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 39, which comprise the statement of financial position as at 30 June, 2020, 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 the Moi Teaching and Referral Hospital as at 30 June, 2020, 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) and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Variance in Revenue Collection and Invoicing

The statement of financial performance reflects revenue from exchange transactions of Kshs.3,355,020,975 which according to Notes 15.2 and 15.3 of the financial statements includes cost sharing amount of Kshs.2,512,062,987 and income generating unit amount of Kshs.767,261,210. An examination of the revenue schedule obtained from the Fun Soft system used in the collection and analysis of revenue collection in support of the revenue revealed that total invoices were at variance with the actual collection as shown below:
<table>
<thead>
<tr>
<th>Ward</th>
<th>Invoice Amount as per the Fun Soft System Kshs.</th>
<th>Actual Collection as per the Fun Soft System Kshs.</th>
<th>Variance Kshs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nyayo Ward</td>
<td>647,258,726</td>
<td>6,466,474,283</td>
<td>(5,819,215,550)</td>
</tr>
<tr>
<td>Surgical</td>
<td>717,465,411</td>
<td>784,343,732</td>
<td>(66,878,320)</td>
</tr>
<tr>
<td>Riley Mother Wards</td>
<td>362,524,260</td>
<td>364,399,336</td>
<td>(1,875,076)</td>
</tr>
<tr>
<td>Shoe 4 Africa</td>
<td>209,573,844</td>
<td>215,018,664</td>
<td>(5,444,819)</td>
</tr>
<tr>
<td>Amenity</td>
<td>247,360,514</td>
<td>250,478,070</td>
<td>(3,117,556)</td>
</tr>
<tr>
<td>Memorial</td>
<td>367,830,470</td>
<td>328,240,634,902</td>
<td>(327,872,804,432)</td>
</tr>
</tbody>
</table>

The variances were not explained or reconciled. Consequently, the accuracy and completeness of the revenue from exchange transactions of Kshs.3,355,020,975 for the year ended 30 June, 2020 could not be confirmed.

1.1 Unsupported Out-Patient Cost Sharing Revenue

The cost sharing revenue of Kshs.2,512,062,987 as disclosed in Note 15.2 of the financial statements includes income totalling Kshs.446,154,772 from outpatient department - Kshs.204,509,895, dental department - Kshs. 9,290,266, oncology department - Kshs.208,686,278 and AMPATH - Kshs.23,668,333. However, monthly total figures in support of these revenue heads were not provided.

In the circumstances, the accuracy and completeness of the cost sharing revenue totalling Kshs.2,512,062,987 for the year ended 30 June, 2020 could not be confirmed.

2. Unsupported Medical Records and Accountable Documents

The statement of financial performance for the ended 30 June, 2020 reflects operational costs of Kshs.865,879,791 as disclosed in Note 17.4 to the financial statements, includes medical records and accountable documents figure of Kshs.20,582,960. However, tender documents for the award of Tender No. MTRH/T/C1/2016-2018 for supply of medical records were not provided for audit review.

Consequently, the completeness and accuracy of the expenditure relating to medical records and accountable documents of Kshs.865,879,791 for the year ended 30 June, 2020 could not be confirmed.

2.1 Unsupported Institutional Research Expenses

The operating costs of Kshs.865,879,791 also include institutional research expenses of Kshs.1,000,000 as disclosed under Note 17.4 to the financial statements. An audit review of the expenditure documents revealed that this amount was paid to Institutional Research and Ethics Committee (IREC) of the hospital vide payment...
voucher No.84892 dated 22 July, 2019. However, no supporting documents were provided to show the purposes for which this expenditure was incurred.

In the circumstances, the accuracy and completeness of the operational costs of Kshs.865,897,791 for the year ended 30 June, 2020 could not be confirmed.

3. Anomalies in Cash and Cash Equivalents

The statement of financial position as at 30 June, 2020 reflects cash and cash equivalents balance of Kshs.708,389,960 which according to Note 18.1 of the financial statements, were held in six (6) bank accounts, two Mpesa accounts and petty cash. A review of the cash books provided by the institution in support of the balances revealed the following anomalies:

3.1. Cash balances totalling Kshs.1,247,240 reflected in three cash books were not included in the financial statements. Further, Mpesa cash books were not maintained

3.2. Non-communicable Diseases (NCD) project cash book was not provided and the balance of Kshs.75,231,905 disclosed in Note 18.1 for the bank account could not be confirmed.

3.3. Unexplained and unreconciled variances were noted between the balances disclosed in Note 18.1 to the financial statements and the cash book as indicated below:

<table>
<thead>
<tr>
<th>Account</th>
<th>Balance as per Note 18.1 to the Financial Statements (Kshs.)</th>
<th>Balance as per Cash Book (Kshs.)</th>
<th>Variance (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petty Cash</td>
<td>91,201</td>
<td>75</td>
<td>91,126</td>
</tr>
<tr>
<td>Main Account</td>
<td>438,663,589</td>
<td>700,703,912</td>
<td>(262,040,323)</td>
</tr>
<tr>
<td>Training Centre</td>
<td>1,490,678</td>
<td>1,617,522</td>
<td>(126,844)</td>
</tr>
</tbody>
</table>

Consequently, the accuracy, completeness and existence of cash and cash equivalents balance of Kshs.708,389,960 as at 30 June, 2020 could not be confirmed.

4. Long Outstanding Debts

The statement of financial position as at 30 June, 2020 reflects net debtors balance of Kshs.1,302,549,618 and as disclosed in Note 18.2 to the financial statements. The net debtors of Kshs.1,302,649,618 disclosed in Note 18.2 includes debtors totalling Kshs.741,875,870 related to 2018/2019 financial year and prior years for which no aging analysis was provided for audit.
Further, the Management did not provide correspondences from The National Treasury to support Ministry of Health grant debt totalling Kshs.444,609,989 for audit.

In the circumstances, the accuracy, completeness and recoverability of the net debtors totalling Kshs.1,320,549,618 could not be confirmed.

4.1 Unsupported Prepayments and Proposed Write-off

The net debtors balance of Kshs.1,302,549,618 disclosed in Note 18.2 to the financial statements include prepayments of Kshs.13,508,478 and proposed write off of Kshs.522,046,162. However, supporting documents for prepayments and proposed write-off amounting to Kshs.2,567,689 and Kshs.444,878,751, respectively were not provided for audit review as detailed below:

<table>
<thead>
<tr>
<th>Details</th>
<th>Amount (Kshs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepayments</td>
<td></td>
</tr>
<tr>
<td>Group Personal Accident Cover</td>
<td>1,567,689</td>
</tr>
<tr>
<td>Fuel and Gas</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Sub Total</td>
<td>2,567,689</td>
</tr>
<tr>
<td>Proposed write-off</td>
<td></td>
</tr>
<tr>
<td>Identity cards</td>
<td>280,386,289</td>
</tr>
<tr>
<td>Commitment Letters</td>
<td>126,270,093</td>
</tr>
<tr>
<td>Logbooks</td>
<td>4,692,834</td>
</tr>
<tr>
<td>Title deeds</td>
<td>33,529,535</td>
</tr>
<tr>
<td>Sub-total</td>
<td>444,878,751</td>
</tr>
<tr>
<td>Grand Total</td>
<td>447,446,440</td>
</tr>
</tbody>
</table>

Consequently, the accuracy and completeness of the trade and other receivables of Kshs.1,302,549,618 could not be confirmed.

4.2 Irregular Extension of Credit Services

Disclosed in Note 18.2 to the financial statements are net debtors of Kshs.1,302,549,618 which includes individual clients’ debtors balance of Kshs.142,411,851. A review of the individual clients’ debtors’ ledger revealed that the hospital extended credit services during financial year 2019/2020 to individual clients totalling Kshs.2,452,560 against commitment letters as securities contrary to the credit policy manual of 2016 and board resolution.

Consequently, the accuracy, completeness and recovery of the net debtors of Kshs.1,320,549,618 as at 30 June, 2020 could not be confirmed.
4.3 Irregular Salary Advance to Interns

The net debtors of Kshs.1,302,549,618 as at 30 June, 2020 includes salary advance balance of Kshs.4,205,989 out of which Kshs. 930,000 was advanced to interns in the financial year 2019/2020 and prior year. A review of the documents provided revealed that the interns who were paid salary advance had been contracted by the hospital for less than twelve (12) months. This contravenes the human resource policy.

Further, out of the total amount advanced, Kshs.890,000 had been outstanding for more than twelve (12) months. The Management did not provide evidence of the efforts made to recover the amount advanced as required by the policy. Therefore, the hospital might not recover the amount of Kshs.930,000 advanced to interns.

Consequently, the completeness, regularity and recoverability of the salary advance of Kshs. 4,205,989 included in the net debtors of Kshs.1,320,549,618 could not be confirmed.

4.4 Lack of Policy on Provision for Doubtful Debts

Disclosed in Note 17.6 and the statement of financial performance is provision for doubtful debts of Kshs.35,508,439. However, review of the accounting policies as stated in the financial statements revealed that the Management has not put in place any policy on the provision for doubtful debts.

Consequently, the completeness of the provision for doubtful debts of Kshs.35,508,439 for the year ended 30 June, 2020 could not be confirmed.

5. Unsigned Stock Take Report Containing Expired Drugs

The statement of the financial position as at 30 June, 2020 reflects inventories balance of Kshs.356,222,655 and as disclosed in Note 18.3 of the financial statements. An review of stock take report provided in support of the inventory figure revealed that expired drugs valued at Kshs.4,543,237 were included in the inventories. Further, the stock take report provided was not signed by the respective officers who participated in the stock take exercise

Consequently, the accuracy of the inventories balance of Kshs.356,222,655 as at 30 June, 2020 could not be confirmed.

6. Undisclosed and Unaccounted for Radiotherapy Equipment

The statement of financial position as at 30 June, 2020 reflects property, plant and equipment balance of Kshs.2,510,567,120 and as disclosed in Note 14. The National Hospital Insurance Fund (NHIF) advanced Kshs.312,669,869 loan to Moi Teaching and Referral Hospital (MTRH) for purchase of radiotherapy equipment with additional legal fee of Kshs.68,800,240 charged to the loan. However, the legal fees were disputed by Hospital as per the correspondence provided for audit.
As at the time of audit, the items listed below had been received:

<table>
<thead>
<tr>
<th>No.</th>
<th>Item Received as per Delivery Notes</th>
<th>Quantity</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>MP1 Farmer chamber holder</td>
<td>1</td>
<td>01/12/2020</td>
</tr>
<tr>
<td>2</td>
<td>Dosimetry</td>
<td></td>
<td>09/03/2020</td>
</tr>
<tr>
<td>3</td>
<td>Quality Assurance/Quality Control Phancom</td>
<td>1</td>
<td>27/04/2021</td>
</tr>
<tr>
<td>4</td>
<td>Immobilization devices</td>
<td></td>
<td>23/03/2020</td>
</tr>
<tr>
<td>5</td>
<td>Digital simulator</td>
<td></td>
<td>30/08/2020</td>
</tr>
<tr>
<td>6</td>
<td>Linear Accelerator</td>
<td>1</td>
<td>26/09/2020</td>
</tr>
<tr>
<td>7</td>
<td>CT Simulator</td>
<td>1</td>
<td>20/08/2020</td>
</tr>
<tr>
<td>8</td>
<td>Lead glass</td>
<td>1,000</td>
<td>19/08/2020</td>
</tr>
<tr>
<td>9</td>
<td>Mobile C-Arm x-ray unit for Brachytherapy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Flexitron System HDR</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

However, it was not possible, to confirm the actual number of items that were to be delivered together with their respective values. Further, the items that were received within the year were not disclosed in the property, plant and equipment (PPE) movement schedule.

In the circumstances, the accuracy and completeness of property, plant and equipment balance of Kshs.2,510,567,120 as at 30 June, 2020 could not be confirmed.

6.1 Unsupported Disposal of Motor Vehicles

The statement of financial position as at 30 June, 2020 reflects property, plant and equipment balance of Kshs.2,510,567,120 which includes motor vehicles of Kshs.28,027,742 A review of procurement records revealed that motor vehicles with a total value of Kshs.12,753,391 and as disclosed in Note 14 were disposed-off through donation and sale to the respective bidders. However, no records for motor vehicles KAY 238U and KAL 384U with a total value of Kshs.5,135,565 were availed for audit review. In addition, although a motor vehicle registration number KAK 592P was donated to Rift Valley Technical Training Institute. However, transfer to the Institute was not done since the log book was still in the name of Uasin Gishu Memorial Hospital/NIC Bank.

In the circumstances, the accuracy and completeness of property, plant and equipment balance of 2,510,567,120 for the year ended 30 June, 2020 could not be confirmed.
7. Unsupported National Hospital Insurance Fund Loan

As previously reported, the financial statements of Moi Teaching and Referral Hospital reflects a balance of Kshs.87,557,456 under current assets reported as National Hospital Insurance Fund (NHIF) Loan and as disclosed in Note 18.4 to the financial statements.

During the year under review, an amount of Kshs.36,229,963 was paid to NHIF as loan repayment by the Hospital for which about 90% of the parts of the equipment had been received as at the time of audit in May, 2021.

In addition, the financial statements of NHIF for the year ended 30 June, 2020 reflects an unquoted investment of a loan advanced to MTRH of Kshs.312,669,869 with a legal fee of Kshs.68,800,240 and an accrued interest of Kshs.10,395,817, which has not been reflected as loan recovery of Kshs.87,557,456 and a loan balance of Kshs.314,192,699 as at 30 June, 2020. The financial statements of MTRH however reflects NHIF loan of Kshs.87,557,456 but treated as a current asset without a corresponding disclosure of a long term outstanding loan due to NHIF.

Consequently, the accuracy and completeness of the NHIF loan of Kshs.87,557,456 and the undisclosed outstanding loan balance 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 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 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

Budgetary Control and Performance

During the year under review, Moi Teaching and Referral Hospital had a total expenditure budget of Kshs.10,670,621,673 comprising recurrent budget of Kshs.10,219,371,673 and capital budget of Kshs.451,250,000 as reflected in the statement of comparison of budget and actual amounts for the year ended 30 June, 2020. However, the following anomalies have been noted:
The statement of comparison of budget and actual amounts does not reflect full details or a breakdown of the capital budget amount including name of projects, adjustments, unspent balances brought forward and final budget figures for the capital projects.

Explanations on variances between the budgeted and actual amounts of more than 10%, changes between original and final budget figures and reconciliation between figures in the statement of financial performance and actual budget were not provided contrary to the reporting guidelines issued by 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. Staff on Acting Capacity Confirmed without Interviews

A review of personnel records for the year under audit, revealed that fifteen (15) officers in various departments had been acting for more than six (6) months contrary to Section 34(3) of the Public Service Commission Act, 2017 and Part 4.4.5 of Moi Teaching and Referral Hospital Human Resource Policy and Procedures Manual of 2018.

Further, out of the fifteen (15) officers who were acting in the vacant senior positions, nine (9) were later appointed/confirmed by promotion. However, no evidence of internal advertisement and interviews conducted as required under Part 2.32.3 of Moi Teaching and Referral Hospital Human Resource Policy and Procedures Manual of 2018 were provided for audit.

The Management was therefore in breach of the law.

1.1. Non-Compliance with Law on Ethnic Composition

A review of personnel records and staff establishment for the year ended 30 June, 2020 revealed that MTRH had fourteen (14) senior management employees out of which eleven (11) or 79% came from the dominant community. Out of 3,726 employees in other cadres, 2,589 or 69% came from dominant community. Further, the Hospital recruited 113 new employees during the year under audit out of which 72 or 64% came from also the dominant ethnic community in the county.
The Management failed to comply with the provisions of Section 7(1) and (2) of the National Cohesion and Integration Act 2008, Article 232 (1)(h) of the Constitution of Kenya and Part 2.14.9 of Moi Teaching and Referral Hospital Human Resource Policy and Procedures Manual 2018.

The Management was therefore in breach of the law.

1.2. Failure to Comply with a Third of Basic Pay Rule

A review of the payroll of the Hospital for the year ended 30 June, 2020 revealed that a number of employees between the twenty-four (24) and five hundred and forty-four (544) in any particular month, earned a net salary of less than a third (1/3) of the basic salary contrary to Section C.1(3) of the Public Service Commission (PSC) Human Resource Policies, 2016 as summarized below;

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of employees whose net salary was less than one third of their basic salary.</td>
<td>24</td>
<td>542</td>
<td>544</td>
<td>164</td>
<td>226</td>
<td>255</td>
</tr>
<tr>
<td>Total number of employees as per payroll</td>
<td>3654</td>
<td>3659</td>
<td>3658</td>
<td>3686</td>
<td>3686</td>
<td>3721</td>
</tr>
</tbody>
</table>

The Management has not given explanation for failure to comply with the policy.

In the circumstances, the Hospital contravened Section C.1(3) of the Public Service Commission (PSC) Human Resource Policies, 2016 as this may expose the staff to pecuniary embarrassment.

1.3. Payment of Salaries to Staff Beyond Sixty(60) Years

The Hospital paid gross salaries totalling Kshs.6,250,952 from January, 2020 to June, 2020) to four (4) employees who had attained mandatory retirement age of 60 years and continued to draw salaries without the requisite Authority.

The Management was therefore in breach of law.

2. Unapproved and Irregular Medical Officers Post Graduate Training

The statement of financial performance reflects administrative costs of Kshs.449,030,014 which as disclosed in Note 17.3 to the financial statements, includes Kshs.9,661,674 and Kshs.44,134,119 for medical officers post graduate training and staff development respectively, in the year ended 30 June, 2020. The following anomalies were noted:
2.1. There were no approvals from the Human Resource Management and Advisory Committees (HRMAC) for sampled training for seventeen (17) employees whose total fees and other payments amounted to Kshs.6,964,151.

2.2. A total of twenty (20) employees who were sponsored to attend various courses who had signed bonds amounting to Kshs.76,066,404.70 had defaulted to repay Kshs.74,656,405.70 for their respective bonded amounts. Further, ten (10) employees with outstanding bond of Kshs.4,926,389.00 were under litigation.

2.3. Some employees were paid per diem and mileage allowances totalling Kshs.160,000 and Kshs.27,343, respectively despite full board payments of residential training fees to Kenya school of Government by the Hospital for the various trainings which they attended during the year.

Consequently, the regularity of administrative costs of Kshs.449,030,014 could not be confirmed.

3. Anomalies in Course Administration and Subscriptions

The statement of financial performance for the year ended 30 June, 2020 reflects operational costs of Kshs.865,879,791 which includes course administration and subscription fee of Kshs.8,549,368. Included in the latter is an expenditure of Kshs.1,003,000 incurred on training of students undertaking Higher Diploma in Nursing on basic life support and advanced cardiac life support services. However, the following anomalies were observed:

3.1. There was no competitive bidding during identification of the service providers, yet advance payment was made for the services without an existing contract between the service provider and the Hospital. In addition, no security bond was provided by the service provider that would cushion the Hospital from breach of the terms of advance.

3.2. The payment voucher indicated that the payment was made to an individual employee and not the firm (Mediplus) which had been contracted to provide the services.

3.3. A detailed training program for basic life support and advanced cardiac life support was not provided for audit review and the basic life support training expenditure was only supported with attendance register for one day.

In the circumstances, the Management was in breach of the law.
3.4. Anomalies in Award of Tenders for Maintenance of Building and Stations

The operational costs of Kshs. 865,879,791 for the year ended 30 June, 2020 includes maintenance of building and stations expenditure of Kshs. 73,801,617. Included in the expenditure are payments for supply of hardware and electrical items totalling Kshs.16,929,743. However, the firms which were awarded the contracts did not meet the tender award requirements under contract numbers MTRH/T/15/2018-2019 and MTRH/DP/11/2018-2019:

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

3.5 Unsupported Supply of Hospital Linen

The operational costs of Kshs.865,879,791 also includes hospital linen expenditure of Kshs.4,432,930. However, tender documents relating to Tender No. MTRH/T/D11/2016-2018 for supply of hospital linen were not provided for audit.

As a result, the regularity of the expenditure of Kshs.865,879,791 on operational costs could not be confirmed.

3.6 Anomalies in Police Allowances

The operational costs of Kshs.865,879,791 also includes contracted professional services expenditure of Kshs.18,709,466. Included in this amount are payments totalling Kshs.8,156,878 made to police officers stationed at the hospital as special duty allowances out of which Kshs.2,328,834.76 was PAYE. A review of the related payment vouchers and supporting documents revealed that the Hospital hired police officers using private rates on a public utility which is described under the Kenya Gazette Notice No. 955 dated 29 December, 2006 as a public good and interest where the Inspector General could deploy police officers.

The payments were being made to individual police officers instead to the National Police Service. Further, the police officers were paid untaxed allowances and the resulting taxes of Kshs.2,328,843.76 were borne by the institution. Also, no board minutes approving the payments were provided for audit.

Consequently, the regularity of the expenditure of Kshs.865,879,791 incurred operational costs could not be confirmed.

3.7 Unsupported Patient Refunds

The operational costs of Kshs.865,879,791 also includes patient refunds/ deposit refunds of Kshs.12,808,927. However, the refunds made during the year were not supported by any documented policy guidelines by the Management.

In the circumstances the regularity of the patients refunds totalling Kshs.865,879,792 made during the year could not be confirmed.
4. Avoidable Mileage Allowance

The statement of financial performance for the year ended 30 June, 2020 reflects board expenses of Kshs.11,434,299 which includes board sitting allowances of Kshs.10,390,299. A review of the records relating to this expenditure revealed payment of mileage allowances totalling Kshs.556,268 to one board member who claimed to have travelled from Mandera to Eldoret and back by road on a personal vehicle. A cost-effective means of transport through air transport would have cost approximately Kshs.150,000 for a return ticket, thereby occasioning a saving of Kshs.406,268.

Consequently, regularity and value for money for the expenditure of board expenses of Kshs.11,434,299 could not be confirmed.

4.2 Irregular Procurement of Air Ticketing Services

The board sitting allowances of Kshs.10,390,299 for the year ended 30 June, 2020 includes payments totalling Kshs.929,770 which were made to one firm for provision of air ticketing services to board members on various dates. An review of the institution’s list of registered suppliers for the service revealed that four (4) suppliers were listed to offer air ticketing, tour and travel services.

The Hospital, however, procured the services from only one supplier directly without obtaining quotations from the other three registered suppliers contrary to Section 106 (2) of the Public Procurement and asset Disposal Act, 2015.

In the circumstances, the regularity and value for money for the expenditure of Kshs.10,390,299 could not be confirmed.

5. Unsupported and Unapproved Waivers and Exemptions

The statement of financial performance for the year ended 30 June, 2020 reflects waivers and exemptions of Kshs.371,573,303 and as disclosed in Note 17.7 to the financial statements. A review of schedules and documents provided in support of the waivers and exemptions revealed that the waivers have been increasing for the last five years. The waiver of Kshs.390,076,568 in the year under review and whose supporting schedule reflects a total of twelve thousand four hundred and four (12,404) waiver cases, represented a 13 % increase from the previous year.

The Hospital Management Information System reflects a figure of Kshs.373,767,879 instead of Kshs.390,076,568 in respect of waivers for the year 2019/2020, resulting to unexplained variance of Kshs.16,308,689.

The Chief Executive Officer(CEO) approved waivers of more than the authorized limit of Kshs.100,000 amounting to Kshs.207,450,902 which required approval of the Cabinet Secretary contrary to Regulation 148(6) of the Public Finance Management
Further, CEO approved waivers of Kshs.182,625,666 which did not exceed Kshs. 100,000 at any one incidence as required by regulation 148(5) of the of the Public Finance Management (National Governments), 2015. However, there was no evidence indicating that the report of the waivers was submitted to the National Treasury and the Auditor-General as required under the regulations.

The schedule provided in support of the waivers and exemptions were incomplete and did not include information such as invoice and waiver form numbers against the waiver beneficiaries’ names.

In the circumstances, the regularity of the waivers and exemptions of Kshs.371,573,303 for the year ended 30 June 2020 could not be confirmed.

6. Anomalies in Supply of White/Whole Meal Bread

The statement of financial performance reflects expenditure of Kshs.1,409,651,606 on use of goods and services for the year ended 30 June, 2020 which includes Kshs.136,993,760 relating to food and ration. Included in this amount are payments totalling Kshs.8,169,422 made to a bakery for supply of white/whole meal bread of 800 grams. A review of the quotation documents revealed that the following anomalies:

Quotations were sent to seven (7) firms and were responsive but none of them was in the list of registered suppliers for the provision of foodstuff perishables (White/Whole Meal Bread 800 grams) for the years 2018 to 2020. The bakery that was awarded the tender, being the lowest bidder was not in the list of registered suppliers for provision of foodstuff perishables (White/Whole Meal Bread 800 grams) for the years 2018 to 2020.

The procurement record for recommendation of award of 2018-2019 was dated 18/04/2016. The tender number quoted in the Local Purchase Orders (LPOs) for the Bakery was not for supply of bread.

Therefore, the regularity and validity of payments of Kshs. 1,409,651,606 on use of goods and services could not be confirmed.

7. Irregular Purchase of Rice from National Cereals and Produce Board (NCPB)

The use of goods and services of Kshs. 1,406,651,606 s reflected in the statement of financial performance and as disclosed in Note…..includes food and ration expenditure of Kshs.136,993,760 for the year ended 30 June, 2020. This amount includes purchase of rice from NCPB through imprests drawn in the names of two officers vide warrant numbers 23621 and 23268 each of Kshs.1,657,500. However, a review of the payment vouchers, surrender documents, invoices, official receipts and professional opinion for quotation no. MTRH/DP/248/2019-2020 dated 08 November, 2019, revealed the following anomalies:
(i) The imprest surrender for imprest warrant number 23268 had no official receipt from National Cereals and Produce Board. The imprest holder used invoice number 082734 to surrender the imprest which is the same invoice whose copy was used in surrender of imprest warrant number 23621.

(ii) The imprest surrender for imprest warrant number 23621 had an official receipt from National Cereals and Produce Board. However, the descriptions of the goods receipted did not match the invoices attached.

(iii) Tender documents were not prepared and issued for the tender number MTRH/DP/248/2019-2020 which is contrary to Section 104(a) of the Public Procurement and Disposal Act, 2015.

(iv) An ad hoc evaluation committee was not formed which is contrary to Section 104(b) of the Public Procurement and Disposal Act, 2015.

(v) The Local Purchase Order attached were not endorsed by National Cereals and Produce Board (NCPB).

(vi) Whereas the two payments totalling Kshs.3,315,000 were made directly to NCPB, it was not clear why an impression was created that these were imprests issued to staff and payment vouchers prepared in the names of the staff instead of NCPB as the payee.

Therefore, the regularity of the use of goods and services of Kshs.1,406,651,606 could not be confirmed

8. Anomalies in Provision of Hotel Services

The use of goods and services expenditure of Kshs.1,409,651,606 for the year ended 30 June, 2020 also include cafeteria supplies expenditure of Kshs.6,847,012. Included in this amount are payments totalling Kshs.3,022,650 made to a restaurant for provision of hotel services. However, a review of the list of the registered suppliers for 2018-2020, quotations number MTRH/044/2018-2019, procurement report number 1/575/2018-2019 dated 21/01/2018 revealed following anomalies:

(i) Quotations were sent to eight (8) firms and five (5) firms responded. However, all the firms were not in the list of registered suppliers for provision of services.

(ii) A Restaurant was sent quotation number B5 which was however submitted by another Restaurant, the firm that was finally awarded the contract.

(iii) The hospital does not have a list of registered suppliers for provision of hotel services.
In the circumstance, the regularity of use of goods and services expenditure of Kshs.1,409,651,606 could not be confirmed.

9. **Anomalies in Supply of Food Staff**

The food and ration expenditure of Kshs.136,993,760 for the year ended 30 June, 2020 also include payments totalling Kshs.9,392,156 made to a Company Limited for delivery of chicken broilers, gizzards and eggs. A review of the tender advertisement of 26 June, 2018 and tender evaluation committee minutes for tender number MTRH/T/12/2018-2019 revealed the following anomalies:

(i) Tender No. MTRH/T/12/2018-2019 was for supply and delivery of foodstuff(poultry) only for the financial year 2018-2019. However, the same tender was used to award the supplier tenders for the financial year 2019-2020 though the supplier was not among the listed firms for the financial year 2019-2020.

(ii) According to the tender evaluation committee minutes, the winning Company submitted all the requirements in the mandatory stage. However, a review of the bid documents revealed that the firm had attached a Tax Compliance Certificate which expired on 15/08/2017 and did not submit a valid trade license/single business permit as stated in the tender requirements.

Therefore, the regularity and value for money for use of goods and services expenditure of Kshs.1,409,651,606 could not be confirmed.

10. **Anomalies in Supply of Human Drugs**

The use of goods and services expenditure of Kshs.1,409,651,606 for the year ended 30 June, 2020 includes expenditure of Kshs.772,048,451 on drugs, out of which Kshs.54,711,882 was paid to a firm for supply of human drugs. However, a review of the tender evaluation committee minutes for tender number MTRH/T/25/2018-2020 revealed the following anomalies:

(i) Whereas the tender evaluation committee minutes indicated that the firm submitted all the requirements in the mandatory stage, a review of the tender documents submitted revealed that the firm submitted audited accounts for 2015 and 2016 while the tender document required audited accounts for 2016 and 2017.

(ii) The firm did not attach bank statements as required in the tender.

Therefore, the regularity and value for money for of the use of goods and services expenditure of Kshs.1,409,651,606 could not be confirmed.
11. Anomalies in Supply of X-Ray Materials

The use of goods and services expenditure of Kshs. 1,409,651,606 for the year ended 30 June, 2020 includes radiology and imaging/x-ray supplies figure of Kshs. 44,959,498. Included in this amount are payments totalling Kshs. 12,626,312 made to a firm for supply of x-ray materials. However, a review of the tender advertisement of 26 June, 2018 and tender evaluation committee minutes for tender number MTRH/T/27/2018-2020 revealed the following anomalies:

(i) Tender evaluation committee minutes revealed that a supply firm submitted all the requirements in the mandatory stage. However, an audit review revealed that the firm submitted audited accounts for 2015 and 2016 whereas the tender document indicated audited accounts for 2016 and 2017. Further, the firm did not attach six months' bank statements preceding tender opening as required by the tender document.

(ii) The Manufacturer's Authorization letter from a manufacturing firm Ref: Tender Ref Number: MTRH/T/27/2018-2020 for supply and delivery of x-ray materials was dated 07 September 2017 while the advertisement was made on 26 June, 2018 on my.gov newsletter and the manufacturer’s letter referred to the tender. Therefore, the regularity and value for money for use of goods and services expenditure of Kshs. 1,409,651,606 could not be confirmed.

12. Irregular Supply of X-Ray Materials

The use of goods and services expenditure of Kshs. 1,409,651,606 for the year ended 30 June, 2020 includes radiology and imaging/ x-ray supplies expenditure of Kshs. 44,959,498 for the year ended 30 June, 2020 which further includes payments totalling Kshs. 5,264,950 made to a firm for supply of x-ray materials. However, audit review of the documents in support of the expenditure which includes tender award process documents such as approval letter and professional opinion revealed the following:

(i) The tendering process was not followed. Only purchase requisitions were raised and whose approvals were done by the Manager, Supply Chain and the Chief Executive Officer and items single sourced.

(ii) Tender documents were not issued contrary to Section 104(a) of the Public Procurement and Assets Disposal Act, 2015.

(iii) An ad hoc evaluation committee was not formed contrary to Section 104(b) of the Public Procurement and Disposal Act, 2015.

(iv) There was no written contract agreement contrary to Section 104(d) of the Public Procurement and Disposal Act, 2015.
(v) The Management did not provide a copy of notification to the Public Procurement and Regulatory Authority of the Direct Procurement contrary to regulation 62(2) of the Public Procurement and Assets Disposal Regulations, 2006.

(vi) The Management did not negotiate on the prices contrary to regulation 62(3) of the Public Procurement and Assets Disposal Regulations, 2006.

Therefore, the regularity and value for money for of the use of goods and services expenditure of Kshs.1,409,651,606 could not be confirmed.

13. Anomalies in Supply of Renal Unit Consumables

The use of goods and services expenditure of Kshs.1,409,651,606 for the year ended 30 June, 2020 includes an amount of Kshs.6,704,750 in respect of renal consumables. Included in this expenditure are two payments totalling Kshs.1,440,000 made through invoice numbers 831 and 968 for Kshs.480,000 and 960,000, respectively and payment voucher numbers 139802 and 139805 to a Supplies Company.

A review of the tender advertisement of 28 June, 2018 and tender evaluation committee minute for Tender No. MTRH/T/29/2018-2020 revealed the following:

(i) The tender evaluation committee minutes indicated that the Company submitted all the requirements in the mandatory stage. However, a scrutiny of the bid documents submitted by the firm revealed that the firm only submitted an e-Return Acknowledgement Receipt dated 28 June, 2018 for submission of tax returns but did not attach a tax compliance certificate which was a requirement for the tender.

(ii) The bank statements for the last 6 months preceding tender opening date was to be provided as a requirement for the tender. The firm only provided 5 months (January-May 2018) and did not therefore satisfy the tender condition.

(iii) The Company should have been disqualified as required by Section 47(2) and 48(1) of the Public Procurement and Disposal Regulations 2006 since they had not met the mandatory requirements in the preliminary evaluation stage.

Therefore, the regularity of use of goods and services expenditure of Kshs.1,409,651,606 for the year ended 30 June, 2020 could not be confirmed.

The Management entered into a contract with a company to supply Autoclave Machine at a contract sum cost of Ksh.7,485,821 under contract No. MTRH/63/2018-2019. However, the following anomalies were noted:

(i) The contract was signed on 20 June, 2019 over two months after the expiry of tender validity period of 120 days stated in the tender bids’ contrary to Section 135 (3) of the Public Procurement and Asset Disposal Act, 2015.

(ii) Local purchase order number 34662 was raised and committed in the vote book on 10 June, 2019 and eventually approved on 12 June, 2019 eight days before the contract was signed on 20 June, 2019 in contravention of procurement procedures.

(iii) According to the evaluation’s minutes of 26 April, 2019, a professional opinion provided by the head of supplies chain indicated that there existed material variances in terms of prices provided by the bidders and as such there was need to request all bidders to resubmit the documents they had not submitted. There was no confirmation from the records provided indicating whether the documents were resubmitted or not by the bidders.

(iv) It was noted that the evaluation minutes of 6 May, 2019 which awarded the contract to supply of autoclave machine was an attachment of minutes of 26 April, 2019 which had deferred awarding of the contract awaiting resubmission of the missing documents. Therefore, it was not clear how the bid was awarded yet the evaluation team did not approve or append their signatures in each page of the minutes as required by the procurement procedures. As such, it could not be confirmed whether due process was followed in awarding the contract.

Therefore, the regularity of the use of goods and services expenditure of Kshs.1,409,651,606 could not be confirmed.

15. Anomalies in Network Upgrade

A firm was contracted to upgrade the institution network at a contract sum of Kshs.142,997,388 and was to be undertaken in two phases of Kshs.70,637,028 and Kshs.72,360,359.66 for phase one and two, respectively. However, the following anomalies were noted:

(i) The contract was signed on 3 December, 2019 two months after the expiry of 120 days’ tender validity period stated in the tender bids which is contrary to Section 135 (3) of the Public Procurement and Asset Disposal Act, 2015.
(ii) The performance bond of Kshs.7,149,869.40 dated 13 December, 2019 from a Bank provided by the bidder expired on 13 December, 2020 and the same was not renewed.

(iii) The network upgrade works was charged under recurrent vote which had a budget figure of Kshs.110,145,365 whereas, the works are of capital in nature and no capital budget was provided to support the works.

In the circumstance, the regularity of the use of goods and services expenditure of Kshs.1,409,651,606 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. Incomplete Ledgers and Stock Take Reports

The stores ledgers and stock take report were incomplete, unreconciled and not signed. In the absence of complete records and reconciliations, stocks may get lost through theft and pilferages. Further, there were weak physical controls of access to stores and damages of stock could also be possible due to poor storage.

Consequently, the accuracy and completeness of the inventories records of the hospital could not be confirmed.
2. Information and Communication Technology (ICT)

A review of the Information and Communication Technology (ICT) of the Hospital revealed that the Organization did not have in place an approved IT Continuity Plan and Disaster Recovery Plan (DRP). Such plans are vital in effective and efficient management of the entity’s IT resources.

Further, some of the procedures and functions in finance, accounting and supply chain departments are manually performed since the hospital is yet to embrace information communication technology in all its operational areas.

Consequently, organizational objectives may not be achieved and it may not be possible to optimize the utilization of the IT resources.

3. Lack of Operationalization of Fun-Soft HMIS System

As similarly reported in the previous year’s audit, the Management used the Fun-Soft system for billing and invoicing patients during the year under review. However, the following anomalies were noted:

(i) The hospital has not operationalized all the modules in the system in all of its operations despite being in use for over ten years.

(ii) In some instances, the Management issued manual invoices mainly from the private wing to patients instead of the Fun-soft HMIS. The reasons provided were that the Fun-soft HMIS invoices were un-reliable, an argument that is untenable especially after the system audit report by the Ministry of ICT in 2017 found out the system to be sound and functional. Further, these manual invoices were purely based on the information sourced from Fun-soft HMIS. This was also the case whereby the Hospital uses Quick Books for in-patient billing for the Private Wings. Data in Quick Books was simply recaptured from Fun-soft HMIS.

Consequently, it was not possible to confirm the effectiveness and efficiency of the system installed.

4. Weaknesses in Internal Audit Function & Audit, Risk and Compliance Committee

There were three members of the board who were members of Audit, Risk and Compliance Committee with the deputy manager- Internal Audit as a secretary to the committee. However, none of the members of the committee had qualifications and expertise in audit, financial management or accounting or experience and knowledge in risk management or was a member of a professional body in good standing as required by mwongozo code. Further, no evidence was provided to show that the position of Head of Internal Audit had been filled either in an acting capacity or on a permanent basis by a manager.
Consequently, in the absence of a substantive internal audit department head and committee members with relevant qualifications, expertise and experience exposes the institution to weaknesses in the internal control system and risks in the operations of the entire Hospital.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether 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 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 overall 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 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 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

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 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 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 Hospital’s 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 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 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.

CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

15 February, 2022