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REPORT OF THE AUDITOR-GENERAL ON SOCIAL HEALTH AUTHORITY FOR THE SIX (6) MONTHS PERIOD 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 Disclaimer of Opinion is issued when the Auditor-General is unable to obtain sufficient appropriate audit evidence to form an opinion on the financial statements. 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.

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of Social Health Authority set out on pages 1 to 39, which comprise of the statement of financial position as at 30 June, 2025 and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts, for the six(6) months period 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1. Incomplete Transition from National Health Insurance Fund to Social Health Authority

The Cabinet Secretary for Health appointed the Transition Committee on 25 January, 2024 through a Gazette Notice No. 603 of 2024 to oversee the transition from the National Health Insurance Fund (NHIF) to the Social Health Authority (SHA). The Committee's tenure was for six (6) months and submitted the final report in July, 2024.

The Committee's terms of reference included:

i. Delineating roles of NHIF, SHA Board, and the Ministry of Health;
ii. Developing the winding-up resolution for NHIF;
iii. Preparing transition guidelines and roadmap;
iv. Reviewing enhanced schemes, ICT contracts and ongoing court cases;
v. Establishing claims handling guidelines during and after transition; and,
vi. Verification of assets and liabilities.

However, audit review revealed that the Committee did not fully achieve the set objectives within the prescribed timelines, leaving critical gaps that compromise the integrity of NHIF closing account balances and SHA opening balances as detailed below:

1.1. Failure to Adopt the Transition Committee Report

Although the Transition Committee was appointed for a tenure of six (6) months and with the mandate to ensure smooth transition from NHIF to SHA, there was no evidence provided for audit review indicating that the Committee's final report was formally adopted for implementation by the Cabinet Secretary, NHIF Board or SHA Board.

1.2. Failure to Verify Assets and Liabilities

Section 4.2.2 of the Transition Committee's report states that the schedule of assets provided by NHIF to the Transition Committee and SHA Board requires further verification by an independent party to ascertain its accuracy. Further, Section 3.8 of Annex VI to the Committee's report on verification of assets and liabilities indicates that several assets and liabilities balances could not be verified due to incomplete listing of balances and general ledgers.

1.3. Failure to Wind Up NHIF

Paragraph 6(1) of the First Schedule to the Social Health Authority Act, 2023 required the National Health Insurance Fund Board to wind up the Fund within one year from the appointed day (the day the Act came into operation) and transfer all cash balances and other assets to the Social Health Authority. However, as at 30 November, 2025, the winding up of the NHIF had not commenced. Further, some assets belonging to NHIF had not been transferred to SHA. In addition, six (6) bank accounts with a balance of Kshs.7,774,702 had not been transferred to SHA. As a result, the six (6) NHIF bank accounts remained open and continued to operate as at the time of the audit.

1.4. Lack of Approved Policies for Social Health Authority

The mandate of the Transition Committee according to Gazette Notice No.603 of 2024, included developing legal and institutional framework for the coordinated transition to the Social Health Authority. In addition, the Committee was to develop guidelines and operational mechanisms for the transition period. However, SHA did not have approved institutional policies, manuals and documents on key functional areas. The gaps include; lack of finance and accounting manual, assets management policy, transport management policy, IT policy, disaster recovery plan, backup and retention strategy and risk management policy and strategic plan.

1.5. Lack of Formal Hand Over Report and Asset Discrepancies

Signed hand-over and take-over report from NHIF to the SHA was not provided for audit review. This was contrary to Regulation 141 of Public Finance Management (National Government) Regulations, 2015, which requires the transferring entity Accounting Officer to prepare an inventory of assets or liabilities and provide all necessary records, including human resource records, to the receiving entity.

Further, the Transition Committee report highlighted significant discrepancies between ERP records and physical assets; over-procurement and underutilization of furniture; excess computer hardware and parts with most of them remaining unused and packed in boxes. In addition, the last valuation of assets was undertaken in 2018.

In the circumstances, the existence, accuracy, completeness and ownership of the Authority's assets and liabilities could not be confirmed.

2. Discrepancy in NHIF Transition to Social Health Authority Date

The financial statements for Social Health Authority prepared and submitted for audit for the 2024/2025 financial year covered six (6) months (1 January, 2025 to 30 June, 2025). However, the financial statements indicate for the year ended 30 June, 2025 implying twelve (12) months. Further, the press release issued by the Principal Secretary, State Department of Medical Services and public notice issued by the Acting Chief Executive Officer of the Social Health Authority, which indicated that the effective roll-out date and

commencement of operations as at 1 October, 2024. Management did not provide satisfactory explanation or clear legal basis for reporting for a period of six (6) months instead of the nine (9) months indicated in the statutory documents.

In the circumstances, the financial statements prepared and presented for audit do not cover the Authority's operating period.

3. Non-Closure of NHIF Bank Accounts

The statement of financial position and as disclosed in Note 20 of the financial statements reflects cash and bank balances of Kshs.396,034,366, as disclosed in Note 20 of the financial statements. However, the audit revealed that six (6) unauthorized NHIF bank accounts with a combined balance amounting of Kshs.7,774,702 as at 30 June, 2025 were retained without authority. This was contrary to extract of the minutes of the Special Full Board of Directors meeting held on 15 April, 2025, which states that the Board recommended closing of all NHIF bank accounts with exception of three designated banks. and Paragraph 6(1) of the First Schedule to Social Health Authority Act, 2023. Further, the management contravened Paragraph 6(1) of the First Schedule of the SHA Act,2023, which required all cash balances and other assets of NHIF to be transferred to SHA.

In addition,, no approval from the National Treasury and Economic Planning approval was provided to for the retention of the three bank accounts approved by Social Health Authority Board. This was contrary to Section 28(1) of Public Finance Management Act, 2012, which states stipulates that the National Treasury shall authorize the opening, operating and closure of bank accounts and sub accounts for all National Government entities in accordance with the regulations. made under this Act.

In the circumstances, the regularity, accuracy and completeness of transactions processed the unauthorized bank accounts could not be confirmed.

4. Irregular Transfer of Money from Social Health Authority to National Health Insurance Fund

Review of the SHA commercial bank account statement revealed various transfers amounting to Kshs.303,054,356 to the National Health Insurance Fund (NHIF) operations bank account done on December, 2024 and January, 2025 after the official transition date of 1 October, 2024. Further, review of the NHIF operations account cash book revealed that on 6 December, 2024 an amount of Kshs.289,843,000 was transferred to NHIF bank account.

In the circumstances, the regularity, accuracy and completeness of cash and bank balance of Kshs.396,034,366 could not be confirmed.

5. Inaccuracies in Rental and Other Income

The statement of profit or loss and other comprehensive income as disclosed in Note 7 to the financial statements reflects rental income amount of Kshs.140,822,159 which

includes rental income from NHIF Building, Contrust House, Meru Building and Parking Silo of Kshs.118,137,434, Kshs.7,741,542, Kshs.293,990 and Kshs.14,649,191 respectively. However, the income amounts were not supported by signed lease agreements or tenancy contracts.

Further, Note 8 to the financial statements reflects other income amount of Kshs.21,224,675 comprising interest on investments, agency commission and miscellaneous receipts amounts of Kshs.20,179,007, Kshs.1,036,490 and Kshs.9,178, respectively. However, the supporting schedules for interest from investments reflected an amount of Kshs.23,517,524 resulting in an unexplained variance of Kshs.3,338,517.

In the circumstances, the accuracy and completeness of the rental income and other income amounting to Kshs.162,046,834 could not be confirmed.

6. Unexplained Variance in Board Expenses

The statement of profit or loss and other comprehensive income and as disclosed in Note 10 to the financial statements, reflects board expenses of Kshs.25,006,812, which differs from the recomputed amount of Kshs,29,569,526, resulting to an unexplained variance of Kshs.4,562,714.

In the circumstances, the accuracy and completeness of the board expenses of Kshs.25,006,812 could not be confirmed.

7. Cash and Bank Balances

The statement of financial position reflects cash and bank balance of Kshs.396,034,366 as disclosed in Note 20 to the financial statements. The following anomalies were noted;

7.1. Unsupported Cash and Bank Balances

The balances reported in Note 20 to the financial statements and supporting schedules provided were all based on the bank statements' balances instead of the cash book balance. Further, one (1) of the NHIF operations bank accounts, with a balance of Kshs.292,036,109 or 74% of cash and bank balances, was last updated in December, 2024. In addition, the bank account remained active and continued to operate through 30 June, 2025. Similarly, the bank account received an amount of Kshs.2,181,762,244 from SHA in January, 2025 to May 2025, and made sampled payments amounting to Kshs.2,332,498,051 that were not recorded in the cash book.

Further, records indicated lack of adequate description for payees and the nature of goods supplied or services provided for payments amounting to Kshs.1,880,516,395. In addition, detailed descriptions, coded language such as "epay" or "BIC receiver", was used for all payments.

7.2. Variances in Bank Balances and Financial Statements

The financial statements reflect bank balances of four (4) bank accounts totalling Kshs.23,416,727 which differed with the cash book balances as detailed below;

Bank	Purpose	Financial Statements Amount	Cash Book Balance (Kshs)	Amount (Kshs)
Cooperative Bank	Collection account	2,535	16,153,586	(16,151,051)

Bank	Purpose	Financial Statements Amount	Cash Book Balance (Kshs)	Amount (Kshs)
Kenya Commercial Bank	Collection account	379,258	(104,948,130)	105,327,388
National Bank of Kenya	Collection account	23,034,117	(27,199,019)	50,233,136
National Commercial Bank of Africa (NCBA)	Collection account	817	3,767,817	(3,767,000)

In the circumstances, the regularity, accuracy and completeness of cash and bank balance of Kshs.396,034,366 could not be confirmed.

8. Unsupported Receivables

The statement of financial position and as disclosed in Notes 17 and 18 to the financial statements reflects trade receivables and other receivables balance of Kshs.11,328,430,447 and Kshs.184,347,727, respectively. Further, Notes 17 and 18a reflects provision for doubtful debts amount of Kshs.17,239,284,787and Kshs.544,255,646 for trade receivables and other receivables respectively. However, detailed ageing analysis, which forms the basis for the calculation of provision for doubtful debts, was not provided for audit review.

In the circumstances, the accuracy and completeness of receivables balance of Kshs.11,512,778,174 could not be confirmed.

9. Inaccuracies in Property, Plant and Equipment

The statement of financial position and as disclosed in Note 12 to the financial statements, reflects property, plant and equipment balance of Kshs.12,369,840,197. However, the fixed asset register provided reflects net book value of Kshs.3,787,849,288, resulting in an unexplained variance of Kshs.8,581,990,909. Further, the fixed asset register did not include key details such as the department, cost, total depreciation and location of the assets, among other necessary information.

In the circumstances, the existence, ownership, accuracy and completeness of the property, plant and equipment balance of Kshs.12,369,840,197 could not be confirmed.

10. Unsupported Trade Payables

The statement of financial position reflects NHIF trade payables balance of Kshs.39,454,567,013 as disclosed in Note 26 to the financial statements which comprise of inpatient claims of Kshs.29,943,154,309, outpatient claims Kshs.3,576,916,782 and WIBA benefits of Kshs.5,934,495,922. However, the trade payables list and ledgers supporting the inpatient and outpatient claims were not provided for audit review.

In the circumstances, the existence, accuracy and completeness of trade payables balance of Kshs.39,454,567,013 could not be confirmed.

11. Unsupported Inter Fund Payables

The statement of financial position and as disclosed in Note 24 to the financial statements reflects fund payables balance of Kshs.3,965,819,747. However, supporting documentation specifying the funds or entities owed, the amounts owed to each, and detailed descriptions were not provided for audit review. Further, the schedule provided only indicated "transfer of funds" and "CEO SHA" with identical department and code entries. Further, the Social Health Insurance Fund receivables balances stood at Kshs.7,331,654,737 resulting to a variance of Kshs.3,365,834,990.

In the circumstances, the accuracy and completeness of fund payables balance of Kshs.3,965,819,747 could not be confirmed.

12. Unconfirmed Profit Before Tax

The Statement of Comparison of Budget and Actual Amounts reflects profit before taxation of Kshs.6,083,058,563, which differs from the recomputed amount of Kshs.4,293,938,563, resulting to an unexplained variance of Kshs.1,789,120,000.

In the circumstances, the accuracy and completeness of profit before tax amount of Kshs.6,083,058,563 could not be confirmed.

13. Non-Compliance with the Public Sector Accounting Standards Board Reporting Requirements

Review of the financial statements revealed that the Statement of Performance Against Pre-Determined Objectives does not include performance indicators expressed in quantifiable and measurable terms, such as numbers, percentages, or other metrics. Further, the inter-entity confirmation letter was not signed by the Head of Accounts in the disbursing entities.

In the circumstances, the financial statements did not fully comply with the Public Sector Accounting Standards Board Reporting template

14. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects total revenue budget of Kshs.8,952,624,613 and total actual revenue on a comparable basis of Kshs.5,477,114,346 resulting to revenue shortfall of Kshs.3,475,510,267. Further, the Authority incurred total actual expenditure of Kshs.3,636,738,550 out of total actual revenue of Kshs.5,477,114,346 resulting to underutilization of Kshs.1,840,375,796.

In the circumstances, the revenue shortfall and under expenditure may have affected implementation of planned activities which may affect service delivery to the citizens.

15. Performance and Solvency of Social Health Authority

Review of the financial statements of Social Health Authority revealed the following:

15.1. Negative Working Capital

The statement of financial position reflects current assets of Kshs.17,345,959,230 and current liabilities of Kshs.44,648,862,549 resulting to negative working capital of Kshs.27,302,903,319 or 0.39 current assets to current liabilities ratio.

In the circumstances, the Authority might not be able to cover its short-term obligations as and when they fall due.

15.2. Failure to Achieve Performance Targets

The Statement of Performance Against Pre- Determined Objectives indicates approximately 6,175,743 households were registered compared to the annual target of 12,070,000 households, which represents 51% of targeted households.

15.3. Non-Recovery of Trade Receivables Inherited from NHIF and Other Receivables

The statement of financial position and as disclosed in Note 17 to the financial statements reflects Kshs.11,328,430,477 net trade receivables and gross trade receivables of Kshs.28,567,715,265 as at 30 June, 2025. However, review of the gross trade receivables balance items revealed minimal recoveries of gross trade receivables from NHIF.

Further, Note 18a to the financial statements reflects net other receivables of Kshs.184,347,727 and gross trade receivables of Kshs.728,603,372 as at 30 June, 2025 compared to gross trade receivables of Kshs.620,178,333 as at 31 December, 2024, resulting to an increase of Kshs.108,425,039 or 17% in six months. However, no recoveries were made from three other debtors balances amounting Kshs.200,854,916 comprising hospital creditors and surcharges of Kshs.125,774,262, return to drawers of Kshs.14,254,831 and sundry debtors of Kshs.60,825,823.

In addition, rent receivables increased from Kshs.331,531,735 as at 31 December, 2024 to Kshs.441,946,647 as at 30 June, 2025, representing an increase of Kshs.110,414,912 or 33%. Failure and delay to recovering trade and other receivable balances inherited from NHIF contravenes Regulation 64(1)(a) of Public Finance Management (National Government Regulations), 2015, which requires Accounting Officers to ensure that adequate safeguards are in place and are applied for the prompt collection and proper accounting of all National Government revenue and other public moneys.

In the circumstances, failure to collect or delay to recover other receivables affects the Authority's ability to settle outstanding obligations as they fall due.

15.4. Non-Payment of Trade Payables Inherited from NHIF

The statement of financial position and disclosed in Note 26 to the financial statements reflects trade payables NHIF of Kshs.39,454,567,013 as at 30 June 2025 and 30 June, 2024, relating to in patient claims of Kshs.32,744,245,556, outpatient claims of Kshs.775,825,536 and Workman Injury Benefits a(WIBA) benefits of Kshs.5,934,495,922 inherited from National Health Insurance Fund. However, no satisfactory explanation was not provided for failure to settle health care service providers and other creditors as per the terms of the contract. Further, no payment plan was provided to indicate how Social Health Authority intends to clear the obligations. .

In the circumstances, failure and delay in settling the payables affect relationships with contracted health care providers and may disrupt the provision of health care services to citizens.

16. Unsupported Over Seas Treatment Payments

Audit verification carried out revealed payments amounting to Kshs.17,046,031 made after the transmission from NHIF to SHA for overseas treatment. However, Management did not provide detailed list of patients and caregivers who received treatment abroad. Further, the policy governing oversees treatment was not provided for audit verification. .

17. Failure to Pay Taxes

The statement of financial position and as disclosed in Note 28 to the financial statements reflects tax payable of Kshs.204,082,324 which includes rent income tax payable of Kshs.197,401,768 and withholding tax on rent of Kshs.6,680,557. Further, the tax payables increased from Kshs.160,678,216 as at 31 December, 2024 to Kshs.204,082,324 as at 30 June, 2025 resulting to increase of Kshs.43,404,108 or 27% contrary to Section 72 D of Income Tax Act, 2012 which states that where any amount of tax remains unpaid after the due date a penalty of twenty percent shall immediately become due and payable and Section 94(1) of Income Tax Act, 2012 states that where any amount of tax remains unpaid after the due date a penalty of twenty percent shall immediately become due and payable.

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

18. Unrecovered Moi Teaching and Referral Hospital Instalments

The statement of financial position, as disclosed in Note 15 to the financial statements, reflects unquoted investments amounting to Kshs.99,008,600, which includes a loan to Moi Teaching and Referral Hospital (MTRH) of Kshs.99,008,600 and investment in ordinary and preference shares at a commercial bank valued at Kshs.54,200,000. Review of the records revealed that the three months of loan instalments amounting to Kshs.9,057,490 were not recovered from MTRH for the period April to June 2025. This was due to an irregular restructuring of the loan, which modified repayment terms originally agreed between MTRH and the defunct NHIF. This was contrary to Regulation 64(1)(a) and (2) of Public Finance Management (National Government Regulations), 2015, which states that an Accounting Officer and a receiver of revenue are personally responsible for ensuring that adequate safeguards exist and are applied for the prompt collection and proper accounting for all national government revenue and other public moneys.

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

19. Impaired Consolidated Bank Investment in Shares

The statement of financial position and as disclosed in Note 15(a) to the financial statements reflect unquoted investments of Kshs.99,008,600 which includes Consolidated Bank shares (non - performing) of Kshs.54,200,000 and Moi Teaching and Referral Hospital (MTRH) loan of Kshs.99,008,600 less provision for impaired investments of Kshs.54,200,000 relating to investments in the Consolidated Bank shares, which have neither traded nor paid dividends in the past.

However, Management did not provide Board and Management meeting minutes, evaluation reports, or documentation on the current status of the investment or its recoverability. There was also no evidence whether authority for write off was obtained. This was contrary to Paragraph 5.5.3 of IFRS 9, which states that, subject to paragraphs 5.5.13–5.5.16, at each reporting date, an entity shall measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. This also contravened Section 69 (2) of the Public Finance Management Act, 2012, which states that an Accounting Officer for a national government entity may, with the approval of the Cabinet Secretary, write off a loss.

In the circumstances, the public may not realize the value for money of public resources invested and Management is in breach of the law.

20. Irregularities in Claim Management, Approval and Payment

Field verification carried out in seven counties of Homabay, Migori, Nyamira, Uasin-Gishu, Bungoma and Kisumu revealed several irregularities in claims processing as follows:

20.1 Approved Claims Paid to Non-Contracted Facilities

Analysis of vendor data for the period between October 2024 and June 2025 revealed that 108 vendors submitted claims and were paid an amount of Kshs.565,651,727 for patients treated at their facilities. However, the health facilities are not included in the official list of accredited or empaneled vendors provided by the Social Health Authority.

20.2 Inpatient Admissions Exceeding Approved Bed Capacity

Audit verification revealed that certain facilities were admitting inpatients beyond their approved bed capacity, as recorded in both the Social Health Authority (SHA) system and the Kenya Medical Practitioners and Dentists Council (KMPDC) master data.

i. A health facility in Homabay County is licensed by KMPDC for a maximum bed capacity of fifty (50), yet the actual physical count at the facility was only twenty (20). Despite this, audit inspection revealed that between 2 and 6 June, 2025, forty-five (45) patients were admitted to the facility.

ii. Another health facility in Homabay County licensed for a maximum bed capacity of twenty-five (25) admitted sixty-six (66) patients between 2 to 6 June, 2025,

iii. A third facility licensed for a maximum bed capacity of fifty (24) beds had an actual physical bed count of eighteen (18). However, during the period from 1 to 5 June 2025, a total of one hundred and thirty-three (133) patients were admitted.

iv. In Kisumu County, a facility with a bed capacity of fourteen (14) had eight (8) in-patients as at 30 November, 2024. On 1 December 2024, thirty-two (32) new patients were admitted, bringing the total to forty (40). Thirty (30) more patients were admitted on 2 December, 2024 and another 62 were admitted the following day 3 December, 2024, resulting in one hundred and thirty-two (132) admitted patients. Only 7 patients were discharged during the sampled period (1 to 3 December, 2024), indicating that one hundred and twenty-five (125) patients were utilizing 14 beds, equivalent to approximately nine (9) patients sharing a single bed.

20.3 Discrepancy Between the System Discharge Date and the Actual Discharge

Audit verification revealed significant discrepancies between discharge dates recorded in patient files and those reflected in Social Health Authority (SHA) payment records. Hospitals attributed this to limitations in the SHA Payer System, which does not allow backdating of discharge dates. As a result, claims continued accruing until the date the One-Time Password (OTP) or biometric verification was entered, even when hospital staff attempted to capture accurate discharge dates.

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

20.4 Irregular Approvals for Exaggerated Patient Discharge Dates

Audit verification revealed that some claims approved in the 2024/2025 financing year had discharge dates extending several years into the future, as detailed in the table below:

Patient	Admission Date	Discharge Date	Admission Days	Approved Amount (Kshs)
1	5/16/2025	3/5/2085	21,902	73,392,480
2	4/6/2025	2/1/2067	15,246	34,218,240
3	4/6/2025	2/1/2067	15,246	34,218,240
4	4/5/2025	4/10/2040	5,661	12,284,160
			Total	**154,113,120**

This contravenes Tariffs for Healthcare Services 2025, Legal Notice Number 56 of 2025, which limits inpatient services to one hundred and eighty days (180) per household per annum and the critical illness package to twelve days of admission in critical care units and any member requiring more admission days shall seek authorization from the Authority.

20.5 Major Surgeries Done on Patients Admitted and Discharged Within a Day

Audit verifications done revealed major surgeries done on patients admitted and discharged the same day such as claim number 6991935 and 6991968 at a health facility in Eldoret, interventions Craniotomy for brain tumor surgery and Acrylic cranioplasty, both procedures done on a patient admitted on 6 April,2025 and discharged on 7 April, 2025. The cost of such procedures in four health facilities amounted to Kshs.4,306,400.

Further, it was noted that though the above claims are doubtful, they have been approved.

20.6 Double Claims

Review of the payment data revealed six instances of double claims amounting Kshs.1,157,720 for the same patients and the same period of time by the Bungoma County Referral Hospital, but with different descriptions of medical procedures. Further, field verification carried out revealed that the facility could only view and access one claim from the provider portal mainly with the lower amount the reasons for the second claim evident in SHA payment data could not be verified. Further, field verification carried out revealed that the facility could only view and access one claim from the provider portal mainly with the lower amount. The reasons for the second claim which was evident in SHA payment data could not be verified.

20.7 Overpayment of Benefit Packages

Review of payment of claims revealed claims were paid using a higher rate than the approved tariffs to the benefit package resulting to overpayment of Kshs.2,980,000 as summarized below:

Patient	Intervention Name	SHA Package amount (Kshs)	Approved Amount (Kshs)	Excess Amount approved Amount (Kshs)
1	Transurethral resection of prostate (TURP)	168,000	1,680,000	1,512,000
2	Lateral Sphincterotomy	44,800	448,000	403,200
3	Partial Gastrectomy	123,200	288,000	164,800
4	Chemo medicines	100,000	1,000,000	900,000
5	Chemo medicines	100,000	1,000,000	900,000
Total				**2,980,000**

Further, review of the Social Health Authority payment details compared to patients file revealed an incidence of approval and over payment of claims. For instance, a health facility in Bungoma claimed Kshs.10,080 as per documents lodged in SHA portal claim number 8656011 but was paid Kshs.312,480 resulting to overpayment of Kshs.302,400. Field verification also revealed a claim amounting to Kshs.146,500 was processed and paid for an intra-articular surgery that did not take place. This was due to wrong preauthorization that had been attached to the claim in the system, resulting in the claim being approved and subsequently paid.

20.8 Pre- Authorized Surgical Services but Rejected After Service had been Offered

Audit verifications revealed instances where pre-authorized surgical services were later rejected after the procedures had been performed and patients discharged, resulting to huge losses to the facilities amounting Kshs.106,572,959. The stated reasons for rejection were the facility's failure to attach certain required documents. However, verification of the facility provider portals indicated that the requested documents requested had been submitted at the time the claims were uploaded.

20.9 Failure to Remit Contributions and to Levy Penalties

Analysis of employer contribution data between October 2024 and June 2025 revealed that two hundred and one (201) employers had not remitted their monthly Social Health Authority statutory dues. Further, the system failed to impose penalties for delayed or non-remittance.

20.10 Misuse of the Public Officers Medical Scheme Fund Open Rebate

Audit verification revealed that various hospitals charged and obtained approvals for different rebates for public officers upon admission. However, some rates charged were found to be exorbitant. For example, daily rates of Kshs.500,000 and Kshs.318,599 were charged for two public servants, while a non-public officer patient was billed bed charges of Kshs.1,638,933.33 per day at a private healthcare facility, resulting in a total cost of Kshs.4,916,800 for a three-day stay.

The verification highlighted how the cost of treatment varies between ordinary Social Health Authority patients and those offered to public servants covered under POMSF hospitals.

In the circumstances, the regularity and value for money incurred on claims could not be confirmed.

21 Staff Costs

The statement of profit or loss and other comprehensive income reflects staff costs of Kshs.2,551,888,959. The following anomalies were noted:

21.1 Staff Over-Establishment

The staff establishment for Social Health Authority reflects 815 approved staff positions. However, review of the payroll for June, 2025 reveals that there were 1654 staff in place working for the Authority including employees of the defunct National Health Insurance Fund (NHIF). This resulted to excess staff by eight hundred and thirty nine (839) employees. Further, distribution list indicating the placement of staff to various cadres was not provided.

In the circumstances, the effectiveness of internal controls over human resource management could not be confirmed.

21.2 Non-Compliance with One-Third Rule on Basic Pay

An analysis of Social Health Authority payroll data for the month of March 2025 revealed that there were three hundred and fifty-three (353) employees who were receiving net salaries that were less than a third of their basic pay contrary to Section 19(3) of the Employment Act, 2007, which states that the deductions from wages should not exceed two-thirds of such wages.

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

22 IT Governance and Control Weaknesses

Review of the IT systems in operation during the period ended 30 June, 2025 revealed a number of weaknesses, including IT governance gaps such as lack of formal Service Level Agreements and SOPs, system design and configuration issues like misclassification of services and unauthorized codes, and operational control weaknesses such as inadequate input controls, validation controls, lack of test of the system before rollover, lack of validation controls, over payment of claims, unauthorized payments and claims by non- contract facilities

In the circumstances, the effectiveness of Information Communication (IT) Governance and Internal Controls could not be confirmed.

REPORT ON THE LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

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

Conclusion

I do not express a conclusion on the effectiveness of internal controls, risk management and governance as required by Section 7(1)(a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient and appropriate audit evidence to provide a basis for my audit 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 Authority'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 Authority'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

23 December, 2025