REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

25/09/24
S.M.L
Angela

REPORT

OF

THE AUDITOR-GENERAL

ON

KUTULO SUB-COUNTY HOSPITAL

FOR THE YEAR ENDED 30 JUNE, 2022

COUNTY GOVERNMENT OF MANDERA

KUTULO SUB COUNTY HOSPITAL

(Mandera County Government)

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2022.

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

Table of Contents

i.) Key Entity Information and Management

(a) Background information

Kotulo subcounty Hospital is a level 4 hospital domiciled in mandera County under the health Department. The hospital is governed by a Board of Management.

(b) Principal Activities

The principal activity of the hospital is to provide medical service

Vision: Dedicated to advancing the health and transforming the lives of the people through excellent clinical quality, accessible, patient-centred and effective team work.

(c) Key Management

The *hospital's* management is under the following key organs:

- County department of health
- Board of Management
- Accounting Officer/ Medical Superintendent
- Management
- Others *(specify)*

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2022 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Medical Superintendent	**Dr. Abdullahi Matker.**
2.	Head of finance	**Faiza ismail Abdulla.**
3.	Hospital admin	**Adan Mohamed abdi .**
4.	**Nursing officer**	**Mohamed Ali**

(e) Fiduciary Oversight Arrangements

The oversight arrangements include;

1. Clinical Research and Standards Committee.
   i) Identifying health care service problems in the hospital and ensuring that they are resolved;
   ii) Review any changes on policy issues on standards, quality assurance and research;
   iii) Liaise with the Medical Advisory Committee on matters of quality health care delivery
2. **Audit committee**
   i) Reviewing quarterly, half-yearly and annual financial statements before submission to the Board;
   ii) Reviewing the performance, objectivity, and independence of external auditors;
   iii) Consideration of audit findings by the external auditors;
   iv) Monitoring and reviewing the effectiveness of the Hospital's internal audit function;
3. **Risk Committee**
   i) Reviewing the Hospital's internal control and ensuring quality, integrity, effectiveness and reliability of the Hospital's risk management framework.
   ii) Provide a forum for communication between the board, management and external risk management advisors
   iii) Assist the board in its oversight responsibilities by monitoring and advising on operational risks, including clinical risks.
4. **County Assembly**
   i) Scrutinize Budget estimates and budget documents and make appropriate recommendations;
   ii) Monitors budget performance of the hospital
   iii) Ensure that the relevant hospitals accounts on its expenditure;
   iv) Consider reports of the Auditor-General;
5. **Parliamentary committees**
   i) Develop a framework to guide and assist County Governments in the establishment of institutional structures for the management of health;
   ii) Coordinate intra and inter agency and governmental consultations on health sector issues, including existing and evolving health policies, legislation, regulations and programmes;
   iii) Coordinate and harmonize CoG views and perspectives on health matters;

iv) Create forums for sharing of emerging issues and best practices, including modalities for prioritization and promotion of health an instrument for socio-economic growth.

Key Entity Information and Management (continued)

(f) **Entity Headquarters**
Kotulo sub county hospital
P.O. Box 62-70301
Elwak.

(g) **Entity Contacts**

Telephone: 0728838395
E-mail: kutulosch@gmail.com
info@mandera.go.ke

(h) **Entity Bankers**

Equity Bank,
P.O Box 536-70300,
Mandera, Kenya.

(i) **Independent Auditors**

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

(j) **Principal Legal Adviser**

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

(k) **County Attorney**

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

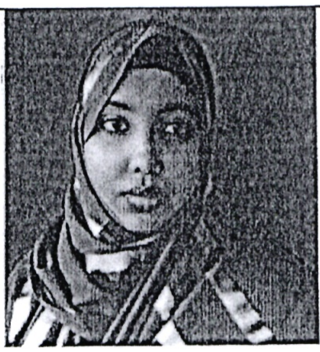
ii) **The Board of Management**

Ref	Directors	Details
1.	 **Adow Ibrahim Mohamed CCO Medical services**	*Adow holds a Bachelor of business management degree.* *He brings over 20 years' experience from private sector from middle level to high management level. Adow strives has strived through own initiatives in acquiring more knowledge, experience and skills thus keeping up with ever increasing professional dynamics*
2.	 **Dr.abdullahimatker** MedicalDoctor **,Medical superintendent.**	***Medical superintendent*** ***Duties and responsibilities*** ➢ *.overseeing the overall administration and functioning of the hospital* ➢ *handling and resolving any complains arising from both staffs and patients* ➢ *Represent hospital in any professional meetings.*

3.	 Mr.Adan Mohamed Abdi *Academic Qualifications* -Bachelor of Business Adminstration	***Hospital Admininistrator*** ➢ *Human resource management* ➢ *Fiscal management* ➢ *Leadership and strategic planning.* ➢ *Medical staff wellfare management.* ➢ *Operations management* ➢ *Professional development and crises management.*

iii) Key Management Team

Ref	Management	Details
1.	 Dr.ABDULLAHI MATKER *Academic Qualifications-Bachelorof medicine and surgery*	***Medical superintendent*** ***Duties and responsibilities*** ➢ *.overseeing the overall administration and functioning of the hospital* ➢ *handling and resolving any complains arising from both staffs and patients* ➢ *participate and chair the staff meeting.* ➢ *Represent hospital in any professional meetings.*
2.	.  Mr.Adan Mohamed Abdi *Academic Qualifications* -Bachelor of Education	***Hospital Admininistrator*** ➢ *Human resource management* ➢ *Fiscal management* ➢ *Leadership and strategic planning.* ➢ *Medical staff wellfare management.*

3.	 Faiza Ismail Abdullahi Qualification:bachelor of business administration	***Hospital Accountant.*** ➢ *Manages all fiscal transactions* ➢ *Updating of cashbook* ➢ *Prepare all the bank reconciliation* ➢ *Facilitates all thet payment transactions* ➢ *Preparing the financial reports*

iv) Chairman's Statement

It is my pleasure to present the hospital's 2021/22 annual report and financial statements. Management and operations of the hospital is guided by the existing legal, policy, and institutional frameworks that govern health sector to ensure efficient and effective delivery of services in the Hospital.

Kutulo subcounty hospital is putting great emphasis in improvement of communication with our patients, their families and other stakeholders in an effective and timely manner. To this end, we have continued to train our employees on customer care and effective communication while upholding the highest standards of care. In an effort to provide timely and accurate information, we have established mechanisms for receiving and resolving customer feedback.

The hospital has continued to experience challenges and changing business environment which calls for continuous improvement of the quality of services to the patients.

On behalf of the Board, I would like to thank all our stakeholders especially the Ministry of Health and the County Treasury for the support they continue to accord the hospital without which our achievements would not have been realized. As we move into a new year, I would like to express my gratitude to kutulo subcounty hospital staffs, team leaders and the Board, who take such pride in their work, and who exemplify our hospital's mission and values each day. Finally, I strongly believe that our strategy and the staffs in place will consistently drive our growth in the future as has been the case over the years

MEDICAL SUPERINTENDENT
KOTULO SUB COUNTY HOSPITAL
Date:.................................
P.O. Box 62 - 70301, ELWAK

....

ADAN MOHAMED ABDI
HOSPITAL ADMINISTRATOR

v)Report of The Medical Superintendent

I am pleased to present the hospital's annual report and financial statements for the year 2021/22. The report highlights the hospitals operational and financial performance.

During the financial year 2021-2022,kutulo sub county hospital has undergone drastic transformation as far development is concerned.

In order to run smoothly the hospital's operation, the county government must push for addition of funds, deployment of more staffs and construction of more staff quarters and perimeter wall.

We are grateful to our ministry of health and county treasury for their kindness, compassion, support, dedication and contributions to KSCH.

....

DR.ABDULLAHI MATKER

Secretary to the Board

vi) Statement of Performance Against Predetermined Objectives

Kutulo sub-county hospital has two strategic pillars/ themes/issues and objectives within the current Strategic Plan for the FY 2021/2022- FY 2027/2028. These strategic pillars/ themes/ issues are as follows:

Pillar /theme/issue 1: Operational excellence

Pillar/theme/issue 2: Skilled and energetic management team

kutulo sub-county hospital 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 done on a quarterly basis. The kutulo sub-county hospital achieved its performance targets set for the FY 2021/2022 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: Operational excellence	Reengineering, policies	Enhance service delivery	customers receive safe, timely, equitable, efficient, effective and patient-centred services.	effective and timely service delivery and efficient utilization of resources
Pillar/ theme/ issue 2: Skilled and energetic management team	Institutionalize leadership and governance performance	alignment of governance, leadership, and all employees to the overall strategic objectives of the organization.	oversight in financial reporting, Safeguarding Hospital assets	vibrant governance system

1. Achieve operational excellence to deliver speed and efficiency

kutulo sub-county hospital needs to deliver a better overall customer experience by aligning processes, reducing timelines and making the whole customer experience 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. Strengthen hospital leadership and corporate governance

kutulo sub-county hospital has a young, skilled and energetic management team and a board that exudes wisdom. The hospital is committed to strengthen its capacity in leadership and governance in line with its mission and purpose. This will ensure alignment of governance, leadership, and all employees to the overall strategic objectives of the organization. To achieve this goal, the hospital will focus on the following objectives:

- Develop a focused capacity building program for both the board and the hospital management
- Streamline and strengthen the capacity of board committees
- Institutionalize leadership and governance performance measurement and appraisal systems

vii) Corporate Governance Statement

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 which are the tenets of good corporate governance. Through the Board of Management, kutulo Sub-County 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 the overall effectiveness of the board, promotes an open environment for debate and ensures all members are able to speak freely and contribute effectively. He ensures that the Board plays a full and constructive part in the development and determination of the Hospital's strategies and policies. The chairman ensures that board meetings are held as and when necessary and members are supplied with accurate, timely and sufficient information to enable them to discharge their duties effectively.

The roles and responsibilities of the Board include:

i. Planning and monitoring, clinical services and preventive services.
ii. Providing oversight in financial reporting to the County government and communication to stakeholders.
iii. Safeguarding Hospital assets by instituting appropriate internal control systems.
iv. Ensuring the Hospital complies with all relevant laws and regulations.
v. Approve the annual budget of the Hospital.
vi. Monitor the Hospital performance and ensure sustainability
vii. Ensure availability of adequate resources for the achievement of the Hospital objectives.

Accountability and audit

The Board prepares annual financial statements which reflect a true and fair view of the hospital's financial position as at the end of each fiscal year. The Board of Management ensures that suitable accounting policies supported by reasonable and prudent judgments and estimates are consistently applied. The Board also ensure that financial statements for each financial year are audited. During the year, the Board 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 Financial Statements are audited by the Office of the Auditor-General. The Auditor-General is an independent office whose role and responsibilities are defined under the Constitution of Kenya. The Board in furtherance of its duties, ensures that the process, structure and internal controls are maintained and adhered to and has internal risk and audit staffs to carry out such functions.

viii) .Management Discussion and Analysis

Kutulo subcounty hospital provide healthcare services to people from neighbouring sub-counties. Services include, outpatient clinics, inpatient care, accident and emergency. The hospital also provides clinical support services that include laboratory and pharmacy.

The hospital strives to ensure that the clinical services provided are safe, timely, appropriate, innovative, effective and evidence-based. Clinical governance continues to be strengthened to improve patient safety and ensure quality healthcare. The hospital patient attendance continues to increase despite the many challenges i.e. lack of enough doctors, nurses, pharmacists, RCOs and budgetary constraints.

Clinical/operational performance

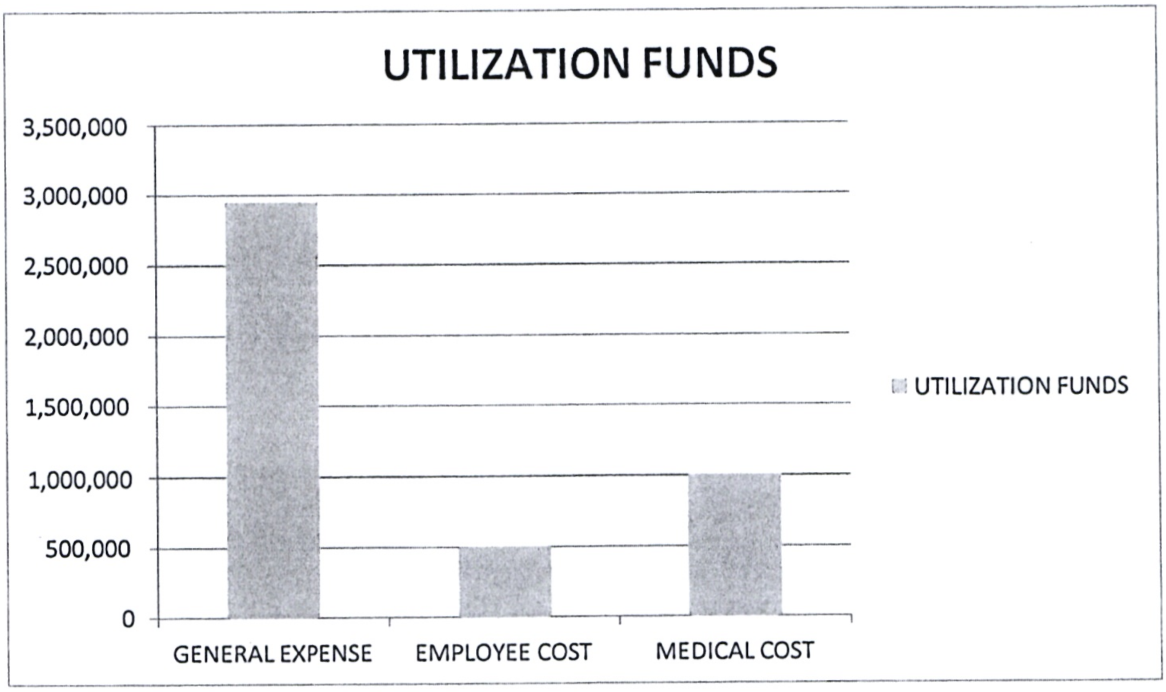
The hospital provides healthcare services. To meet our patients' needs, we have one medical doctor, four RCOs and 11 nursing officers who ensure our customers receive safe, timely, equitable, efficient, effective and patient-centred services. The hospital has a capacity bed of forty (25) beds. In 2021/22 the overall patients' attendance of the hospital were 38,500 patients of whom 1,800 were inpatients and 36,700 outpatients. This was an increase of 3% outpatients and 8% inpatients attendance in comparison to the previous financial year. The accident and emergency attendance of the hospital was one hundred and sixty (160) while specialised clinic attendance is none. The average length for the stay for inpatient was 5 days while the bed occupancy rate of the hospital stands at 63% and mortality rate stands at 0.7%. There was no surgical theatre utilisation and there was no sponsorships and partnerships so far reported in the financial year.

- **Revenue sources**

  The revenue sources of the hospital are AIE from Mandera county treasury which amounts to 3,700,000

Utilisation of funds;

- ✓ Medical/clinical cost amounting to ksh 999,184
- ✓ Employee costs amounting to 502,800
- ✓ Repair and maintenance amounting to ksh
- ✓ General expenses amounting to ksh 2,949,600



....

Dr ABDULLAHI MATKER

Secretary to the Board

ix) Environmental And Sustainability Reporting

Kutulo subcounty 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.

i) Sustainability strategy and profile

Environmental sustainability in hospitals is more than purchasing a single piece of energy-efficient equipment. ksch create a culture of sustainability that creates lasting change. These sustainability efforts do not happen in hospitals and care systems without vision and commitment.

ii) Environmental performance

Hospitals and care systems should make environmental sustainability a priority and create a culture of change to achieve lasting results. Implementing lasting sustainability initiatives in hospitals and care systems requires participation from multiple leaders across multiple departments, from senior executives to department-level advocates.

iii) Employee welfare

Working in a health and social care environment, while often rewarding, can frequently be challenging physically, mentally and emotionally. Employers are expected to care for staff and to support and enable them to maintain their health. When employees 'have good work, it contributes positively to their mental health, our society and our economy.

ksch provides the employees welfare with outmost level and its as follows;

a) Staff quarters
b) Facilities to rest and to eat meals
c) Changing facilities and lockers
d) Sanitary and washing facilities

iv) Corporate Social Responsibility / Community Engagements

Kutulo sdubcounty seeks to impact people's lives through its Corporate Social Responsibility (CSR) initiatives.

The initiatives are aimed at improving lives and enhance 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.

x) Report of The Board of Management

The Board members submit their report of Financial Statements for the year ended June 30, 2022, which show the state of the hospital's affairs.

Principal activities

The principal activity of the hospital is to receive in-patient and out-patient and to provide them medical services.

Results

The results of the hospital for the year ended 30th June, 2022 are set out on page 1 to 9.

Board Of Management

The members of the Board who served during the year are shown on page viii.

Auditors

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

By Order of the Board

....

Dr ABDULLAHI MATKER

Medical superintendant

xi) 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 hospital, which give a true and fair view of the state of affairs of the hospital at the end of the financial year/period and the operating results of the hospital for that year/period. The Board of Management is responsible for the preparation and presentation of the hospital's financial statements, which give a true and fair view of the state of affairs of the hospital for and as at the end of the financial year (period) ended on June 30, 2022. This responsibility includes:

(i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period,

(ii) (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity,

(iii) (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 the hospital;

(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 hospital's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates,

Nothing has come to the attention of the Board of management to indicate that the entity 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 30th September 2022 and signed on its behalf by:

....	....
ADAN MOHAMED ABDI:	**DR. ABDULLAHI MATKER:**
Hospital administrator	**Accounting Officer**

REPUBLIC OF KENYA

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

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

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

REPORT OF THE AUDITOR-GENERAL ON KUTULO SUB-COUNTY HOSPITAL FOR THE YEAR ENDED 30 JUNE, 2022 – COUNTY GOVERNMENT OF MANDERA

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 that the Government achieves value for money and that such funds are applied for the intended purpose.

C. Report on the 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.

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kutulo Sub-County Hospital – County Government of Mandera set out on pages 1 to 29, which comprise of the statement of financial position as at 30 June, 2022 and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kutulo Sub-County Level 4 Hospital – County Government of Mandera as at 30 June, 2022 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 Public Finance Management Act, 2012, the County Governments Act, 2012, the Health Act, 2017 and the Mandera County Health Services Act, 2019.

Basis for Qualified Opinion

1. Non-Disclosure of Property, Plant and Equipment

The statement of financial position reflects Nil property, plant and equipment balance. However, review of Hospital records and physical inspection carried out in the month of April, 2024 revealed existence of various assets including land, buildings, motor vehicles, furniture, computers and equipment which were not disclosed in the financial statements.

In the circumstances, the accuracy and completeness of Nil property, plant and equipment and inventories balance could not be confirmed.

2. Unconfirmed Inventory Balance

The statement of financial position did not reflect a balance of inventories as at 30 June, 2022. However, physical inspection carried out in the month of April, 2024 revealed that the Hospital held inventories related to pharmaceutical and non-pharmaceutical items of undetermined values. In addition, the annual stock take was not conducted to confirm the closing balances of inventories as at 30 June, 2022.

In the circumstances, the valuation, accuracy and completeness of the inventory balance could not be confirmed.

3. Non-Disclosure of Employee Costs Paid by the County Government

The statement of financial performance reflects employee costs of Kshs.502,800 in respect of casual and contractual employees as disclosed in Note 9 to the financial statements. The Hospital received services from forty-five (45) medical staff and support staff employed and paid by the County Executive of Mandera. However, the expenditure was not disclosed in the financial statements and the payroll was not provided for audit verification.

In the circumstances, the accuracy and completeness of employee costs of Kshs.502,800 could not be confirmed.

4. Non-Recognition of Revenue from Rendering of Services

The statement of financial performance reflects Nil amount in respect of revenue from rendering of services. However, review of the Hospitals' records provided for audit revealed that the Hospital collected an amount of Kshs.447,600 from rendering of medical services. However, the amount was not disclosed in the statement of financial performance.

In the circumstances, the accuracy and completeness of Nil amount of revenue from rendering of services could not be confirmed.

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs). I am independent of the Kutulo Sub-County Hospital 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 qualified opinion.

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. There were no key audit matters to report in the year under review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Deficiencies in Implementation of Universal Health Coverage (UHC)

Review of the Hospital records and interviews on verification of services offered, equipment used and medical specialists in the Hospital at the time of audit revealed that the Hospital did not meet the requirements of Kenya Quality Model for Health Policy Guidelines due to staff deficits of eighty-eight (88) staff requirements or 87% of the authorized establishment as detailed hereunder:

Category	Level 4 Hospital Standard	In-post	Variance	% Deficit
Medical Officers	16	1	15	94
Anaesthesiologists	2	0	2	100
General Surgeons	2	0	2	100
Gynaecologists	2	0	2	100
Paediatrics	2	0	2	100
Radiologists	2	0	2	100
Kenya Registered Community Health Nurses	75	12	63	84
Total	**101**	**13**	**88**	**87**

In addition, the Hospital lacked the necessary equipment and machines outlined in the Health Policy Guidelines as detailed below:

Equipment, Machines and Services				
Item	**Level 4 Hospital Standard**	**Actuals in the Hospital**	**Variance**	**% Variance**
Beds	150	30	120	80
New Born Unit Incubators	5	0	5	100
New Born Unit Cots	5	0	5	100
Functional ICU Beds	6	0	6	100
High Dependency Unit (HDU) Beds	6	0	6	100
Renal Unit with at Least 5 Dialysis Machines	5	0	5	100
Two Functional Operational Theatres-Maternity & General	2	0	2	100

These deficiencies contravene the First Schedule of the Health Act, 2017 and imply that accessing the highest attainable standard of health, which includes the right to health care services, including reproductive health care 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. Lack of Quarterly Revenue Reports

The Hospital collected Kshs.447,600 from rendering of medical services but the amount was not disclosed in the statement of financial performance. In addition, the Hospital did not provide evidence to show that quarterly reports were prepared and submitted to the

County Treasury with a copy to the Auditor-General as per the requirement of Regulations 64(1) of the Public Finance Management (County Governments) Regulations, 2015 which requires the Accounting Officer or receiver of revenue or collector of revenue to prepare a quarterly report not later than the 15th day after the end of the quarter.

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

3. Presentation of the Financial Statements

The Institute of Certified Public Accountants of Kenya (ICPAK) membership number for the head of finance who signed the financial statements was not disclosed in the relevant sections of the financial statements. This was contrary to the requirement by the Annual Financial Reporting Template for Level 4 and Level 5 hospitals issued by the Public Sector Accounting Standards Board.

In the circumstances, Management was not compliant with the temperate as required by the Public Sector Accounting Standards Board.

4. Late Submission of Financial Statements

The financial statements for financial year ended 30 June, 2022 were submitted on 18 April, 2024 which was twenty-one and half months after the end of the financial year. This was contrary to Section 149(2)(K) of the Public Finance Management Act, 2012 which provides that an accounting officer shall, in respect of the entity concerned not later than three months after the end of each financial year, prepare annual financial statements for that financial year and submit them to the Auditor-General for audit, with a copy to the County Treasury.

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

5. Unbalanced Budget

The statement of comparison of budget and actual amounts for the year ended 30 June, 2022 reflects Kshs.3,700,000 and Kshs.4,451,584 in respect of approved revenue and expenditure budget resulting to budget imbalance of negative Kshs.751,584. This was contrary to Regulation 31(c) of the Public Finance Management (County Governments) Regulations, 2015 which states that budget revenue and expenditure appropriations shall be balanced.

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

The audit was conducted in accordance with the 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 THE EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the 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. Failure to Establish Hospital Board of Management

The Hospital did not have a Board of Management in place. Although the financial statements disclosed some names purported to be members of the Board of Management, there was no evidence provided to support their appointment or record of work executed by the Board. This was contrary to Section 8(1) of the Mandera County Health Services Act, 2019 which provides that every County and Sub-County hospital shall be governed by a Hospital Board.

In the circumstances, the Hospital may not achieve its strategic objectives.

2. Lack of Updated Fixed Assets Register

The statement of financial position reflects Nil balance in respect of property, plant and equipment as disclosed in Note 14 to the financial statements. However, the Hospital did not maintain an updated fixed asset register to control its assets. This was contrary to Regulation 136(1) of the Public Finance Management (County Governments) Regulations, 2015 which states that the Accounting Officer shall be responsible for maintaining a register of assets under his or her control or possession as prescribed by the relevant laws.

In the circumstances, the existence of an effective mechanism to safeguard assets could not be confirmed and Management was in breach of the regulations.

3. Failure to Establish Internal Audit Function and Audit Committee

The Hospital did not establish an Audit Committee as required. 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 addition, the Hospital did not have an internal audit unit. This was contrary to Section 155(1)(a) of the Public Finance Management Act, 2012 which provides that a county government entity shall ensure that it has appropriate arrangements for conducting internal audit according to the guidelines issued by the Accounting Standards Board.

In the circumstances, the effectiveness of internal controls in the Hospital could not be confirmed.

4. Weak Controls in Revenue Collection

Review of revenue documents provided for audit revealed that revenue was collected through an automated revenue collection system called Revenue Management System operated by County Government of Mandera Receiver of Revenue. However, the system could not generate transactions for specific hospital revenue streams. In addition, cash collected were deposited to the revenue clerk's personal M-Pesa number then remitted to the Hospital revenue collection account through the same instead of making payments through a pay bill system.

In the circumstances, the effectiveness of internal controls in the revenue collection system could not be confirmed.

5. Lack of Approved Staff Establishment and Scheme of Service

During the year under review, Management did not have an approved staff establishment and scheme of service in place to provide guiding framework for human resources management. It was therefore not possible to confirm the basis for staff recruitment and promotions in the Hospital.

In the circumstances, the existence of effective human resources managements controls could not be confirmed.

6. Lack of Risk Management Policy and Disaster Recovery Plan

The Hospital did not put in place risk management policies, strategies, disaster recovery plan and risk register to mitigate against risk. This was contrary to Regulation 158(1)(a) and (b) of the Public Finance Management (County Governments) Regulations, 2015 which provides that the accounting officer shall ensure that: (a) the County Government entity develops risk management strategies, which include fraud prevention mechanisms; and (b) the County Government entity develops a system of risk management and internal control that build robust business operations.

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

The audit was conducted in accordance with the 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 to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Hospital or to cease operations.

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements 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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Hospital's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Hospital to cease to continue to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Hospital to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

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

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

FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

18 June, 2024

xiii) Statement of Financial Performance for The Year Ended 30 June 2022

Description	Note	FY2021/2022 Kshs
Revenue from non-exchange transactions		
Transfers from the County Government	6	3,700,000
Transfers from other Government national		-
Total revenue from non-exchange transactions		**3,700,000**
Revenue from exchange transactions		
Rendering of services- Medical Service Income	7	0.00
Revenue from exchange transactions		**00**
Total revenue		**3,700,000**
Expenses		
Medical/Clinical costs	8	999,184
Employee costs	9	502,800
Repairs and maintenance	10	0.00
General expenses	11	2,949,600
Total expenses		**4,451,584**
Net Surplus / (Deficit) for the year		**(751,584)**

The Hospital's financial statements were approved by the Board on 30th September, 2022 and signed on its behalf by:

………………………………	………………………………	………………………………
ADAN MOHAMED ABDI	**FAIZA ISMAIL**	**DR.ABDULLAHI MATKER**
HOSPITAL ADMIN	**Head of Finance**	**Medical Superintendent**

xiv) Statement of Financial Position As At 30th June 2022.

Description	Notes	FY2021/2022
		Kshs
Assets		
Current assets		
Cash and cash equivalents	12	8,526
		0.00
Total Current Assets		**8,526**
Non-current assets		
Property Plant and equipment	14	0.0
Total Non-current Assets		**0.00**
Total assets		**8,526**
Liabilities		
Current liabilities		
Trade and other payables		00
Total Current Liabilities		**0.00**
Total Non-current liabilities		**0.00**
Total Liabilities		**0.00**
Net assets		
Accumulated surplus/Deficit		**8,526**
Capital Fund		**0.00**
		0.00
Total Net Assets and Liabilities		**8,526**

The Hospital's financial statements were approved by the Board on 30th September, 2022 and signed on its behalf by:

MEDICAL SUPERINTENDENT KOTULO SUB COUNTY HOSPITAL Date: P.O. Box 62 - 70301, ELWAK

MEDICAL SUPERINTENDENT

....	....	....
ADAN MOHAMED ABDI	**FAIZA ISMAIL**	**DR.ABDULLAHI MATKER**
HOSPITAL ADMIN	**Head of Finance**	**Medical Superintendent**

xv) Statement of Changes in Net Asset for The Year Ended 30 June 2022

	Revaluation reserve	Accumulated surplus/Deficit	Capital Fund	Total
At July 1, 2020	**0.00**	**00**	**0.00**	**0.00**
Surplus/(deficit) for the year	-	-	-	0.00
As at June 30, 2021	**0.00**	**760,110**	**0.00**	**760,110**
At July 1, 2022	**0.00**	**760,110**	**0.00**	**760,110**
Surplus/(deficit) for the year	-	**(751,584)**	-	**(751,584)**
At June 30, 2022	**0.00**	**8,526**	**0.00**	8,526

The Hospital's financial statements were approved by the Board on 30th September, 2022 and signed on its behalf by:

………………………………	………………………………	………………………………
ADAN MOHAMED ABDI	**FAIZA ISMAIL**	**DR.ABDULLAHI MATKER**
HOSPITAL ADMIN	**Head of Finance**	**Medical Superintendent**

xvi) Statement of Cash Flows for The Year Ended 30 June 2022

Description	Note	FY2021/2022 Kshs
Cash flows from operating activities		
Receipts		
Transfers from the County Government	6	3,700,000
Rendering of services-medical service income	7	0.00
Total Receipts		**3,700,000**
Payments		
Medical/Clinical costs	8	999,184
Employee costs	9	502,800
Repairs and maintenance	10	0.00
General expenses	11	2,949,600
Total Payments		**4,451,584**
Net cash flows from operating activities		**(751,584)**
Net cash flows used in investing activities		000
Net increase/(decrease) in cash and cash equivalents		**(751,584)**
Cash and cash equivalents as at 1 July	12	760,110
Cash and cash equivalents as at 30 June		**8,526**

The Hospital's financial statements were approved by the Board on 30th September, 2022 and signed on its behalf by:

....	....	....
ADAN MOHAMED ABDI	**FAIZA ISMAIL**	**DR.ABDULLAHI MATKER**
HOSPITAL ADMIN	**Head of Finance**	**Medical Superintendent**

xvii) Statement of Comparison of Budget and Actual Amounts for Year Ended 30 Jun 2022

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	
Revenue	0.00					
Transfers from the County Government	3,700,000	0.00	3,700,000	3,700,000	0.00	%
Rendering of services-medical service income	-					
Total Revenue	3,700,000	0.00	3,700,000	3,700,000	0.00	100%
Expense						
Medical/Clinical costs	999,184	0.00	999,184	999,184	0.00	100%
Employee costs	502,800	0.00	502,800	502,800	0.00	100%
Repairs and maintenance	-	0.00	-	-	0.00	100%
General expenses	2,949,600	0.00	2,949,600	2,949,600	0.00	100%
Total Expenses	4,451,584	0.00	0.00	4,451,584	0.00	
Surplus for the period	(751,584)	0.00	(751,584)	(751,584)	0.00	100%

The Hospital's financial statements were approved by the Board on 30th September, 2022 and signed on its behalf by:

....	....	....
ADAN MOHAMED ABDI	**FAIZA ISMAIL**	**DR.ABDULLAHI MATKER**
HOSPITAL ADMIN	**Head of Finance**	**Medical Superintendent**

xviii) Notes to the financial statement

1. General Information

Kutulo Hospital is established by and derives its authority and accountability from Act. The entity is wholly owned by the Mandera county Government and is domiciled in Kenya. The entity's principal activity is providing medical services to the people of this great republic.

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 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 judgement in the process of applying the KSCH'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. The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the KSCH.

The financial statements have been prepared in accordance with the PFM Act, and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

3. Adoption of New and Revised Standards

IPSASB deferred the application date of standards from 1st January 2021 owing to Covid19. This was done to provide entities with time to effectively apply the standards. The deferral was set for 1st January 2022.

Notes to the Financial Statements (Continued)

i. **New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2021.**

Standard	Effective date and impact:
IPSAS 41: Financial Instruments	**Applicable: 1st January 2022:** The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an Entity's future cash flows. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by: • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held; • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an Entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.
IPSAS 42: Social Benefits	**Applicable: 1st January 2022** The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting Entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general-purpose financial reports assess:

	(a) The nature of such social benefits provided by the Entity; (b) The key features of the operation of those social benefit schemes; and (c) The impact of such social benefits provided on the Entity's financial performance, financial position and cash flows.
Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments	**Applicable: 1st January 2022** a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued. b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued. c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued. Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.
Other improvements to IPSAS	***Applicable 1st January 2022*** • IPSAS 22 Disclosure of Financial Information about the General Government Sector. Amendments to refer to the latest System of National Accounts (SNA 2008). • IPSAS 39: Employee Benefits Now deletes the term composite social security benefits as it is no longer defined in IPSAS. • **IPSAS 29: Financial instruments: Recognition and Measurement** Standard no longer included in the 2021 IPSAS handbook as it is now superseded by IPSAS 41 which is applicable from 1st January 2023.
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.

ii. **Early adoption of standards**

The entity did not early – adopt any new or amended standards in the year 21/22.

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 ksch and can be measured reliably.

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.

Dividends

Dividends or similar distributions must be recognized when the shareholder's or the entity's right to receive payments is established.

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue.

b. Budget information

The original budget for FY 2021/22 was approved by Board on **30th June, *2022.*** Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget.. The hospital 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 on page 1 under section *14* 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.

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 *xxx* 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

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

f. Leases

Finance leases are leases that transfer substantially the entire risks and benefits incidental to ownership of the leased item to the Entity. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Entity also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition.

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit.

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the hospital will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the hospital. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

g. 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

h. **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.

i. **Financial instruments**

j. **Financial assets**

k. **Initial recognition and measurement**

l. Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments

m. or available-for-sale financial assets, as appropriate. The Entity determines the classification of its financial assets at initial recognition.

n. **Loans and receivables**

o. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

Notes to the Financial Statements (Continued)

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.

Notes to the Financial Statements (Continued)

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 hospital 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 of financial assets

The Entity assesses at each reporting date whether there is objective evidence that a financial asset or an entity of financial assets is impaired. A financial asset or an entity of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or an entity of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments

The probability that debtors will enter bankruptcy or other financial reorganization

- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Entity determines the classification of its financial liabilities at initial recognition.
All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

Notes to the Financial Statements (Continued)
Loans and borrowing
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.
Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

i) 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.

j) 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.

Contingent liabilities

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

Contingent assets

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

k) Nature and purpose of reserves

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

l) 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.

m) 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.

Notes to the Financial Statements (Continued)

n) Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

o) 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.

p) 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.

q) Service concession arrangements

The hospital 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.

Notes to the Financial Statements (Continued)

r) 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.

s) Comparative figures

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

t) 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, 2022.

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. (IPSAS 1.140)

Notes to the Financial Statements (Continued)

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 Note xxx.

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)

6a) Transfers from The County Government

Name of the Entity sending the grant	Amount recognized to Statement of financial performance*2021/2022 KShs	Amount deferred under deferred income KShs	Amount recognised in capital fund.	Total grant income during the year	2021/2022
			KShs	KShs	KShs
mandera County Government	3,700,00	0.00	0.00	3,700,000	0.00
Total	3,700,000	0.00	0.00	3,700,000	0.00

6b)Transfers From Other Government Entities

Description	FY 2021/2022
	KShs
Transfer from National Government (Ministry of Health)	0.00
Transfer from xxx Institute	0.00
Total Transfers	**0.00**

7) Rendering of Services-Medical Service Income

Description	FY 2022/2023
	Kshs
Pharmaceuticals	0.00
Laboratory	0.00
Out patient	0.00
Total revenue from the rendering of services	0.00

8. Medical/ Clinical Costs

Description	FY 2021/2022
	Kshs
Food and Ration	434,400
Health information stationary	564,784
Dressing and Non-Pharmaceuticals	0.00
Sanitary and cleansing Materials	0.00
;;Total medical/ clinical costs	**999,184**

9. Employee Costs

Description	FY2021/2022
	Kshs
Salaries, wages, and allowances	468,000
Contributions to pension schemes	20,400
Staff medical expenses and Insurance cover	14,400
Other employee costs *(specify)*	0.00
Employee costs	**502,800**

10 .Repairs And Maintenance

Description	FY2021/2022
	Kshs
Genset maintainance expenses	0.00
Total repairs and maintenance	0.00

11 General Expenses

Description	FY2021/2022
	Kshs
Catering expenses	0.00
Office operations	475,000
Insecticides and rodenticides	0.00
Bank charges	0.00
Electricity expenses	0.00
Fuel and Lubricants	525,000
Travel and accommodation allowance	803,600
Printing and stationery	466,000
Hire charges	680,000
Water and sewerage costs	0.00
Telephone and mobile phone services	0.00
Internet expenses	0.00
Total General Expenses	**2,949,600**

12.Cash and Cash Equivalents

Description	FY2021/2022
	KShs
Current accounts	8,526
Total cash and cash equivalents	8,526

13). Detailed Analysis of Cash and Cash Equivalents

Description		FY 2021/2022
Financial institution	Account number	KShs
a) **Current account**		
Equity Bank, etc	1000275660950	8,526
Grand total		**8,526**

14. Property, Plant and Equipment

Description	FY 2021/2022
	KShs
Property, Plant and Equipment	0.00
Total	0.00

15. Financial Risk Management

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

(i) Credit risk

The entity 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 company'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 entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

(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 entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

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

(iii) Market risk

The hospital has put in place an internal audit function to assist it in assessing the risk faced by the entity 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 entity'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.

Notes to the Financial Statements (Continued)

The company'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 entity's exposure to market risks or the way it manages and measures the risk.

Interest rate risk

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

16. Related Party Balances 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 hospital, holding 100% of the hospital equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the entity, both domestic and external. Other related parties include: The National Government;

i) The Parent Ministry;
ii) Auditor general;
iii) Controller of budget;
iv) County government;
v) Key management;
vi) Board of directors;

2. **Events After The Reporting Period**

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

3. **Ultimate And Holding Entity**

The entity is a State Corporation/ or a Semi- Autonomous Government Agency under the Ministry of Health. Its ultimate parent is the Government of Kenya.

4. **Currency**

The financial statements are presented in Kenya Shillings (Kshs).

xix)Appendices

Appendix 1: 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)*

Guidance Notes:

(i) Use the same reference numbers as contained in the external audit report.

(ii) Obtain the "Issue/Observation" and "management comments", required above, from the final external audit report that is signed by Management.

(iii) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your entity responsible the for implementation of each issue.

(iv) Indicate the status of "Resolved" or "Not Resolved" by the date of submitting this report to National Treasury.

....
Accounting Officer

Appendix II: Projects Implemented by The Entity

Projects

Projects implemented by the Hospital Funded by development partners

Project title	Project Number	Donor	Period/ duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
1						
2						

Status of Projects completion

(Summarise the status of project completion at the end of each quarter, i.e. total costs incurred, stage which the project is etc)

SN	Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Sources of funds
1							
2							
3							

Appendix III: Inter-Entity Confirmation Letter

[Insert your Letterhead]

[Insert name of beneficiary entity]
[Insert Address]

The *[insert SC/SAGA/Fund name here]* wishes to confirm the amounts disbursed to you as at 30th June 2022 as indicated in the table below. Please compare the amounts disbursed to you with the amounts you received and populate the column E in the table below Please sign and stamp this request in the space provided and return it to us.

Confirmation of amounts received by [Insert name of beneficiary entity] as at 30th June 2022							
		Amounts Disbursed by [SC/SAGA/Fund] (KShs) as at 30th June 2022				Amount Received by [beneficiary entity] (KShs) as at 30th June 20XX (E)	Differences (KShs) (F)=(D-E)
Reference Number	Date Disbursed	Recurrent (A)	Development (B)	Inter–Ministerial (C)	Total (D)=(A+B+C)		
Total							

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

Head of Accounts Department of the beneficiary entity:

Name .... Sign ....Date.........................