

REPORT OF THE AUDITOR-GENERAL ON MOI TEACHING AND REFERRAL HOSPITAL FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Moi Teaching and Referral Hospital set out on pages 1 to 36, which comprise the statement of financial position as at 30 June 2018, 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 as at 30 June 2018, 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 Moi Teaching and Referral Hospital Board Order, 1998.

Basis for Qualified Opinion

1.0 Property, Plant and Equipment

1.1 Land

As reported previously, included in the property, plant and equipment balance of Kshs.2,112,833,999 as at 30 June 2018 is Uasin Gishu Memorial Hospital land valued at Kshs.71,037,687. However, the ownership of Uasin Gishu Memorial Hospital land is subject to a court case between the hospital and the former directors of the hospital. Although the hospital management has explained that the Constitutional Court to which the case was referred ruled in favour of Moi Teaching and Referral Hospital on 10 March 2010, the former directors appealed against the judgement and the Court of Appeal issued judgement in favour of Uasin Gishu Memorial Hospital Ltd on 6 October 2017. The State Law Office was subsequently served with a demand letter from Uasin Gishu Memorial Hospital Ltd claiming a compensation of Kshs.1,738,630,267. The Hospital Board management approved filing of an appeal at the Supreme Court. The Hospital and the Attorney General have since filed the appeal and application of extension of time to appeal. Under the circumstances, until the appeal is heard and determined, the ownership status of the land valued at Kshs.71,037,687 included in the property, plant and equipment balance of Kshs.2,112,833,999 as at 30 June 2018 could not be confirmed.

1.2. Encroachment of Land

Also as reported in the previous year, available records indicate that the original plan for the hospital land referenced as F/R No.176/12 was revised in 2004. The revised plan of 2004 was referenced as F/R No.430/188 and indicated that the approximate area of the

hospital land was 29.67 hectares. The revision of the original plan culminated in the production of the Partial Development Plan (PDP) of reference number, ELD 17/2001/3A. However, scrutiny of the two plans of hospital land indicates that, the original boundaries changed course and excluded sections of F/R No.315/128(532 and 533), F/R No.316/129 (534 and 535), F/R No.166/149 (180 and 192) and of F/R No.166/62 in the revised plan for 2004.

Further, an inspection of the land revealed that, there are permanent structures built on the encroached land indicated above. In addition, management did not avail documentary evidence indicating efforts made to reclaim the encroached land.

In consequence, it was not possible to confirm the accuracy and completeness of the size and valuation for land included in the financial statements as at 30 June 2018.

2.0 Trade and Other Receivables

2.1 Corporate Clients Debtors

As previously reported, included in trade and other receivables balance of Kshs.1,239,842,450 as at 30 June 2018 is corporate client debtors of Kshs.459,549,918 as disclosed in Note 7.2 to the financial statements out of which Kshs.184,252,397 relates to 2016/2017 and prior years. Although management had demonstrated some efforts made at debt recovery, not much had been achieved.

Consequently, the validity and recoverability of corporate debts balance of Kshs.459,549,918 as at 30 June 2018 could not be confirmed.

2.2 AMPATH Debtors

Included in trade and other receivables balance of Kshs.1,239,842,450 is an amount of Kshs.63,646,365 in respect of AMPATH debtors. Available information revealed that this is a figure brought forward over years. However, audited AMPATH financial statements were not provided for audit verification.

In the circumstances, the accuracy, validity and completeness of the AMPATH debtors balance of Kshs.63,646,365 as at 30 June 2018 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Moi Teaching and Referral Hospital (MTRH) in accordance with ISSAI 30 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

Property, Plant and Equipment - Construction of Multi-Specialty Hospital

The Hospital is in the process of constructing a multi-specialty 2000 bed Moi Teaching and Referral Hospital in Kiplombe area within Eldoret municipality. The land measuring 80.94 hectares for the project was acquired from the Ministry of Interior under prisons department. As at the time of audit, the management had a certificate of lease with title number Eldoret municipality block 10/2035 size 80.94 hectares with the lessor being Government of Kenya and lessee the Cabinet Secretary Treasury. In the year 2017/2018 the Hospital management spent an amount of Kshs.10,845,965 on due diligence trip to China as part of procurement process for the project and total of Kshs.1,226,760 being costs for acquisition of certificate of lease for the land . However, available information revealed that signing of commercial contract and negotiation with the proposed financier for the project are yet to be done.

My opinion is not however, qualified in respect of this matter.

Key Audit Matters

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

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 matter(s) described in the Basis for [Conclusion on Lawfulness and Effectiveness in Use of Public Resources/ Qualified Opinion] 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. Unremitted Salary Obligation

The statement of financial position as at 30 June 2018 reflect a salary obligations figure of Kshs.532,028,387 as disclosed under note 9.4 to the financial statements. Which include an amount of Kshs.99,443,982 deducted from the payroll for the month of May 2018 and prior months that had not been remitted to the respectful entities. The management is in breach of the law and failure to remit the deductions may attract penalties and interest charges.

2. Personal Emoluments - Staff Composition

A review of the staff establishment at the Moi Teaching and Referral Hospital (MTRH) revealed that out of the total staff composition of 3749 during the financial year 2017/2018, 69.8% is occupied by the dominant ethnic community and 30.20% by the rest. This is contrary to Section 7(1) and (2) of the national cohesion and integration Act, 2008 which requires that all public establishments shall seek to represent the diversity of the people of

Kenya in employment of staff and no public establishment shall have more than one third (1/3) of its establishment from the same ethnic community. This also contravenes Cap 232 (h) of the Constitution of Kenya on the principles and values of National Cohesion. The management is therefore in breach of the law.

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 INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter(s) described in the Basis for Qualified Opinion section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. 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 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 Those Charged with Governance

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

In preparing the financial statements, management is responsible for assessing the Moi Teaching and Referral Hospital ability to continue as a going concern/ sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the National Government either intends to liquidate the Moi Teaching and Referral Hospital or to cease operations, or have no realistic alternative but to do so.

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

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

Those charged with governance are responsible for overseeing the Moi Teaching and Referral Hospital financial reporting process, reviewing the effectiveness of how the entity 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 of the Financial Statements

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 control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control 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.

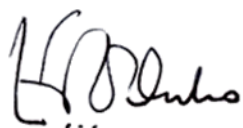
Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Moi Teaching and Referral Hospital 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 the management.
- Conclude on the appropriateness of the management's use of the going concern 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 Moi Teaching and Referral Hospital ability to continue as a going concern or 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 Moi Teaching and Referral Hospital to cease to continue as a going concern or 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 Moi Teaching and Referral Hospital to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the 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 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 Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

21 May 2019

Appendix

MOI TEACHING AND REFERRAL HOSPITAL UNREMITED SALARIES OBLIGATIONS

AS AT 30TH JUNE 2018		June 2018 Deduction Sampled from Payroll Summary	May and Prior Months
	Kshs	Kshs	Kshs
PAYE	96,721,402	99,632,379.00	(2,910,977.29)
NSSF	1,452,600	746,000.00	706,600.20
NHIF	5,518,600	5,721,400.00	(202,800.00)
SACCOs	20,024,210	8,588,339.00	11,435,870.79
Nancy Kaari Samuel	3,500	3,500.00	-
Hospital-Wide Benevolent Fund	1,896,329	746,400.00	1,149,929.00
MTRH Pension Scheme	123,934,949	13,332,718.84	110,602,230.03
Flomena J. Choge	23,248	11,624.00	11,624.00
Moi University School Fees/pension	100,000	375,000.00	(275,000.00)
Union Dues	880,861	1,436,716.20	(555,855.30)
MADES Welfare	1,112,447	1,112,446.85	-
Laboratory Staff S.H. Group	357,506	357,506.00	-
Sub Staff Welfare	323,735	323,735.00	-
Health Records Information System Welfare	59,228	59,228.16	-
Security Self Help Group	150,354	150,354.00	-
Nutrition Welfare	169,566	169,566.00	-
Supplies Welfare	324,202	324,202.00	-
Radiology Welfare	41,130	41,130.00	-
Nurses Welfare	716,224	716,224.00	-
Occupational Therapy Welfare	116,826	116,826.00	-
Medical Social Work Welfare	202,360	202,360.00	-
ELD. Clinical Officers Welfare	321,208	321,208.00	-

*Report of the Auditor-General on Moi Teaching and Referral Hospital Financial Statements for the year ended
30 June 2018*

Central Services Welfare	47,300	47,300.00	-
Catering Welfare	266,759	266,758.75	-
Secretaries Welfare	36,300	36,300.00	-
Transport Welfare	116,910	116,910.00	-
	Kshs	June 2018 Deduction Sampled from Payroll Summary Kshs	May and Prior Months Kshs
Pharmacy Welfare	328,594	328,594.00	-
Dental Welfare	133,812	133,812.00	-
Physiotherapy Welfare	115,800	115,800.00	-
SANPRE Welfare	170,583	170,583.00	-
ICT Welfare	272,989	272,988.69	-
MTRH Administrators Welfare	51,000	51,000.00	-
MTRH Benevolent Fund	335,560	335,560.00	-
HELB Loan	453,871	445,557.00	8,313.86
Save as You Earn	9,501	9,500.60	-
Senior Principle Magistrate Kabarnet	3,000	3,000.00	-
Barclay Bank Loan	4,289,238	4,302,582.00	(13,343.70)
Rose Keino	32,982	32,982.00	-
KCB Loan	83,621,244	83,256,212.00	365,032.05
CFC Bank Loan	91,094	45,574.00	45,519.52
Platinum Credit Loan	420,889	1,658,184.00	(1,237,294.97)
Family Finance Loan	895,553	649,711.00	245,842.00
NBK Loan	1,191,515	574,016.00	617,499.40
Equity Bank Loan	432,322	193,751.00	238,571.00
Standard Bank Loan	11,737,558	11,737,527.00	31.29
Insurance	4,060,864	6,473,661.00	(2,412,796.88)
Hire Purchase	2,595,699	2,645,994.00	(50,294.70)
NACOA	15,000	12,500.00	2,500.00
Equatorial Bank Loan	190,706	-	190,706.00
Faulu Bank Loan	3,924,406	3,924,406.00	-
Bank of Africa Loan	1,139,210	569,605.00	569,605.36
Cooperative Bank Loan	27,825,960	28,050,490.00	(224,530.48)
Old Mutual	380,000	47,500.00	332,500.00

MTRH Self Help Group	18,000	10,500.00	7,500.00
Net Pay	132,373,684	151,576,682.17	(19,202,998.60)
TOTAL	532,028,387	432,584,404.26	99,443,982.58