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OFFICE OF THE AUDITOR-GENERAL
Enhancing Accountability

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REPORT OF THE AUDITOR-GENERAL ON PUBLIC OFFICERS MEDICAL SCHEME FUND 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 Public Officers Medical Scheme Fund set out on pages 1 to 22, which comprise of the statement of financial position as at 30 June, 2025 and the statement of profit or loss and other comprehensive, statement of changes in equity, 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 Public Officers Medical Scheme Fund as at 30 June, 2025 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with Public Finance Management (Public Officers Medical Scheme Fund) Regulations, 2024 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unsupported Income

The statement of profit or loss and other comprehensive income and as disclosed in Note 6 to the financial statements reflects POMSF income of Kshs.6,531,068,425 which includes funds from civil servants and funds from Social Health Authority (SHA) of Kshs.6,481,068,425 and Kshs.50,000,000 respectively. Further, the schedule supporting POMSF income reflects income received on 26 February, 2025 from State Department for Public Services and Human Capital of Kshs.1,208,248,485 resulting to unreconciled variance of Kshs.5,322,819,940. Further, the following observations were noted:

i. The funds income from SHA of Kshs.50,000,000 was not supported with bank statement and approved budget for the staff medical scheme totaling to Kshs.351,479,455 for the period under review.

ii. The bank statements and cash book includes salary payments and unapplied funds of Kshs.7,618,551 and Kshs.3,589,798 respectively which were not recognized as income or liability though the money was received in the bank. However, the list of beneficiaries provided to support the Kshs.7,618,551 amounts to Kshs.7,676,684 resulting to a variance of Kshs.57,133. Further, the expense was erroneously charged in the bank statement and cash was not reversed and correct account or Fund or entity the expenses were supposed to be charged was not disclosed.

In the circumstances, accuracy and completeness of the POMSF income of Kshs.6,531,068,425 could not be confirmed.

2. Unsupported Benefits Expenses and Variances

The statement of profit or loss and other comprehensive income and as disclosed in Note 6 to the financial statements reflects benefits expenses of Kshs.6,340,843,131 which includes Public Officers Medical Scheme Fund POMSF benefits expenses, Incurred But Not Claimed Liabilities (IBNR) and Outstanding Claim Reserves (OCR) of Kshs.2,621,005,091, Kshs.322,418,479 and Kshs.3,397,417,849 respectively.

However, the schedule provided to support POMSF benefits expenses amount of Kshs.2,621,005,091 lacked important details of the beneficiaries such as the SHA member number, names of the beneficiaries, employer, type of intervention, claim amount, the approved claim, admission and discharge dates. Further, the schedule did not indicate the name and level of the facility as per KMPDC classification for the empaneled facilities as well as details showing whether members benefitted from overseas treatment and the facilities contracted to offer the services overseas treatment. In the circumstances, accuracy and completeness of the benefits expenses of Kshs.6,340,843,131 could not be confirmed.

3. Unsupported Payment

The cash book and bank statement reflect a payment of Kshs.994,409,819 made on 28 May, 2025 described as bank file in the cash book and as a contra entry in the bank statement. However, Management of the Fund did not provide the expenses ledger where the expenditure of Kshs.994,409,819 was charged. Further, the schedule provided as Appendix 4.3.2 to the management response did not indicate the employment numbers for the public officers treated and dates when services were rendered.

In the circumstances, the accuracy and completeness of the expenditure amounting Kshs.994,409,819 could not be confirmed.

4. Unsupported Trade Receivables

The statement of financial position and as disclosed in Note 8 to the financial statements reflects trade receivables balance of Kshs.5,272,819,940 which was not supported with schedules and ledgers.

In the circumstances, the accuracy, completeness and existence of trade receivables of Kshs.5,272,819,940 could not be confirmed.

5. Unsupported Fund Payables

The statement of financial position and as disclosed in Note 13 to the financial statements reflects fund payables of kshs.1,791,959,827 which includes SHA payable WIBA Funds, SHA administration cost payable and SHIF payable claims of Kshs.1,585,000,000, Kshs.190,225,000,000 and Kshs.16,734,533 respectively which was not supported with relevant ledgers and calculations.

In the circumstances, the accuracy and existence of fund payables of kshs.1,791,959,827 could not be confirmed.

6. Inaccuracies and Variances in the Statement of Cash Flows

The statement of cash flows reflects cash and cash equivalents balance of Kshs.1,847,815,771 as at 30 June, 2025.However, the following in accuracies were noted:

i. The statement of cash flows reflects claims paid of Kshs.999,254,710 under cash generated from operations. However, it was not clear where the expense of Kshs.999,254,710 was charged.
ii. The receipts of Kshs.2,843,248,485 differs with the total actual revenue on a comparable basis of Kshs.6,531,068,425 reflected in the statement of comparison of budget and actual amounts resulting to unreconciled variance of Kshs.3,687,819,940.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance as at 30 June, 2025 of Kshs.1,847,815,771 could not be confirmed

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Public Officers Medical Scheme Fund 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.

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final total budgeted revenue and total actual revenue on a comparable basis of Kshs.3,663,140,919 and Kshs.6,531,068,425 respectively resulting to excess receipts of Kshs.2,867,927,506 or 78%.

In the circumstances, the revenue estimates might not have been realistic and may have affected the budgetary process which could result to unauthorized expenditure.

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, I have determined that there are no other key audit matters to communicate in my report.

Other Information

The Directors are responsible for the Other Information set out on page iv to xlvi which comprise of Key Information, The Board of Directors, Key Management Team, Fiduciary Management, Fiduciary Oversight Arrangements, 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 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 Fund'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 effects of the matter 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

Lack of Approved Budget

The statement of comparison of budget and actual amounts reflects final total budgeted revenue of Kshs.3,663,140,919 and total actual revenue of Kshs.6,531,068,425. However, the Fund Management did not provide an approved annual budget estimates for 2024/2025 financial year for audit verification contrary to Regulation 12 (2) of the Public Finance Management (Public Officers Medical Scheme Fund) Regulations, 2024 which states that the administrator of the Fund shall prepare estimates of annual revenue and expenditure of the Fund and submit them to the Board for advice before adoption.

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. Lack of Public Officers Medical Scheme Fund Operational Policy

Audit verifications carried out revealed that the Fund did not have a policy document to guide the implementation of the scheme contrary to Regulation 10(1) and (2) (c) of the Public Finance Management (Public Officers Medical Scheme Fund) Regulations, 2024 which states that the Board of the Social Health Authority, constituted under section 7 of the Social Health Insurance Act, shall oversee the administration and management of the Fund and the functions of the Board with regard to this Fund shall be to approve policies to guide the administration of the Fund

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

2. Failure to Provide List and Contracts for Employers Contributing to Public Officers Medical Scheme Fund (POMSF)

The statement of profit or loss and other comprehensive income reflects income and benefit expenses of Kshs.6,531,068,425 and Kshs.6,340,843,13 respectively. However, Management did not provide the list of employers who have opted to contribute to the Fund and the Ministry responsible for public service. In addition, the contracts signed between the employers and social health Authority stipulating premiums payable to the Fund, number of beneficiaries, packages, terms and conditions in 2024/2025 financial year were not provided for audit verification.

In the circumstances, the effectiveness of internal controls over management of the Public Officers Medical Scheme Fund 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 Financial Reporting Standards 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 Fund'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 are responsible for overseeing the Fund'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

18 December, 2025