| Liabilities recognition | 4,436,435.04 |
| As at 1st July 2024 | (3,436,215.91) |
| Surplus/(Deficit) for the year | 60,164.00 |
| As at 30th June 2025 | (3,376,051.91) |

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

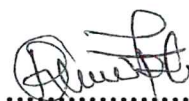
The financial statements were approved on _____ 2025 and signed by:



.....
Dr. Ouma Oluga
Principal Secretary State
Department for Medical
Services, Ministry of Health



.....
Simon Mutinda
Project Director
(Coordinator)



.....
Raphael Jackson
Project Accountant
ICPAK Member No: 23938

Reproductive Health - Output Based Approach Project
Annual Report and Financial Statements for the financial year ended June 30, 2025

10. Statement of Cashflow for the year ended 30th June 2025

| Description | Note | 2025 Kshs |
|---|-----------|---------------------|
| Cashflow from operating activities | | |
| Receipts | | |
| Revenue Transfers | | - |
| Miscellaneous Revenue | | - |
| Total receipts | | - |
| | | |
| Payments | | |
| Employee costs | | - |
| Use of goods and services | | 19,620.71 |
| Transfer to other Government Entities | | - |
| Other Transfers/Subsidies/Grants | | - |
| Certified Works | | - |
| Total payments | | 19,620.71 |
| Net cash flow from operating activities | 26 | (19,620.71) |
| | | |
| Cashflow from investing activities | | |
| Acquisition of non-financial assets | | - |
| Proceeds from sale of Assets | | - |
| Acquisition of Intangible assets | | - |
| | | |
| Net cash flows from investing activities | | - |
| | | |
| Cash flow from financing activities | | |
| Foreign exchange gains | | 79,784.71 |
| Net cash flow from financing activities | | 79,784.71 |
| Net increase/Decrease in cash and cash equivalents | | 60,164.00 |
| Cash and cash equivalent at 1st July 2024 | 17 | 1,000,219.13 |
| Cash and cash equivalent at end of June 2025 | 17 | 1,060,383.13 |

11. Statement of Comparison of Budget and Actual Amounts for the Year ended 30th June 2025

| Receipts/Payments Item | Original Budget | Adjustments | Final Budget | Actual on Comparable Basis | Budget Utilization Difference | % of Utilization |
|---|-----------------|-------------|--------------|----------------------------|-------------------------------|------------------|
| | a | b | c=a+b | d | e=c-d | f=d/c % |
| | Kshs | Kshs | Kshs | Kshs | Kshs | |
| Budget Carry Overs from previous periods | 1,000,219.13 | - | 1,000,219.13 | - | 1,000,219.13 | 0% |
| Receipts | | | | | | |
| Revenue Transfers | - | - | - | - | - | 0% |
| Miscellaneous Revenue | - | - | - | 79,784.71 | (79,784.71) | 0% |
| Total Revenue | - | - | - | 79,784.71 | (79,784.71) | 0% |
| | | | | | | |
| Payments | | | | | | |
| Employee costs | - | - | - | - | - | 0% |
| Use of goods and services | - | - | - | 19,620.71 | (19,620.71) | 0% |
| Transfer to other Government Entities | - | - | - | - | - | 0% |
| Other Transfers/Subsidies/Grants | - | - | - | - | - | 0% |
| Certified Works | - | - | - | - | - | 0% |
| Total Payments | - | - | - | 19,620.71 | (19,620.71) | 0% |
| Surplus | - | - | - | 60,164.00 | (60,164.00) | 0% |

Budget notes

Explanation of Variances

The project did not receive a formal budget allocation for FY 2024/25 due to its dormant status. However, the project carried forward a cash balance of Kshs 1,000,219.13 from the previous year. During the year, the project incurred Kshs 19,620.71 in bank charges and earned Kshs 79,784.71 in foreign exchange gains. These were not budgeted for but were necessary to maintain the project's bank accounts and comply with audit and reporting obligations.

The resulting surplus of Kshs 71,763.20 reflects the net effect of these unbudgeted transactions.

Reproductive Health - Output Based Approach Project
Annual Report and Financial Statements for the financial year ended June 30, 2025

Utilization Rate

The 0% utilization rate reflects the absence of a formal budget rather than inefficiency. The project continues to operate in a dormant state, with minimal administrative transactions.

Budget Reconciliation

| | Description of Particulars | Amount in Kshs |
|---|--|------------------|
| | Actual Surplus Amounts as per the statement of Budget | 60,164.00 |
| 1 | Reason for differences | - |
| | | - |
| | Closing Cash and Cash Equivalent as per the statement of Cash flows | 60,164.00 |

12. Notes to the Financial Statements

1. General Information

The Reproductive Health – Output Based Approach project’s principal activity was to offer quality reproductive health care services for economically disadvantaged populations by means of a voucher system and to contribute to a reduction of both maternal and infant mortality rates in Kenya. The Project derives its authority and accountability from the Health Act.

2. Statement of Compliance and Basis of Preparation

These financial statements have been prepared in accordance with the Public Finance Management Act, 2012 and the International Public Sector Accounting Standards (IPSAS), using the accrual basis of accounting.

The financial year ended 30th June 2025 marks the first year of transition to accrual-based IPSAS reporting for the Reproductive Health – Output Based Approach (RH-OBA) Project, in accordance with IPSAS 33: First-time Adoption of Accrual Basis IPSASs.

The project has not applied any exemptions or transitional reliefs under IPSAS 33. All assets, liabilities, revenues, and expenses have been recognized and measured in accordance with the applicable IPSAS standards. Comparative information has been restated where applicable.

No material balances were excluded from recognition due to lack of reliable data. However, the project continues to monitor contingent liabilities arising from ongoing legal proceedings, which are disclosed appropriately in the notes to the financial statements..

These financial statements were authorized for issue by the accounting officer on 30th June 2025

3. Adoption of New and Revised Standards

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

| Standard | Effective date and impact: |
|---------------------------|---|
| IPSAS 43 | <p><i>Applicable 1st January 2025</i></p> <p>The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cashflows of an Entity.</p> <p>The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities.</p> |
| IPSAS 44: Non- Current | <p><i>Applicable 1st January 2025</i></p> <p>The Standard requires,</p> |

Annual Reports and Financial Statements for the year ended June 30, 2025.

| Standard | Effective date and impact: |
|--|---|
| Assets Held for Sale and Discontinued Operations | <p>Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and:</p> <p>Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.</p> |
| IPSAS 45- Property Plant and Equipment | <p><i>Applicable 1st January 2025</i></p> <p>The standard supersedes IPSAS 17 on Property, Plant and Equipment. IPSAS 45 has additional guidance/ new guidance for heritage assets, infrastructure assets and measurement. Heritage assets were previously excluded from the scope of IPSAS 17 in IPSAS 45, heritage assets that satisfy the definition of PPE shall be recognised as assets if they meet the criteria in the standard. IPSAS 45 has an additional application guidance for infrastructure assets, implementation guidance and illustrative examples. The standard has clarified existing principles e.g valuation of land over or under the infrastructure assets, under- maintenance of assets and distinguishing significant parts of infrastructure assets.</p> |
| IPSAS 46 Measurement | <p><i>Applicable 1st January 2025</i></p> <p>The objective of this standard was to improve measurement guidance across IPSAS by:</p> <ul style="list-style-type: none"> 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. <p>The standard also introduces a public sector specific measurement bases called the current operational value.</p> |

Notes to the financial statements

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

| Standard | Effective date and impact: |
|---|---|
| IPSAS 47- Revenue | <p><i>Applicable 1st January 2026</i></p> <p>This standard supersedes IPSAS 9- Revenue from exchange transactions, IPSAS 11 Construction contracts and IPSAS 23 Revenue from non- exchange transactions. This standard brings all the guidance of accounting for revenue under one standard. The objective of the standard is to establish the principles that a project shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flow arising from revenue transactions.</p> |
| IPSAS 48- Transfer Expenses | <p><i>Applicable 1st January 2026</i></p> <p>The objective of the standard is to establish the principles that a transfer provider shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of expenses and 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.</p> |
| IPSAS 49- Retirement Benefit Plans | <p><i>Applicable 1st January 2026</i></p> <p>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.</p> |
| IPSAS 50: Exploration For & Evaluation of Mineral Resources | <p><i>Applicable 1st January 2027</i></p> <p>The objective of this Standard is to specify the financial reporting for the exploration for and evaluation of mineral resources. The Standard requires:</p> <ol style="list-style-type: none"> <li data-bbox="459 1447 1417 1525">i. Limited improvements to existing accounting practices for exploration and evaluation expenditures. <li data-bbox="459 1547 1442 1682">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. <li data-bbox="459 1704 1422 1930">iii. Disclosures that identify and explain the amounts in the project’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. |

Notes to the financial statements

4. Summary of Significant Accounting Policies

a) Revenue recognition

i) Revenue from non-exchange transactions

Transfers from other government entities

There was no revenue from other government entities.

ii) Revenue from exchange transactions

Interest income

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

b) Budget information

The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance.

c) Property, plant and equipment

There were no property, plant, or equipment held by the project during the financial year.

d) Leases

The project did not enter into any lease agreements during the financial year.

e) Intangible assets

There were no intangible assets recognized or held by the project during the financial year.

f) Research and development costs

The project did not incur any research and development costs during the financial year.

g) Financial instruments

The project did not hold or transact in any financial instruments during the financial year.

Notes to the financial statements

Financial assets

Classification

The project 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 project'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 a project has made an irrevocable election at initial recognition for particular investments in equity instruments.

Subsequent measurement

Based on the business model and the cash flow characteristics, the project 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.

Notes to the financial statements

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 project 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

No impairment losses were recognized. The project did not hold financial assets subject to expected credit loss (ECL) assessment.

Financial liabilities

Classification

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

h) Inventories

The project did not hold any inventories during the financial year.

i) Provisions

Provisions are recognized when the Project 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 Project 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.

Contingent liabilities

The project is involved in an ongoing arbitration case with Marura Nursing Home (Civil Suit No. 494 of 2015). The claimant initially sought KES 10,188,233, which has since been revised to KES 4,432,141. The matter is pending a hearing date before the arbitrator. As the outcome and timing remain uncertain, the amount has been disclosed as a contingent liability. This disclosure made in accordance with IPSAS 19 – Provisions, Contingent Liabilities and Contingent Assets.

Notes to the financial statements

Contingent assets

The Project 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 Project 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.

j) Nature and purpose of reserves

The project did not maintain any reserves during the financial year.

k) Changes in accounting policies and estimates

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

l) Employee benefits

Retirement benefit plans

The Project provides retirement benefits for its employees and directors. Defined contribution plans are post-employment benefit plans under which an project 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 proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

m) 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.

Notes to the financial statements

n) 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.

o) Related parties

The Project 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 Project, or vice versa. Members of key management are regarded as related parties and comprise the directors, the Principal and senior managers.

p) Service concession arrangements

The Project 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 Project 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 Project also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

q) 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.

r) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2025.

5. Significant Judgments and Sources of Estimation Uncertainty

The preparation of the Project'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.

Notes to the financial statements

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 Project 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 Project. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

Useful lives and residual values

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

- The condition of the asset based on the assessment of experts employed by the *Project*.
- 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

Notes to the financial statements

Provisions

No provisions were recognized during the year. The project continues to assess potential obligations for future recognition..

6. Revenue Transfers

N/A (There were no transfers during the financial year)

7. Miscellaneous revenue

N/A. miscellaneous revenue was earned in the financial year 2024/25.

8. Employees Costs

N/A (There were no employee costs during the financial year)

Notes to the financial statements

9. Use of Goods and Services

| De scription | FY 2024/25 |
|--|------------------|
| c | <u>Kshs</u> |
| Utilities, supplies and services | - |
| Bank charges | 19,620.71 |
| Communication, supplies and services | - |
| Domestic travel and subsistence | - |
| Foreign travel and subsistence | - |
| Fuel and lubricants | - |
| General office supplies | - |
| Stationery, Printing, advertising, and information supplies | - |
| Office rent | - |
| Training payments | - |
| Hospitality supplies and services | - |
| Insurance costs | - |
| Specialized materials and services | - |
| Other operating payments(specify) | - |
| Routine maintenance – vehicles and other transport equipment | - |
| Routine maintenance- other assets | - |
| Total | 19,620.71 |

10. Depreciation and Amortization expense

N/A (There were no depreciation and amortization expenses during the financial year)

11. Transfer to Other Government Entities

N/A (There were no transfers to other government entities during the financial year)

12. Other Transfers/Subsidies/Grants

N/A (There were no other transfers/subsidies/grants during the financial year)

13. Certified Works

N/A (There were no certified works during the financial year)

14. Gain/Loss on Sale of Assets

N/A (There were no gains/losses on sale of assets during the financial year)

Notes to the financial statements

15. Gain/Loss on foreign exchange transactions

| Description | FY 2024/25 |
|---------------------------------------|------------------|
| | Kshs |
| Gain on foreign exchange transactions | 79,784.71 |
| Loss on foreign exchange transactions | - |
| Total Gain | 79,784.71 |

16. Impairment Loss

N/A (There were no impairment losses during the financial year)

17. Cash and Cash Equivalents

| Description | FY 24/25 | 1 st July 2024 |
|--|------------------|---------------------------|
| | Kshs | Kshs |
| Cash in Bank | 1,060,383 | 1,000,219 |
| Cash on hand | - | - |
| <i>Others (Specify)</i> | - | - |
| Total Cash and Cash Equivalents | 1,060,383 | 1,000,219 |

Project Bank Accounts

| Details | FY 24/25 | 1 st July 2024 |
|--|------------------|---------------------------|
| | Kshs | Kshs |
| Foreign Currency Accounts | | |
| Standard Chartered Bank A/c No: 9306022985002 | 943,325 | 873,801 |
| Total Foreign Currency balances | 943,325 | 873,801 |
| Local Currency Accounts | | |
| Standard Chartered Bank A/c No: 0106022985016 | 117,058 | 126,418 |
| Total local currency balances | 117,058 | 126,418 |
| Total bank account balances | 1,060,383 | 1,000,219 |

18. Receivables

N/A (There were no receivables in the financial year)

19. Inventories

N/A (There were no inventories in the financial year)

20. Prepayments

There were no prepayments made or outstanding as at the end of the financial year.

Notes to the financial statements

21. Property, Plant and Equipment

N/A (There were no property, plant, or equipment in the financial year)

22. Intangible Assets

N/A (There were no intangible assets in the financial year)

23. Trade and Other Payables

| Description | FY 24/25 | | 1 st July 2024 | |
|--|---------------------|-----------------------|---------------------------|-----------------------|
| | Kshs | | Kshs | |
| Trade payables | 0 | | 0 | |
| Employee payables | 0 | | 0 | |
| <i>Other payables (specify)</i> | 4,436,435.04 | | 4,436,435.04 | |
| Total trade and other payables | 4,436,435.04 | | 4,436,435.04 | |
| | | | | |
| Ageing analysis: (Trade and other payables) | Current FY | % of the Total | Comparative FY | % of the Total |
| Under one year | 0 | 0% | 0 | 0% |
| 1-2 years | 0 | 0% | 0 | 0% |
| 2-3 years | 4,436,435.04 | 100% | 4,436,435.04 | 100% |
| Over 3 years | 0 | 0% | 0 | 0% |
| Total (tie to above total) | 4,436,435.04 | | 4,436,435.04 | |

As at 30th June 2025, the project recognized a payable of Kshs. 4,436,435.04 relating to a court-awarded settlement in favour of Beta Care Nursing Home. This amount was previously disclosed as a pending payable under cash-based IPSAS in FY2023/24. The liability meets the recognition criteria under IPSAS 19 and has been included in the Statement of Financial Position for FY2024/25.

24. Third-Party Deposits

The project did not hold any third-party deposits during the financial year.

25. Deferred Income

There was no deferred income recognized during the financial year.

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Notes to the financial statements

26. Cash Generated from Operations

| Description | FY 24/25 |
|--|------------------|
| | Kshs |
| Surplus/Deficit for the year | 60,164.00 |
| Adjusted for: | - |
| Depreciation | - |
| Non-cash grants received | - |
| Impairment | - |
| Gains and losses on disposal of assets | - |
| Working capital adjustments | |
| Increase in inventory | - |
| Increase in receivables | - |
| Increase in deferred income | - |
| Increase in payables | - |
| Increase in payments received in advance | - |
| Net cash flow from operating activities | 60,164.00 |

27. Special Deposit Accounts

The project did not operate any Special Deposit Accounts during the financial year.

28. Related Party Disclosures

No related party transactions occurred during the year. The project is domiciled within the Ministry of Health. Key management personnel are disclosed under Section 2.6.

Nature of related party relationships

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

Government of Kenya

The Government of Kenya is the principal shareholder of the Entity, holding 100% of the Entity's equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the Entity, both domestic and external.

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Notes to the financial statements

Other related parties include:

- i) The Ministry of Health.
- ii) Key management.

| Description | FY24/25 |
|--|----------|
| | Kshs |
| Transactions with related parties | |
| a) Sales to related parties | |
| Sales of electricity to govt agencies | 0 |
| Rent income from govt. Agencies | 0 |
| Others (specify) e.g. interest and bank charges | 0 |
| Total | 0 |
| B) purchases from related parties | |
| Electricity purchases from KPLC | 0 |
| Purchase of water from govt service providers | 0 |
| Rent expenses paid to govt agencies | 0 |
| Others (specify) | 0 |
| Total | 0 |
| b) Grants /transfers from the government | |
| Grants from national govt | 0 |
| Grants from county government | 0 |
| Donations in kind | 0 |
| Total | 0 |
| c) Expenses incurred on behalf of related party | |
| Payments of salaries and wages for xxx employees | 0 |
| Payments for goods and services for xxx | 0 |
| Total | |
| d) Key management compensation | |
| Directors' emoluments | 0 |
| Compensation to key management | 0 |
| Total | 0 |

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Notes to the financial statements

29. Events after the Reporting Period

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

30. Ultimate And Holding Entity

The project is a donor-funded initiative under the Ministry of Health. Its ultimate parent is the Government of Kenya.

31. Currency

The financial statements are presented in Kenya Shillings (Kshs) rounded to the nearest Kshs.

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13. Annexes

Annex 1: Prior Year Auditor-General's Recommendations

| Reference No. | Issue / Observations from Auditor | Management comments | Status: | Timeframe: |
|---------------|--|---|-----------------|------------|
| | <p><u>Errors in the Financial Statements</u></p> <p>Findings</p> <p>The annual reports and the financial statements prepared and presented for audit had the following errors and omissions:-</p> <ol style="list-style-type: none"> i. The statement of receipts and payments, statement of financial assets and statement of cashflow for the year ended 30th June 2023 have not been signed by the Permanent Secretary, the Project Director/Coordinator and the Project Accountant, ii. The page numbering indicated on the table of contents for Statement of Receipts and Payments for the year ended 30th June 2023 and Significant Accounting Policies (page xiv, 6 and 7 respectively) differed with what was reflected in the body of the financial statement (page xv, 7 and 8 respectively), ii. Under Notes to the Financial Statements <ul style="list-style-type: none"> • Acquisition of Non-financial Assets is reflected as note 8 in the Statement of Receipts and Payments for the year ended 30th June 2023 but indicated as Note 7 in the Notes to the Financial Statements. • Cash and Cash Equivalents – Bank Balances reflected as Note 11.A in the Statement of Financial Assets as at 30th June 2023 but indicated as note 9 in the Notes to the Financial Statements. <p>Recommendation</p> | <p>The errors identified have been corrected and the financial statements reviewed to ensure that they now contain information that is correct and factual.</p> | <p>Resolved</p> | <p>N/A</p> |

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| Reference No. | Issue / Observations from Auditor | Management comments | Status: | Timeframe: |
|---------------|--|--|---------|------------|
| | Management should correct the errors and ensure that the Financial Statements as presented contain information that is correct and factual. | | | |
| | <p><u>Un-drawn Balances</u></p> <p>Finding</p> <p>The statement of financial assets reflects a bank balance of Kshs. 1,121,150 as disclosed in Note 9 of the financial statements. However, the committed funding by KfW up to 30 June 2014 was Euro 30.2 million equivalent to Kshs. 3,273,686,056. The amount was made up of Phase I (Oct 2005 - Oct 2008) funding with a budget of Euro 6.5 million, Phase II (Nov 2008 - Oct 2011) budgeted at Euro 10.00 million (KfW) and Euro 0.3 million (GoK), Phase III (Nov 2011 – Oct 2014) budgeted at Euro 13.7 million (KfW) and Euro 1.5 million (GoK), and Phase IV (Apr 2015 – Jan 2018). The total amount received by the project by 30 June 2021 was Euro 29,144,624 (equivalent to Kshs. 3,872,440,300) indicating that there is an undrawn balance as ta 30 June 2023 of Euro 1,055,376 equivalent to Kshs. 161,453,004 at the Central Bank of Kenya Forex Rate of Kshs. 152.9815 at the end of the 2022/2023 financial year.</p> <p>In the circumstances, the Government’s goal of creating an efficient and quality health care system that is accessible, equitable and affordable by every Kenyan household may not reach the intended beneficiaries.</p> <p>Recommendations</p> <p>The management should follow up on the undrawn funds to ensure that Government’s goal of creating an efficient and quality health care system that is accessible, equitable and affordable by every Kenyan household is achieved.</p> | <p>As per the RH-OBA financial statements for FY 2022/23, RH-OBA project achieved a 96.5% utilization.</p> <p>The project objectives were met as presented in the final project implementation report.</p> <p>The remaining 3.5% was not utilized because;</p> <ol style="list-style-type: none"> 1. An introduction of free maternity services by GoK which was effected in 2012, led to the reimbursement amounts to the facilities to be reduced e.g. normal delivery from Kshs 4,000 to Kshs 1,500. Consequently, this led to the project withdrawing less than what was expected within the project life and; 2. The Ministry of Health had planned to increase the number of districts in the 4th phase of implementation from 5 to 8 but this was not | | |

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| Reference No. | Issue / Observations from Auditor | Management comments | Status: | Timeframe: |
|---------------|--|--|---------|------------|
| | | effected due to the free maternity services offered across the country by GoK. | | |
| | <p><u>Avoidable Bank Charges</u></p> <p>Findings</p> <p>The statement of receipts and payments reflects purchase of goods and services of Kshs. 34,587 as disclosed in Note 6 to the Financial Statements. The amount is composed of bank charges of Kshs. 34,587 resulting from the failure to close the project bank accounts and which continue to reduce the bank balance.</p> <p>In the circumstances, value for money on continued operation of the project bank account could not be confirmed.</p> <p>Recommendation:</p> <p>The management should close the project bank account since the operations of the project have ended.</p> | <p>The project was closed in 2018. There have been no operational activities since then. The reason that the client project bank accounts are yet to be closed is due to the pending VSP court cases.</p> <p>These bank accounts were opened and kept open to allow for the safe custody of, and the effective receipt and disbursement of the project's funds as and when necessary. They will be closed as soon as the pending court cases are heard and determined.</p> | | |
| | <p><u>Lack of Financing Plan for Payables</u></p> <p>Findings</p> <p>The statement of financial assets reflects a bank balance of Kshs. 1,121,150 as disclosed in Note 9 to the financial statements. However, pending accounts payable balance of Kshs. 4,436,435 as disclosed under other important disclosures would not be fully settled by the bank balance. The resulting difference of Kshs. 3,315,285 was not explained how it will be financed. In addition, other important disclosures reflect court cases</p> | <p>The accounts payable of KShs. 4,436,435 is due to a decision made to award a claimant, following the arbitration on the legal suit by Beta Care Nursing Home.</p> <p>It is based on this that we will submit a Replenishment Request to KfW for these</p> | | |

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| Reference No. | Issue / Observations from Auditor | Management comments | Status: | Timeframe: |
|---------------|--|--|---------|------------|
| | <p>with estimated contingent liabilities of Kshs. 11,775,877 which were not explained how they will be financed if they crystallise.</p> <p>Recommendation</p> <p>The management should give guidelines on how they intend to finance the accounts payable and pending legal court cases.</p> | <p>amounts to be applied towards settling the accounts payable.</p> <p>The nature of the contingent liabilities doesn't allow us to determine the exact amounts payable and cannot form a basis for replenishment request.</p> | | |

Guidance Notes:

1. Use the same reference numbers as contained in the external audit report;
2. Obtain the "Issue/Observation" and "management comments", required above, from final external audit report that is signed by Management;
3. Before approving the report, discuss the timeframe with the appointed Focal Point persons within your entity responsible for implementation of each issue;
4. Indicate the status of "Resolved" or "Not Resolved" by the date of submitting this report to National Treasury.

.....
Dr. Ouma Oluga
Principal Secretary State Department for Medical Services, Ministry of Health

.....
Simon Mutinda
Project Director (Coordinator)

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Annex 2: Other Support Documents

Bank Reconciliations statement as at 30th June 2025:

| | Chq. No. | EUR | KES | Comments |
|--|-----------------|-----------------|-------------------|-----------------------|
| Foreign Currency Account - Euro | | | | |
| Balance as per cashbook | | 6,220.41 | 943,325.18 | Exchange rate: 151.65 |
| Add unpresented cheques | | - | - | |
| Total | | | | |
| Uncredited Cheques (Cash in transit) | | - | - | |
| Balance as per bank statement | | 6,220.41 | 943,325.18 | |
| Local Currency Account - KShs | | | | |
| Balance as per cashbook | | | 117,057.95 | |
| Add unpresented cheques | | | - | |
| Total | | | | |
| Uncredited Cheques (Cash in transit) | | | - | |
| Balance as per bank statement | | | 117,057.95 | |

