REPORT OF THE AUDITOR-GENERAL ON MOI TEACHING AND REFERRAL HOSPITAL (MTRH) FOR THE YEAR ENDED 30 JUNE, 2023

PREAMBLE

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

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

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

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

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal control, 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 Moi Teaching and Referral Hospital (MTRH) set out on pages 1 to 53, which comprise of the statement of financial position as at 30 June, 2023, 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 Moi Teaching and Referral Hospital (MTRH) as at 30 June, 2023, 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 State Corporations Act, Cap 446 of 1998 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Variance in Transfers from the Ministry of Health

Note 6(b) to the financial statements reflects transfers from the Ministry of Health amount of Kshs.8,352,250,000 while financial statements for the Ministry of Health discloses Kshs.8,334,250,000 as transfers to the Hospital resulting in an unexplained variance of Kshs.18,000,000.

In the circumstances, the accuracy and completeness of transfers from the Ministry of Health amount of Kshs.8,352,250,000 could not be confirmed.

2. Variance in Mortuary Fees

The statement of financial performance and Note 7 to the financial statements reflects sale of goods and services amount of Kshs.3,705,726,905 which includes mortuary fees amount of Kshs.30,893,945. However, ledgers maintained at the Mortuary reflect an amount of Kshs.55,291,816 resulting to variance of Kshs.24,397,871 which has not been explained or reconciled. Management attributed this variance to reporting anomalies in the Enterprise Resource Planning (ERP) system where the system reports some mortuary income under cost sharing income leading to inconsistencies with financial reporting resulting into the understatement of mortuary fees and overstatement of cost sharing income.

Further, in January, 2024, the ERP system could not generate a breakdown of monthly and annual mortuary fees reports indicating the payments made by the individual customers, the corporate customers and the debtors. In addition, the system could also not generate cumulative monthly and annual mortuary fees.

In the circumstances, the accuracy and completeness of the mortuary fees amount of Kshs.30,893,945 could not be confirmed.

3. Unsupported Property, Plant and Equipment Balance

The statement of financial position and Note 22 to the financial statements reflects property, plant and equipment balance of Kshs.3,845,576,973 which includes land balance of Kshs.101,577,820. However, valuation report for the land has not been provided for audit review. In addition, review of records provided revealed that the Hospital owns another parcel of land on the outskirts of Eldoret Municipality earmarked for construction of proposed new Multi-Specialty Moi Teaching and Referral Hospital (MTRH). The land has neither been valued nor disclosed in the financial statements for the year ended 30 June, 2023. Also, the title deed of the land was not provided for audit verification. In addition, the fixed assets register provided for review did not indicate the size of each parcel of land and the terms in which it is held by the Hospital as required by

Regulation 143(2) of Public Finance Management (National Government) Regulations, 2015, which states that the register of land and buildings shall record each parcel of land and each building and the terms on which it is held, with reference to the conveyance, address, area, dates of acquisition, disposal or major change in use, capital expenditure, lease hold terms, maintenance contracts and among other details.

Further, the fixed assets register provided for audit did not indicate the location, status and condition of the assets as well as the serial/tag numbers of the Hospital's fixed assets. In addition, the fixed assets register contained some items of property, plant and equipment that were obsolete or whose value had been permanently impaired and had not been scrapped off as required by paragraph 82 of the International Public Sector Accounting Standard (IPSAS) 17 on property, plant and equipment which states that an asset should be removed from the statement of financial position on disposal or when it is withdrawn from use and no future economic benefits are expected from its disposal.

Moreover, Note 22 to the financial statements reflects computers, telephones and TVs and motor vehicles balances of Kshs.44,806,031 and Kshs.31,775,004 respectively. However, Note 22(b) to the financial statements discloses net book values of computers, telephones and TVs and motor vehicles balances of Kshs.31,775,004 and Kshs.44,806,031 respectively resulting in an unexplained variances of Kshs.13,031,027.

In the circumstances, the accuracy and completeness of property, plant and equipment balance of Kshs.3,845,576,973 could not be confirmed.

4. Unconfirmed National Hospital Insurance Fund Loan Balance

The statement of financial position and Note 27 to the financial statements reflects National Housing Insurance Fund loan balance of Kshs.166,130,959. As previously reported, the Ministry of Health through their letter, Reference No. MOH MED/11/2/2 Vol. II dated 1 December, 2016 made a request to the Chief Executive Officer (CEO), National Health Insurance Fund (NHIF) to consider supporting the establishment of Radio Therapy Treatment Centers at the Moi Teaching and Referral and Kenyatta National Hospitals and proposed specifications for the equipment.

Subsequently, the Ministry of Health entered into collaboration with the International Atomic Energy Agency (IAEA), Ref. No MOH/MED/11/2/2VOL11 dated 28 January, 2017 where the IAEA offered a grant amount of Euro 2,536,155 (Kshs.312,669,869.20), for the procurement of radiotherapy equipment for the Moi Teaching and Referral Hospital on a cost sharing basis, with IAEA contributing 25% of the cost and the Government of Kenya 75% of the cost. The Moi Teaching and Referral Hospital (MTRH) through their letter, Reference No. ELD/MTRH/BCM/5/28/VOL.II/2007 of 02 February, 2017 requested the National Hospital Insurance Fund (NHIF) for funding to equip the MTRH Radiation Oncology Unit in two phases of Kshs.592,000,000 and Kshs.360,500,000 each. Further, the Hospital, through their letter Reference No. ELD/MTRH/ADMN/1/VOL.IV/2015 of 12 July, 2017 made another funding proposal of Kshs.1,762,000,000. However, no contract/agreement either between NHIF and the IAEA or between MTRH and NHIF was provided for audit confirmation at the time.

The Hospital Management provided a letter for Terms (agreement) that was signed between the National Health Insurance Fund and the Moi Teaching and Referral Hospital dated 23 October, 2023. However, the loan amortization schedules provided for audit review revealed that the loan ran from the 26 January, 2018. Management of the Hospital has not explained why the loan agreement was signed five (5) years after the date of the loan disbursement.

In addition, the financial statements of National Health Insurance Fund reflects an investment in loan advanced to MTRH outstanding balance of Kshs.280,962,637 resulting to a variance of Kshs.114,831,678 which had not been explained.

In the circumstances, the accuracy and completeness of the long-term loan balance of Kshs.166,130,959 could not be confirmed.

5. Non-Recoverability Receivables from Exchange Transactions

The statement of financial position and Note 20 to the financial statements reflects current receivables from exchange transactions balance of Kshs.2,763,729,916 which includes individual clients balance of Kshs.1,159,215,568. Records provided for audit revealed that the individual clients receivable balance had increased by Kshs.750,997,409 from Kshs.408,218,159 in 2021/2022 to Kshs.1,159,215,568 in 2022/2023 with some of the debts dating as far back as the year 2001. Whereas Management of the Hospital is in possession of numerous land title deeds and motor vehicle log books as collateral for these debtors, there were neither sworn affidavits nor agreements between the Hospital and the patients provided for review, rendering Management's continued retention of these documents as debt security measure futile. In addition, no evidence was provided for audit to show that the legal pursuits of these debts is in progress.

In the circumstances, the accuracy and recoverability of the individual clients' receivables balance of Kshs.1,159,215,568 could not be confirmed.

6. Unsupported Impairment Allowance on Receivables

The statement of financial performance and Note 17(a) to the financial statements reflects impairment allowance on receivables from exchange transactions amount of Kshs.261,525,121. However, policy on the provision for doubtful debts has not been provided for audit review.

In the circumstances, the accuracy and completeness of the impairment allowance on receivables from exchange transactions amount of Kshs.261,525,121 could not be confirmed.

7. Variances in Acting Allowances Expenditure

The statement of financial performance and Note 11 to the financial statements reflects acting allowance expenditure of Kshs.5,926,625 whereas the financial records revealed an amount of Kshs.16,728,727 resulting in an unexplained variance of Kshs.10,802,102.

Further, review of the staff records provided for audit revealed that there were forty-three (43) members of staff who were acting in appointment and had acted for more than six (6) months, irregularly earning an amount of Kshs.16,728,727 in acting allowances. This was contrary to the provisions of Section 4.4.5 of the Moi Teaching and Referral Hospital Human Resource Policy and Procedures Manual of August, 2018 which states that the appointment shall normally be limited to a continuous period of six (6) months or until the vacant post is filled whichever is the earlier, but may be extended by the Board/CEO if the post remains vacant, and Section C.14(1) of the Human Resource Policies and Procedures Manual for the Public Service of May, 2016, which states that acting allowance shall be paid at the rate of twenty percent (20%) of the substantive basic salary of the office holder and will not be payable to an officer for more than six (6) months.

In the circumstances, the accuracy, completeness and regularity of the acting allowance expenditure amount of Kshs.5,926,625 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Moi Teaching and Referral Hospital (MTRH) 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.

Emphasis of Matter

1. Financial Performance of the Hospital

During the year under review, the Hospital reported a net loss of Kshs.619,922,162 resulting into an accumulated loss of Kshs.394,300,462 as at 30 June, 2023. During the year ended 30 June, 2022, the Hospital also reported a net loss of Kshs.486,474,929) translating into operating losses for two consecutive years. It was also observed that the revenue reserve balance as at 30 June, 2021 was Kshs.712,096,626 as compared to a balance of Kshs.(394,300,462) as at 30 June, 2023.

Further, it was also observed that the Hospital's trade payables increased by Kshs.578,174,493 from Kshs.1,056,493,465 in 2021/2022 to Kshs.1,634,667,958 in 2022/2023. In addition, the Hospital had not remitted employees deductions amounting to Kshs.1,448,426,402 as disclosed in Note 26 to the financial statements.

If Management do not initiate strategies to reverse the trend the Hospital may face cash flow challenges in the future.

2. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on a comparable basis of Kshs.11,957,250,000 and Kshs.12,108,957,470 respectively resulting to an over-funding of Kshs.151,707,470 or 1.3% of the budget. Similarly, the Hospital expended Kshs.12,615,928,721 against an approved budget of Kshs.11,957,250,000 resulting to an over-expenditure of Kshs.658,678,721 or 6% of the budget. It could not be confirmed whether the over expenditure by the Hospital Management was authorized.

My opinion is not modified in respect of these matters.

Key Audit Matters

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

Other Matter

Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the report on Qualified Opinion, Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board.

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. Irregular Purchase of Oxygen

The statement of financial performance and Note 10 to the financial statements reflects use of goods and services amount of Kshs.2,870,881,882 which includes consumable goods amount of Kshs.1,800,303,185. Review of financial records provided for audit review revealed that a local contractor was paid Kshs.14,979,798 on various dates for the purchase of oxygen. However, the advertisement, tender opening and evaluation minutes and the contract between the Hospital and contactor were not provided for review.

It was also observed that the Hospital has an active oxygen processing plant and even though the Management of the Hospital has explained that the services of the local contractor were sought when the Hospital's oxygen processing plant was undergoing maintenance, no documentary evidence was provided for audit verification.

In the circumstances, the accuracy and value for money on the expenditure of Kshs.14,979,798 on purchase of oxygen could not be confirmed.

2. Irregular Use of Low Value Procurement Method

The statement of financial performance and Note 10 to the financial statements reflects use of goods and services amount of Kshs.2,870,881,882 which includes consumable goods expenditure amount of Kshs.1,800,303,185. Review of financial records revealed that the Hospital spent a total amount of Kshs.10,638,384 on purchase of various hospital supplies, through imprest purchases, under the low value procurement method. This is contrary to Regulation 92(a) of the Public Procurement and Asset Disposal Regulations, 2020 which states that a procuring entity may use low value procurement method under Section 107(b) of the Act, where the estimated cost of the goods, works or services being procured per item per financial year is as per the threshold matrix in the

Second Schedule; which sets the maximum level of expenditure under the low value procurement method at Kshs.50,000 per item per financial year for goods.

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

3. Irregular Payment for Services in Advance

The statement of financial performance and Note 10 to the financial statements reflects use of goods and services amount of Kshs.2,870,881,882 which includes travelling and accommodation amount of Kshs.55,446,281. Included in travelling and accommodation amount of Kshs.55,446,281 is an amount of Kshs.1,285,100 which was imprest issued to a member of staff for hiring conference facilities, accommodation and meals for Hospital staff and Board Members during a board retreat. Review of the imprest surrender documents provided for audit review revealed that an amount of Kshs.1,220,100 was paid to a Hotel and Kshs.65,000 was paid to another Hotel all totalling Kshs.1,285,100 for half board accommodation and full day conference for the retreat held in Naivasha. The payments were made against a proforma invoice contrary to Section 146 of the Public Procurement and Asset Disposal Act, 2015 which states that no works, goods or services contract shall be paid for before they are executed or delivered and accepted by the Accounting Officer of a procuring entity or an officer authorized by him or her in writing except where so specified in the tender documents and contract agreement and that such an advance payment shall not be paid before the contract is signed.

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

4. Irregular Payment of Subsistence Allowances

The statement of financial performance and Note 10 to the financial statements reflects use of goods and services amount of Kshs.2,870,881,882 which includes travelling and accommodation expenses amount of Kshs.55,446,281. However, examination of payment vouchers that were provided for audit verification revealed that an amount of Kshs.3,332,759 was paid to members of staff of the Hospital while on official duties, within the country, as quarter per diem, yet, full board accommodation had been provided. This was in contravention of Section 4.3 of the Moi Teaching and Referral Hospital Human Resource Policy and Procedures Manual of August, 2018 which states that one quarter of the standard rate of subsistence allowance is paid to employees where employees travelling, boarding and lodging expenses are paid for in full directly by the hosting institution, hospital or any other Organization for international duties. It is also in contravention of Section C18(1) and C.18(4) of the Human Resource Policies and Procedures Manual for the Public Service, 2016 which states that a public officer who is required to travel on duty outside Kenya will be granted subsistence allowance at the daily rates determined by the government from time to time but where an officer’s travelling and accommodation expenses are covered in full by the Kenya Government or any other Organization, a residual allowance of up to one-quarter (¼) of the standard rate of subsistence allowance will be paid to him to cover incidental expenses.

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

5. Unremitted Payroll Deductions

The statement of financial performance and Note 11 to the financial statements reflects employee costs amount of Kshs.8,794,589,589 which includes pensions amount of Kshs.589,222,219. The pension money amount of Kshs.589,222,219 was planned, budgeted and deducted from employees during the year under review but was not supported by Real Time Gross Settlement (RTGS) schedules or bank statements showing how the amount was remitted to the relevant authorities. It was therefore not possible to confirm whether the pension money amount of Kshs.589,222,219 was remitted to the relevant authorities. Management of the Hospital acknowledged that pension dues amount of Kshs.589,222,219 is a payroll liability of unremitted salary obligations citing delays in remittance of the grants amount of Kshs.400,000,000 allocated through supplementary estimates II of 2022/2023 financial year. This was contrary to Section 19(4) of the Employment Act, 2007 which provides that an employer who deducts an amount from an employee's remuneration shall pay the amount so deducted in accordance with the time period and other requirements specified in the law, agreement, court order or arbitration as the case may be. It is also contrary to Part VII, Section 53A (1) of the Retirement Benefits Act, 2012 which states that, where an employer has made a deduction from the employee's emoluments and fails to remit the deduction, the scheme may institute proceedings for the recovery of the deduction.

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

6. Irregular Payment of House Allowances

The statement of financial performance and Note 11 to the financial statements reflects employee costs amount of Kshs.8,794,589,589 which includes house allowance amount of Kshs.808,508,350. Review of the House allowance amount of Kshs.808,508,350 revealed that one hundred and thirty-four (134) members of staff were paid excess house allowance during the year under review amounting to Kshs.17,974,667. The house allowances they were paid by the Hospital in some months were in excess of Salaries and Remuneration Commission (SRC) basic salary structure for the Hospital that was provided for audit review. Management did not provide justification and authority to pay the excess house allowance.

In the circumstances, the payment of house allowances amounting to Kshs.17,974,667 was irregular.

7. Non-Compliance with Human Resource Policy on Recruitment of Staff

Review of human resource records revealed that fourteen (14) members of staff, were recruited during the year under review. However, no records were provided to show that interviews were conducted. This was contrary to Section 2.1.3 of the Moi Teaching and Referral Hospital Human Resource Policy and Procedures Manual of August, 2018 which states that the Hospital's efficiency and effectiveness depends on the quality and competencies of the employees it engages. The Hospital shall therefore endeavor to recruit suitably qualified and experienced employees with the right skills and experience required to achieve its goals and objectives. Management of the Hospital was also in contravention of Section B.5 of the Human Resource Policies and Procedures Manual for the Public Service, 2016 which states that recruitment will be undertaken on the basis of fair competition and merit; representation of Kenya's diverse communities; adequate and equal opportunities to all gender, youth, members of all ethnic groups, persons with disabilities and minorities.

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

8. Non-Compliance with the Law on Ethnic Diversity

Review of the payroll and personnel data provided for audit review revealed that the Hospital had employed a total of three thousand, six hundred and thirty two (3,632) employees out of whom two thousand, five hundred and fifty one (2,551) or 70% of the total members of staff were from the same community contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 that requires all public establishments to seek to represent the diversity of the people of Kenya in employment of staff and that no public establishment shall have more than one third of its establishment from the same ethnic community.

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

9. Unapproved Expenditure of Board of Directors Retreats

The statement of financial performance and Note 12 to the financial statements reflects board expenses amount of Kshs.10,846,184. Review of the records provided for audit review revealed that during the year under review, there were two board retreats, one in Embu and another in Naivasha. However, approval from the Cabinet Secretary for holding the Board retreats away from the principal/registered place of business of the Hospital was not provided for audit review. Further, the justification for conducting Board business away from the principal/registered office of the Hospital was not provided contrary to Paragraph A(4) of Circular No. OP/CAB.9/1A issued by the Office of the President dated 11 March, 2020 which requires that all board business (including committee meetings) shall be transacted at the principal or registered office of the corporation (not branch offices) and board retreats are to be approved by the respective Cabinet Secretary.

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

10. Supply, Delivery, Installation and Commissioning of Medical Equipment

The statement of financial position and Note 22 to the financial statements reflects property, plant and equipment balance of Kshs.3,845,576,973 which includes plant, equipment, furniture and fittings balance of Kshs.2,043,353,111. During the year under review, the Hospital procured two hundred (200) hospital beds. The Local Purchase Order was issued to local supplier on 16 May, 2022 for the supply of two hundred (200) ordinary bed with mattress and thirty (30) infusion pumps and the goods were to be delivered by 23 August, 2022. However, on 28 September, 2022 representative from supplier wrote an email to the Chief Executive Officer of the Hospital requesting for an extension until 30 September, 2022 to deliver the goods which was approved. Review of financial records revealed the following anomalies;

i. When goods were received, the Inspection and Acceptance Committee did not prepare a report instead the Committee Members just signed on the delivery notes.

ii. Delivery for the beds, mattresses and the infusion pumps was done on 26 September, 2022. The goods were inspected by the Inspection and Acceptance Committee on the same date. However, it was noted that some of the Committee Members signed on the delivery note on the 26 September, 2022, others signed on 7 October, 2022 and others on 19 October, 2022 which was more than ten (10) days after delivery which was irregular.

iii. On 5 January, 2023, three (3) months after delivery, the Committee rejected the beds stating there was frequent breakdown upon testing the beds by the user and technical departments. The supplier later replaced the beds with new ones with the last delivery of the beds made on 3 July, 2023. However, it was not clear why installation and commissioning certificate was issued on 19 July, 2023 without having a grace period for testing the new beds for defects like the first supply of beds.

iv. As per the contract agreement, 15% of the contract sum was to be paid after five (5) months of satisfactory performance of the equipment from the date of commissioning which was on 19 July, 2023. However, review of bank statements and cashbooks revealed that the supplier was paid the total contract amount of Kshs.12,488,000 without retaining 15% of the contract sum.

In the circumstances, Management was in breach of the law and value for money on the expenditure of Kshs.12,488,000 could not be confirmed.

11. Long Outstanding Salary Advance Receivables

The statement of financial position and Note 20 to the financial statements reflects current receivables from exchange transactions balance of Kshs.2,763,729,916 which includes salary advance balance of Kshs.6,227,694. Review of the records provided for audit revealed that an amount of Kshs.1,815,388 of the salary advances had been outstanding for more than 365 days, with some outstanding salary advances dating as far back as 1999. No evidence was provided for review to show the recovery efforts made for these long outstanding advances. This is contrary to Section 3.9.7 of the Moi Teaching and Referral Hospital (MTRH) Human Resource (HR) Policy and Procedures Manual which requires that recoveries of salary advance to be made for a maximum period of twelve (12) months.

In the circumstances, Management was in breach of the law and the regularity of the salary advance balance of Kshs.6,227,694 could not be confirmed.

The audit was conducted in accordance with 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 are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the 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 overall governance were not effective.

Basis for Conclusion

1. Lack of an Approved Staff Establishment

Review of the human resource records provided for audit revealed that the Hospital did not have an approved staff establishment, which is likely to lead to duplications and overlaps of roles, wastage and misallocation of resources, bloated establishment and spiraling wage bills hampering service delivery by the Hospital to the public. This is contrary to paragraph 2 of the Office of the President (OP) Circular No. OP/CAB.1/25A of 11 September, 2018 which requires state corporations to implement the approved staff establishment and complement controls to ensure that State Corporations recruit and maintain staff within the framework of the approved establishment. It is also in contravention to Section 2.1.5 of the Moi Teaching and Referral Hospital Human Resource Policy and Procedures Manual of August, 2018 which states that all appointments shall be made with the approval of the Board or as delegated and shall be within the approved establishment.

In the absence of an approved staff establishment, the Hospital may not plan for, recruit, remunerate and retain competent staff required to achieve the Hospital's objectives.

2. Weak Information and Communications Technology (ICT) Controls

2.1 Lack of Physical Controls, Contracts and Service Level Agreements

Review of the Information and Communications Technology (ICT) Internal Control Environment of the Hospital for the year under review revealed that the Hospital's Data Centers, Closed Circuit Television (CCTV) control room and server rooms had (CCTV) cameras for surveillance. However, physical access to the facilities was not effectively controlled since the biometric access installed at the entry points of the facilities was not functional. It was observed that the Hospital had entered into a one (1) year contract with the Kenya Education Network Trust for provision of internet services effective from the 26 February, 2021. However, Management did not provide evidence of the renewal of this contract despite the Hospital retaining the services of the same service provider during the period under audit review. Management did not also provide Service Level Agreements which commits the service provider to offer the required level of service while providing a framework for addressing issues and disputes that may arise during the course of the contract especially with regards to response times for issue resolution, escalation procedures, and the availability of technical support even after hours.

The Hospital also undertook a system change over from Hospital Management Information System (HMIS) to the internally developed Moi Teaching and Referral

Hospital Enterprise Resource Planning System (MTRH-ERP) in February, 2023. However, as at the time of the audit in January, 2024, some of the modules were not yet operationalized and were lagging behind the implementation schedule. Management did not also provide documented evidence that the Accounting Officer and the Board approved the development and implementation of the new system (ERP) to replace the system previously used by the Hospital (Funsoft). Management did not also provide project initiation documents such as a project charter or project kick-off document outlining projects purpose, scope, objectives and timelines for developing the ERP software. The approved documentation is critical for setting the direction, expectations, and parameters of the ERP development project. It is also important in ensuring a common understanding among stakeholders, mitigating risks, tracking milestones and laying the groundwork for successful project execution.

2.2 Lack of Secondary Back Up Site

The Management of the Hospital also did not provide proof that the Hospital has a secondary back up site and that backup copies of the software and other information resources are kept off-site. This is in contravention to Section 13(1) (8) of the Moi Teaching and Referral Hospital Finance Policy and Procedure manual which requires that any changes made to the accounting software be documented and the reasons approved by the Executive Director and the Board, in addition Sub-section 13.2(2) of the manual states that backup copies of the software shall be kept off-site by the Chief Executive Officer on a weekly basis. It is also in contravention to Section 68(2) (c) of Public Finance Management Act, 2012 which states that in the performance of a function under Sub-section (1), an accounting officer shall ensure that all financial and accounting records the entity keeps in any form, including in electronic form are adequately protected and backed up.

In the circumstances, the effectiveness of the IT controls may be compromised resulting to organizational objectives not being achieved and also exposing the Hospital to numerous risks.

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

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 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 are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the Hospital's financial reporting process, reviewing the effectiveness of how the 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 overall 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 control 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 judgement 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 control.

- 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 control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence and 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

15 March, 2024