REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

DIGITAL HEALTH AGENCY

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON DIGITAL HEALTH AGENCY FOR THE YEAR ENDED 30 JUNE, 2025

PREAMBLE

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

A. Report on 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 the 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 the Government achieves value for money and that such funds are applied for the intended purpose; and,

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, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

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

The three parts of the report aim to address the Auditor-General's statutory roles and responsibilities as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012, and the Public Audit Act, 2015. The three parts of the report when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Digital Health Agency set out on pages 1 to 16, which comprise of the statement of the statement of financial position as at 30 June, 2025 and the statement of financial performance, statement of changes in net assets, statement of 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, the financial statements present fairly, in all material respects, the financial position of Digital Health Agency as at 30 June, 2025 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 Digital Health Act, 2023 and the Public Finance Management Act, 2012.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Digital Health Agency Management in accordance with ISSAI 130 on the Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter

Gaps in Health Digitization Initiatives

The statement of performance against predetermined objectives highlights achievements during the year which include: the rollout of the TaifaCare HMIS across twenty-four counties at various stages of implementation, fifteen thousand (15,000) tablets dispatched to health facilities in counties, and the ongoing rollout of biometric registration in GoK health facilities. While these initiatives demonstrate significant progress in national health digitization and support to the Social Health Authority, our review noted that important gaps remain. These include incomplete coverage of health facilities, inconsistent utilisation of deployed devices, infrastructural limitations affecting system performance, and operational challenges within the claims-processing and verification workflows.

Failure to address the identified gaps may undermine the effectiveness, reliability, and accountability of the digitization initiatives.

My opinion is not modified in respect of this matter.

Key Audit Matters

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

Other Information

The Directors are responsible for the Other Information set out on page v to xxvi which comprise of Key Entity Information and Management, The Board of Directors, Key Management Team, Chairman's Statement, Report of the Chief Executive Officer, Statement of Performance Against Predetermined Objectives for the FY 2024/2025, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Directors and Statement of Directors Responsibilities. The Other Information does not include the financial statements and my audit report thereon

In connection with my audit on the Agency's financial statements, my responsibility is to read the Other Information and in doing so, consider whether the Other Information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in the 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. Overpayment of Board Allowances

The statement of financial performance and as disclosed in Note 7 to the financial statements reflects board expenses of Ksks.9,100,367 which includes board sitting allowances of Kshs.5,780,000. However the sitting allowance amount exceeded the authorized amount due to application of higher rate other than the prescribed rate of Kshs.20,000 per sitting resulting to overpayment of by Kshs.630,000 contrary to the guidelines under Annex 4(1)(c) of Office of the President Guidelines on Terms and Conditions of Service for State Corporations, Chief Executive Officers, Chairmen and Board Members, Management Staff and Unionisable Staff Circular Ref No.OP/CAB 9/21/2A/LII/43 dated 23rd November, 2004 which states that taxable sitting allowance of up to a maximum of Kshs.20,000 per sitting may be paid to Chairmen and Directors.
In the circumstances, Management was in breach of the law.

2. Acting Appointment for More than Six Months

The Chief Executive Officer of the Agency continues to serve on acting capacity since the deployment date 6 August, 2024. This was contrary to The Presidency, Executive Office of the President Head of Public Service Circular Ref: OP/CAB.9/1A dated 11 March, 2020 which states that Chairpersons of Boards of State Corporations will be required to ensure compliance with the directive on filling of acting positions within 6 months of their occurrence.

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

3. Board Members Without Appointment Letters

Review of the Board of Directors report in the financial statements revealed that the Agency had ten (10) Board of Directors. However, the appointment letters for two board members were not provided for audit verification contrary to Section 1.1(11) of Mwongozo Code of Governance for State Corporation, 2015 which states that each board member shall be formally appointed to the board through a gazette notice and thereafter an appointment letter.

In the circumstances, the regularity of the appointment of two board members could not be confirmed.

4. Over Expenditure on Travel, Subsistence and Other Allowances

The statement of financial performance and as disclosed in Note 6 to the financial statements reflects use of goods and services of Kshs.60,048,930 which includes travel, subsistence and other allowances of Kshs.50,381,506 or 50% of total revenue which exceeds the approved budget for operational activities for set up of Kshs.36,561,789 which was to cover travel, subsistence and other allowances resulting to over expenditure of Kshs.13,819,717 contrary to Section 12 of State Corporation Act, 1987 which states that no state corporation shall, without the prior approval in writing of the Minister and the Treasury, incur any expenditure for which provision has not been made in an annual estimate prepared and approved in accordance with Section 11.

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

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

REPORT ON THE EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015 and based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on the Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Policy and Procedures Manuals

During the year under review, the Agency did not have the institutional policy and procedure manuals such as strategic plan, finance and accounting manual, asset management policy, transport management policy, IT Policy, disaster recovery plan, back up and retention strategy and risk management policy in place contrary to Regulation 23(1)(c) of Public Finance Management (National Government) Regulations, 2015 which states that accounting officers shall, in accordance with Article 226(2) of the Constitution and Section 68(1) of the Act, be accountable to the National Assembly for maintaining effective systems of internal control and the measures taken to ensure that they are effective.

In the circumstances, the effectiveness of the Agency's procedures and controls in absence of policy and procedure manuals could not be confirmed.

2. Failure to Undertake Risk Assessment

During the year under review Agency Management did not carry out risk assessment on Agency activities contrary to Regulation 165(1) of the Public Finance Management (National Government) Regulations, 2015 which states that the accounting officer shall ensure that the national government entity develops risk management strategies, which include fraud prevention mechanism and the national government entity develops a system of risk management and internal control that builds robust business operations.

In the circumstances, the effectiveness of risk management of the Agency could not be confirmed.

3. Use of Advance System in Place of Imprest System

Review of the Agency's travel expenses indicates that the management made direct payments to staff amounting to Kshs.2,832,800 for different activities before the activities commenced instead of issuing imprest through imprest warrants contrary to Regulation 93(3) of Public Finance Management Regulation (National Government) Regulations, 2015 states that temporary imprests shall be issued mainly in respect of official journeys and are intended to provide officers with funds with which they can meet travelling, accommodation and incidental expenses.

In the circumstances, the effectiveness of internal controls over advances to staff could not be confirmed.

4. Limited Segregation of Duties

Review of the Agency's payment vouchers reveals that the preparer of the payment voucher is the same personnel examining the voucher, approving the voucher and also the bank signatory as per the full board minutes dated 7 November, 2024 contrary to Regulation 110(1) and (2)(c) of Public Finance Management Regulation (National Government), 2015 which states that the Accounting Officer for a national government entity shall institute appropriate access controls needed to minimize breaches of information confidentiality, data integrity and loss of business continuity and access controls to be instituted shall include segregation of duties.

In the circumstances, the effectiveness of internal control over payments could not be confirmed.

5. Incomplete Fixed Asset Register

The statement of financial position and as disclosed in Note 9 to the financial statements reflects property, plant and equipment of Kshs.26,515,679 which were acquired during the year. However, the register provided omitted relevant details such as the cost, acquisition dates, depreciation rates and location of assets. In addition, the assets of the Agency which include office furniture and fittings and computers were not tagged contrary to Section 77(7) of the National Treasury Guidelines on Asset and liability Management in the Public Sector, 2020 which states that all assets purchased shall be tagged upon receipt from suppliers and, before they are issued out to user departments and that the tag number of each asset shall be included in the asset register.

In the circumstances, the effectiveness of internal control over management of fixed assets could not be confirmed.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, risk management and overall governance were operating effectively in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of the Management and 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 Agency ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to cease operations.

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

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

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

FCPA Nancy Gathungu, CBS
<u>AUDITOR-GENERAL</u>

Nairobi

04 December, 2025