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# REPORT OF THE AUDITOR-GENERAL ON KENYATTA UNIVERSITY TEACHING REFERRAL & RESEARCH HOSPITAL 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.

A Qualified Opinion is issued when the Auditor-General concludes that, except for material misstatements noted, 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 are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012, and the Public Audit Act, 2015. The three parts of the report when read together constitute the report of the Auditor-General.

## REPORT ON THE FINANCIAL STATEMENTS

### Qualified Opinion

I have audited the accompanying financial statements of Kenyatta University Teaching Referral & Research Hospital set out on pages 1 to 54, which comprise 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 the 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 Kenyatta University Teaching Referral & Research Hospital 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 Legal Notice No. 4 of 25 January 2019 of the State Corporation Act CAP 446 and the Public Finance Management Act, 2012.

**Basis for Qualified Opinion**

**1. Inaccuracies in Employee Costs**

The statement of financial performance and as disclosed in Note 12 to the financial statements reflects employee costs amount of Kshs.4,612,650,229. The amount includes housing benefits and allowances of Kshs.416,339,062 out of which Kshs.780,000 was paid to various members of staff in excess of the approved rates and an amount of Kshs.1,986,729 was paid using lower rates. Further, commuter allowance amount of Kshs.1,814,000 was paid to various staff above the approved rates while Ksh.1,517,135 was paid using lower rates.

In the circumstances, the accuracy of employee costs of Kshs.4,612,650,229 could not be confirmed.

**2. Unsupported Waiver of Patient Bills**

The statement of financial performance and Note 17(a) to the financial statements reflects impairment of receivables amount of Kshs.139,270,498. The amount relates to waivers granted to patients due to their inability to pay for services rendered which was not supported by documents such as assessment reports and reasons for the waivers. In addition, a four-year trend analysis from 2021/2022 financial year revealed accumulated patient waiver amount of Kshs.699,781,907 to 30 June 2025.

In the circumstances, the accuracy and completeness of impairment of receivables amount of Kshs.139,270,498 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenyatta University Teaching Referral & Research Hospital 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 qualified opinion.

**Material Uncertainty Related to Going Concern**

The statement of financial performance reflects a deficit of Kshs.526,433,084 from the previous year's deficit of Kshs.1,458,007,559 resulting in further depletion of retained

earnings to negative Kshs.1,447,239,496 from negative Kshs.941,679,405 reported in previous year. In addition, the Hospital has recorded deficits for two consecutive years, which raises concerns about its ability to sustain operations and meet financial obligations as they fall due.

In the circumstances, the Hospital is technically insolvent and may not be able to meet obligations as and when they fall due.

My opinion is not modified in respect of this matter.

**Emphasis of Matter**

**1. Unauthorized Expenditure**

The statement of comparison of budget and actual amounts reflects final budget expenses of Kshs.7,556,096,000. However, the approved budget reflects an amount of Kshs.1,346,760,875 for twenty-seven (27) items whose actual expenditure was Kshs.1,710,365,890 resulting to unauthorized over expenditure of Ksh.363,605,015. This was contrary to Regulation 52(1)(b) of the Public Finance Management (National Government) Regulations, 2015 which states that AIE holders shall be made to understand that the limit to which they may spend is that prescribed by the authority and not their expectations, however justified this may seem.

Failure to adhere to budget provisions may affect the planned activities of the Hospital.

**2. Inadequacy of Debt Collection Strategies**

The statement of financial position reflects receivables from exchange transactions balance of Kshs.2,215,655,748 compared to Kshs.1,401,348,757 reported in financial year 2023/2024. However, there was no provision made for the balance of Kshs.1,401,348,757 which has been outstanding for over twelve months. Further, analysis revealed a turnover ratio of 2.36 translating to an average collection period of one hundred and fifty-five (155) days.

In addition, analysis of the ageing analysis revealed that trade receivables of Kshs.595,473,121 has been outstanding for more than one year. In addition, trend analysis revealed that corporate claims of Kshs.127,038,723 were due from twenty (20) providers for three years from 2020/2021 to 2022/2023 while one insurer had unsettled claims of Kshs.213,842,107 for the previous two financial years. Review of billing report revealed unclaimed outpatient bills of Kshs.53,391,255 and inpatient bills of Kshs.365,330,569 from Social Health Authority.

In the circumstances, the financial sustainability of the Hospital is affected due to huge accumulation of debts and the effectiveness of internal controls on collecting receivables could not be confirmed.

**3. Long Outstanding Payables**

The statement of financial position and as disclosed in Note 25 to the financial statements reflects trade and other payables balance of Kshs.1,185,771,024.

However, analysis of the ageing analysis revealed that Kshs.147,564,143 has been outstanding for more than one year.

Failure to settle debts when they are due distorts the budgeting process.

My opinion is not modified in respect of these matters.

**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. Except for the effect of the matters described in the Basis for Qualified Opinion and Material Uncertainty Related to Going Concern section, I have determined that there are no other key audit matters to communicate in my report.

**Unresolved Prior Year Matters**

In the prior year's audit report, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance, respectively. Review of the status during audit of the Hospital in 2024/2025 revealed that the following matters remained unresolved as at 30 June, 2025.

| No. | Audit Issue |
|---|---|
| 1 | Inaccuracies in Employee Cost |
| 2 | Long Outstanding Receivables from Exchange Transactions |
| 3 | Land Without Ownership Documents |
| 4 | Budgetary Control and Performance |
| 5 | Delayed Delivery of Computers |
| 6 | Delayed Completion of Cancer Centre |
| 7 | Stalled Children Hospital Project |
| 8 | Non-Compliance with the Ethnicity Representation |

**Other Information**

The Directors are responsible for the Other Information set out on page iv to xlvi 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, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Directors and the 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 Hospital'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 conclusion 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. Non-Compliance with the Ethnicity Rule**

Analysis of the staff compliment revealed that 43% of the employees were from one ethnic community. In addition, 34% of employees recruited during the year were from the one ethnic group. This was contrary to Section 7(2) of the National Cohesion and Integration Act 2008 states that no public establishment shall have more than one third of its staff from the same ethnic community.

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

**2. Procurement Irregularities**

Review of the procurement processes during the year under following unsatisfactory matters were noted;

**2.1. Irregular Extension of Contracts**

Analysis of purchase orders revealed that goods valued at Kshs.351,111,314 were procured from various suppliers whose contracts ended in the year 2023 and Management extended these contracts and continued to trade with them without competitive bidding. This was contrary to Section 131(2) of the Public Procurement and Asset Disposal Act, 2015 which states that an accounting officer of a procuring entity, on the recommendation of an evaluation committee, may approve the request for the following, which request shall be accompanied by a certificate from the tenderer making a justification for such cost (a) extension of contract period.

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

**2.2. Unsupported Legal Fees**

Use of goods and services amount includes legal costs amount of Kshs.3,235,650. However, review of payment records revealed that the procurement of legal services did not indicate clear terms of engagement and contract details including contract number, contract sum, contract start date. This was contrary to Section 68(1) of the Public Procurement and Asset Disposal Act, 2015 which states that an accounting officer of a procuring entity shall keep records for each procurement for at least six

years after the resulting contract has been completed or, if no contract resulted, after the procurement proceedings were terminated.

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

### 2.3. Failure to Use E-Procurement System

It was noted that Management did not use an E-procurement system. This was contrary to Regulation 54 of the Public Procurement and Asset Disposal Regulation, 2020 which requires procuring entities to have an e-procurement system to carry out the different procuring activities from initiation of the procurement process to the tracking of payments and deliverables among other processes.

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

### 2.4. Irregular Procurement of Medical Supplies

Review of procurement records revealed that six (6) suppliers were contracted to install laboratory equipment in exchange for supply of laboratory reagents for a period of five years. Subsequently, renewable and reagents of Kshs.139,660,824 were supplied during the year. However, details on the cost of the equipment installed which forms the basis for recouping through supply of reagents were not provided for audit.

In the circumstances, value for money on the reagent's expenditure of Kshs.139,660,824 could not be confirmed.

### 2.5. Unconfirmed Testing of Health Products

Review of the hospital management system revealed receipts of health medical drugs valued at Kshs.519,659,282 but there was no evidence of inspection and acceptance or testing to confirm that they comply with specifications approved by the Kenya Essential Medicines List of 2023. This was contrary to Section 35D(1)(c) of the Pharmacy and Poisons Act, 2012 which requires the National Quality Control Laboratory to test on behalf of the Government all locally manufactured and imported drugs or medicinal substances to determine whether they comply with the set rules.

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

### 2.6. Delays in the Procurement Process

Review of fifteen (15) sampled contracts revealed delays in the procurement process from tender opening to contract award for an average 331 days and in one case on the supply of pharmaceuticals, it took 147 days from the tender opening to evaluation and a further 594 days to award the tender. This was contrary to Section 80(6) of the Public Procurement and Asset Disposal Act, 2015 which requires evaluation be carried out within a maximum period of thirty days. In addition, analysis of goods received notes of medical commodities amounting to Kshs.441,235,574 revealed delays in deliveries ranging from 32 to 572 days without corrective actions being taken against the suppliers. This was contrary to Regulation 53(1) and (2) of the Public Finance Management (National Government) Regulation, 2015 states that 'A local purchase order or local service order shall be valid for a period of thirty days from the date of issue.

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

### 3. Deficiencies in the Procurement Plan

During the year under review, the consolidated procurement plan did not have description of the goods being procured, unit of purchase or issue, and quantity expressed in universally acceptable terms. This was contrary to Regulation 41(a) of the Public Procurement and Assets Disposal Regulation, 2020 which states annual consolidated procurement plan for each procuring entity shall include a detailed breakdown of the goods, works, or services required; and Regulation 42 of the Public Procurement and Assets Disposal Regulation, 2020 which states that Pursuant to section 53(2) of the Act, the annual procurement plan shall be done in accordance with the format specified in the Third Schedule.

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 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 effect of the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

### Basis for Conclusion

### 1. Stock Out of Medical Commodities

The statement of financial position and as disclosed in Note 22 to the financial statements reflects inventory balance of Kshs.516,534,172 which includes pharmaceuticals balance of Kshs.69,402,247. However, review of inventory ledger revealed that five hundred and nine (509) commodities were out of stock while ten (10) commodities were below the minimum required stock levels resulting to missed sales amounting to Kshs.34,746,223.

In the circumstances, the effectiveness of controls over inventory management could not be confirmed.

### 2. High Mortality Rates

Analysis of the Hospital mortality data revealed four hundred and thirty-four (434) live births out of which eleven (11) between 0-28 days died and seven (7) women died at

birth translating during the year under review. This translates to neonatal mortality ratio of 25 per 1,000 births and maternal mortality ratio of 1,613 per 100,000 live births. In addition, fifty (50) children under five years also died at the hospital translating into a ratio of 115 per 1,000 live births. These ratios are higher than threshold set out under Sustainable Development Goal number 3 which targets to reduce global maternal mortality ratio by less than 70 per 100,000 live births, neonatal mortality to at least as low as 12 per 1,000 live births and under-5 mortality to at least as low as 25 per 1,000 live births.

In the circumstances, effectiveness of hospital services in managing mother and baby mortality rates could not be confirmed.

### 3. Rejected Claims

Analysis of billing reports revealed that four hundred and ninety-nine (499) patients accessed services of Kshs.41,435,823 but the related claims were rejected by the Social Health Authority due to failure to attach required documentation, provision of services beyond insured limits and offering uninsured services.

In the circumstances, the effectiveness of internal controls on management of claims could not be confirmed.

### 4. Long Waiting Time for Cancer and Cardiology Patients

Review of patient booking records at the Cancer Treatment Centre revealed that patients wait for an average of sixty-two (62) days from the date of the booking to the availability of a clinic. Similarly, patients with heart conditions experience an average waiting period of eighty-two (82) days, with the waiting time ranging from thirty-one (31) to one hundred and thirty (130) days.

In the circumstances, the effectiveness of internal controls on managing cancer and cardiology patients could not be confirmed.

### 5. Trainings Without Training Needs Assessments

Review of the training schedules revealed that these trainings were conducted without training needs assessments that identifies performance gaps and links the trainings to such gaps.

In the circumstances, the effectiveness of internal controls on assessing training needs could not be confirmed.

### 6. Underutilized Hospital Management Information System

The statement of financial performance reflects total expenses of Kshs.7,980,022,425. It was noted that Management procured a Hospital Management Information System (HMIS) in 2019 at a contract sum of Kshs.69,819,660. However, the expenditure modules have not been utilized since the system was procured and transactions were manually recorded on an excel sheet without clear references to budget and ledger entries.

In the circumstances, the effectiveness of internal controls on recording expenditures 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 Hospital's 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 Hospital's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

**Auditor-General's Responsibilities for the Audit**

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**
**AUDITOR-GENERAL**

**Nairobi**

**05 December, 2025**