
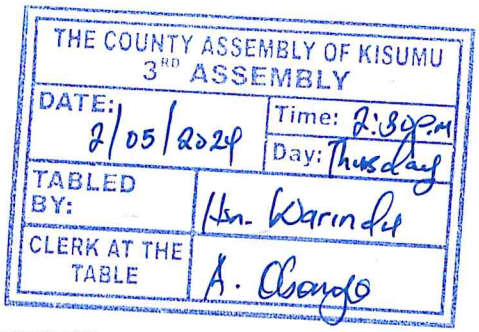


**COUNTY GOVERNMENT OF KISUMU**
COUNTY ASSEMBLY OF KISUMU
PO BOX 86- 40100, KISUMU

**THIRD ASSEMBLY – THIRD SESSION**
**PUBLIC ACCOUNTS AND INVESTMENTS COMMITTEE**

# COMMITTEE REPORT

**ON**

# THE EXAMINATION OF THE REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS FOR NYAKACH COUNTY LEVEL IV HOSPITAL FOR THE YEAR ENDED 30, JUNE 2022

**Presented by;**
**Hon. Ken Ouko**
**Committee Chairperson**

**May, 2024**

**Directorate of Committee Services**
**The County Assembly of Kisumu**
**KISUMU.**

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## LIST OF ABBREVIATIONS

| | |
|---|---|
| **AG** | - Auditor General |
| **FY** | - Financial Year |
| **PFM Act** | - Public Finance Management Act |
| **PICPAC** | - Public Accounts and Investment Committee |
| **PSASB** | -Public Sector Accounting Standards Board |

## 1.0 CHAIRPERSON'S FOREWORD

**Hon. Speaker,**

On behalf of the Public Accounts and Investments Committee (PICPAC), and Pursuant to Kisumu County Assembly Standing Orders 188, I wish to present to this House the report of the Committee on the audited financial statements of Nyakach County Level IV Hospital, financial year 2021/2022.

The County Assembly exercises oversight over County Government entities/investments and their expenditure Pursuant to Article 185(3) of the Constitution of Kenya 2010, through the Public Accounts and Investments Committee which, in turn, derives its mandate from the County Assembly Standing Orders.

It's instructive that Article 229 (8) of the Constitution of Kenya, 2010, requires the County Assembly, within three months after receiving an audit report, to debate, consider the report, and take appropriate action.

The Committee held 2 sittings during which it received both written and oral evidence from the Accounting Officer on audit queries raised by the Auditor-General on the financial statements of Nyakach County Level IV Hospital, FY 2021/2022.

Honorable Speaker, I wish to register my appreciation to fellow Honorable Members of the Committee, the Offices of the Speaker and the Clerk of the Assembly, the Committee Secretariat, and the Office of the Auditor General for the facilitation and technical support that made the production of this report possible.

I also thank the management of Nyakach County Level IV Hospital for honoring committee invitations and timely submission of responses.

Special appreciation goes to the Hansard department for ensuring that all our meetings with Accounting Officers are broadcast live.

Honorable Speaker, on behalf of the Public Accounts and Investments Committee, I now wish to table the report on the consideration of the Auditor General's report on the Financial Statements of the Nyakach County Level IV Hospital, for the year ended 30, June 2022 and urge this Honorable House to adopt it.

.....

**Hon. Ken Ouko**
**Committee Chairperson**

## 1.1 Establishment and Mandate of the Public Accounts and Investments Committee

**Hon. Speaker,**

The Public Accounts and Investments Committee is established under Standing Order No. 188 of the Kisumu County Assembly Standing Orders and is mandated to undertake the following functions;

i). Examination of the accounts showing the appropriations of the sum voted by the County Assembly to meet the public expenditure and of such other accounts laid before the House as the committee may think fit;
ii). Examination of the working of the Public Investments
iii). Examine the reports and accounts of the Public Investments and,
iv). Examine in the context of the autonomy and efficiency of the public investments, whether the affairs of the public investments, are being managed in accordance with sound financial or business principles and prudent commercial practices.

## 1.2 Composition of the Public Accounts and Investments Committee

The Committee as currently constituted comprises of the following Honorable Members,

*Table 1: Committee Membership as at May 2024*

| | NAME | POSITION |
|---|---|---|
| | **MEMBERS** | |
| 1. | Hon. Ken Ouko | Chairperson |
| 2. | Hon. Geoffrey Warindu | Vice Chairperson |
| 3. | Hon. Seth Okumu | Member |
| 4. | Hon. Nancy Matara | Member |
| 5. | Hon. Rueben Rakwach | Member |
| 6. | Hon. James Were | Member |
| 7. | Hon. James Omollo | Member |
| | **SECRETARIAT** | |
| 1. | Austine Ochieng' | Committee Clerk |
| 2. | Chrispine Oguta | Clerk Assistant |
| 3. | Patrick Okoyo | Hansard Officer |
| 4. | Faith Judith | Sargent-at-arm |
| 5. | Wycliffe Owade | Researcher |
| 6. | CPA Naboth Odero | Internal Auditor |
| 7. | CPA Mollen Achayo | Fiscal Analyst |
| 8. | CPA Charles Ageng'o | Internal Auditor |

## 2.0 LEGAL FRAMEWORK & GUIDING PRINCIPLES

### 2.1 Legal Framework

**Hon. Speaker,**

The Committee was guided by the following legal instruments;

1. **Constitution of Kenya 2010:** Article 229 (4) of the Constitution of Kenya, 2010 requires the Auditor General, within a period of six months after the end of each financial year, to audit and report, in respect of that financial year, on;
    i. The accounts of the National and County governments,
    ii. The accounts of all funds and authorities of the National and County governments,
    iii. Accounts of all courts,
    iv. The accounts of every commission and independent office established by this constitution,
    v. The accounts of National Assembly, the Senate and the county assemblies,
    vi. The accounts of the political parties funded from the public funds,
    vii. The public debt and
    viii. The accounts of any other entity that legislation requires the Auditor General to Audit

    Article 229(8) further states that "within three months after receiving an audit report, parliament or county assembly shall debate and consider the report and take appropriate action".

2. **The Committee also relied on Article 226(5) of the Constitution of Kenya, 2010** which provides that if the holder of a public office, including a political office, directs or approves the use of public funds contrary to law or instructions, the person is liable for any loss arising from that use and shall make good the loss, whether the person remains the holder of the office or not.

3. **Public Audit Act 2015;** Section 7 of Public Audit Act 2015 that mandates the Auditor General to: (i) Give assurance on the effectiveness of internal controls, risk management and overall governance at National and County Government; (ii) Undertake audit activities in state organs and public entities to confirm whether or not public money has been applied lawfully and in an effective way

4. **Public Finance Management Act, 2012:** Section 149 (1) of the Public Finance Management Act, 2012 which states that "An accounting officer is accountable to the County Assembly for ensuring that the resources of the entity for which the officer is designated are used in a way that is –

a) Lawful and authorized; and
b) Effective, efficient, economical and transparent"

## 2.2 Guiding Principles

Hon. Speaker,

In the execution of its mandate, the Committee was guided by core Constitutional and statutory principles on Public Finance Management.

These principles include the following;

1. **Constitutional Principles on Public Finance**: Article 201 of the Constitution of Kenya 2010 provides for fundamental principles aimed at guiding all aspects of Public Finance. It states that the principles are; inter alia;
   i). Openness and Accountability including public participation in financial matters;
   ii). Public money shall be used in a prudent and responsible way; and
   iii). Financial management shall be responsible and fiscal reporting shall be clear.

2. **Obligations of the Accounting officer;**
   i). **Article 226(2) of the Constitution of Kenya 2010** which provides that; The Accounting officer of a national public entity is accountable to the national assembly for its financial management, and the accounting officer of a county public entity is accountable to the county assembly for its financial management.
   ii). **Section 149(1) of the Public Finance Management Act 2012** provides that; an accounting officer is accountable to the County Assembly for ensuring that the resources of the entity for which the officer is designated are used in a way that is; (i) Lawful and authorized and; and (ii) Effective, efficient and transparent
3. **Direct Personal Liability**: Article 226(5) of the Constitution is unequivocal that, if the holder of a Public Office or a political office, directs or approves the use of Public Funds contrary to the law or instruction, the person is liable for any loss arising from that use and shall make good, the loss, whether the person remains the office holder or not.
4. **Section 203(1)** of the Public Finance Management Act, 2012 enacts that; a public officer is personally liable for any loss sustained by a County Government and is attributed to; (i) The fraudulent or corrupt conduct, or negligence of the officer or, (ii) The officer's having done any act prohibited by Sections 196, 197, and 198

The Committee considered these legal provisions as the basis for holding accounting and public officers directly and personally liable for any loss of Public Funds that may have occurred under their watch.

# 3.0 REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF NYAKACH COUNTY LEVEL IV HOSPITAL FOR THE YEAR ENDED 30, JUNE 2022

**Hon. Speaker,**

Dr. Edon Nyagudi Otieno the Medical Superintendent, and the Accounting Officer appeared before the Committee on 4th April 2024 at 9:30am to adduce evidence on the Audited Financial Statements of the Nyakach County Level IV Hospital for the year ended 30, June 2022. The following officers accompanied the Medical Superintendent;

1. **Mr. Abraham Abuto – Hospital Administrator**
2. **Mr. Ezekiel Onunga- Accountant**

The following officers represented the Office of the Auditor General in the meeting on 4th April 2024 at 0930hrs;

1. **Mr. Kennedy Ongoi – Office of the Auditor General**
2. **Ms. Margaret Mowage – Office of the Auditor General**

## Basis for Adverse Opinion

### 3.1 Non-Compliance with the Public Sector Accounting Standards Board (PSASB) Reporting Requirements

Review of the annual report and financial statements revealed the following anomalies on presentation and disclosure.

I. The statement of changes in net assets and the statement of comparison of budget and actual amounts were omitted.
II. The statement of cash flows does not disclose the opening cash and cash equivalents balance.
III. Board of management and key management information details on pages 6 and 7 respectively do not include member's passport size photos, key qualification and work experiences as required by the template.
IV. There is no disclosure on transaction with related parties in Note 24 to the financial statements –related parties.
V. A trial balance was not provided for audit.

In the circumstances, the preparation and presentation of the annual reports and financial statements do not comply with the format prescribed by the Public Sector Accounting Standards Board.

**Management Response**

*As highlighted in the preamble, the hospital management prepared a distinct annual report financial statements as an accounting entity for the first time and as such was not very conversant with the requirements of International Public Sector Accounting Standards (Accrual Basis). At the same time, the hospital did not have an accountant and supply chain officer to ensure effective execution of the accounting and supply chain functions to aid in the preparation of the financial statements.*

*Additionally, the hospital never had a comprehensive annual budget for the FY 2021/2022. It was a norm that the hospital management prepare quarterly budget proposals on the available funds and thereafter request the Chief Officer-Health for Authority to Incur the expenditures as per the budget proposals. The management has taken note of this requirement and is working on ways to ensure compliance in budget preparations.*

**Committee Observations**

1. That the management failed to adhere to Public Finance Management Act, 2012, Section 164(1) which states that; *''At the end of each financial year, the accounting officer for a county government entity shall prepare financial statements in respect of the entity in formats to be prescribed by the Accounting Standards Board.*
2. That there was lack of qualified accountants in the management of Nyakach Sub-County Hospital to assist in proper preparation of the financial statements

**Committee Recommendations**

1. **That going forward, the Management must adhere to the requirements of Section 164(1) of the Public Finance Management Act, 2012**
2. **That the department of Medical Services, Public Health and Sanitation immediately deploy a qualified accountant to the hospital to support in the financial management in the Hospital. A report on the deployment be submitted to this Assembly within a period of 60 days upon adoption of this report.**
3. **That this matter remains unresolved**

## 3.2 Unaccounted for Assets in the Financial Statements

The statements of financial position reflects Nil balance in respect of property, plant and equipment, intangible assets, investment, property and inventory. However, a review of records revealed that the hospital had assets including fixed assets, intangible assets and inventories as at 30 June 2022 of undetermined values which were not recognized in financial statements.

In the circumstances, the accuracy and completeness of the financial statements could not be confirmed

**Management Response**

*The Hospital management maintains an asset register detailing all specs, quantities and locations of all assets in the RM-Lite Asset Management system. However, the costs of the*

*assets are not included in the asset management system since the assets, including land and buildings, had not been valued by a qualified valuer as at close of the financial year to be included in the financial statement.*

*The Hospital management maintains inventory bin cards that are routinely updated, However, the hospital management did not have the skills on how to cost all the inventories in the hospital stores as at close of the FY 2021/2022. The knowledge gap is being addressed to avoid onward non-compliance.*

*The hospital management has also taken steps to engage the Department of Health to assist in the engagement of a valuer to address the gap noted.*

**Committee Observations**

1. That the Management failed to disclose the values of property, plant and equipment, intangible assets, investment, property and inventory in the financial statements of the FY 2021/2022
2. The management submitted that they had reached Health department to assist in engaging a valuer. However, the management failed to provide evidence to this effect.

**Committee Recommendations**

1. **That the Accounting Officer, Department of Health, Medical Services and Sanitation immediately initiate the process of valuation of assets in the hospital and a report on the same be submitted to this Assembly within a period of 90days upon adoption of this report**
2. **That this matter remains unresolved**

## 3.3 Unreconciled Variances in Transfers from County Government

The statements of financial performance reflects transfers from the County Government amount of Kshs.8,073,241 which is at variance with the balance of Kshs.5,576,651 reflected as transfers in the Kisumu County's Executive Financial Statements. The variance of kshs.2, 496,590 has not been reconciled.

In the circumstances, the accuracy and completeness of transfers from the County Government amount of Kshs.8, 073,241 could not be confirmed.

**Management Response**

*Being the first time preparing the annual report and financial statements, the hospital management faced a number of challenges understanding the requirements of International Public Sector Accounting Standards (Accrual Basis). The management has taken note variance of Kshs. 2,496,590 refers to FY 2020/2021 treasury disbursements that were credited to the hospital bank accounts during the FY 2021/2022. The management acknowledges the error made & has taken note to avoid such in future.*

**Committee Observation**

That the financial statements of the hospital reflected transfers from the County Government amount of Kshs.8,073,241 which was at variance with the balance of Kshs.5,576,651 reflected as transfers in the Kisumu County's Executive Financial Statements.

**Committee Recommendations**

1. **That going forward, the Accounting Officer, department of Health, Medical Services and Sanitation must ensure that transfers to other County Government entities are accurately recorded in the financial statements.**
2. **That this matter is resolved**

## 3.4 Misstatement of Trade Payables

The statements of financial position reflects trade and other payables balance of Kshs.2,450,775 and referenced under Note 34 to the financial statements. However, Note 34 refers to refundable deposits from customers /patients and had nil balance. Further review of financial statements revealed that trade and other payables are classified under Note 33 to financial statements and reflects an amount of Kshs.4, 234,515 resulting to unreconciled variances of kshs.1, 783,740.

In circumstances, the accuracy of the trade and other payables of Kshs 2,450,775 could not be confirmed.

**Management Response**

*The hospital management acknowledges the misclassification and the variances in the report and attributes it to challenges associated with preparation of a financial statements for the first time. The management has taken measures to familiarize with the task to avert the misstatements going forward.*

**Committee Observation**

That the management failed to explain the variance amounting to Kshs. 1, 783,740 between the notes and the financial statements in regards to trade and other payables as at the time of audit and committee deliberations.

**Committee Recommendations**

1. **That the CEC Member Finance, ICT and Economic Planning constitute a Task force within 30 days upon adoption of this report to ascertain the accuracy and value of the pending bills, as at 30 June, 2022.**
2. **That a report of the Task force be submitted to the Assembly within 90 days upon constitution of the Task force.**
3. **That the management is hereby instructed to immediately suspend any further payment related to the said pending bills until the outcome of the process is determined.**
4. **That this matter remains unresolved**

## 3.5 Unsupported Bank Balance

The statements of financial position reflect cash and cash equivalents balance of Kshs.1,723,410 which, as disclosed in Note 27 (a) to the financial statements, comprises balances of Kshs 1,556,612 and Kshs 166,798 held in two (2) local banks. However, the balances were not supported with bank reconciliation statements. In addition, the certificate of balances for one of the bank accounts reflected a balance of Kshs.1543, 672 while bank statement reflected a balance of Kshs. 1,556, 613, resulting to an unexplained variance of Kshs.12, 941.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs .1, 723,410 could not be confirmed.

**Management Response**

*The Health Administrator who was handling the accounting functions in FY 2021/2022 had limited knowledge in preparation of bank reconciliation statements. However, the hospital management is working on plans to engage a resident accountant to assist on these functions.*

*The Hospital management had engaged the bank on the variance of Kshs 12,941 between the certificate of bank balance and the bank statement. The management is still following up on the feedback.*

**Committee Observation**

That the management failed to adhere to the provision of paragraph 90(1) of Public Finance Management Regulation, 2015 which states that "Accounting Officers shall ensure bank accounts reconciliations are completed for each bank account held by that Accounting Officer, every month and submit a bank reconciliation statement not later than the 10th of the subsequent month to the County Treasury with a copy to the Auditor-General.

**Committee Recommendations.**

1. **That going forward, the management must adhere to Paragraph 90(1) of Public Finance Management Regulation, 2015**
2. **That this matter is resolved**

## 3.6 Unsupported Rendering of Services- Medical Service Income Amount

The statement of financial performance reflects rendering of services-medical services income of Kshs.4,035,976. However, the supporting schedules provided for audit reflect total income from rendering of services-medical services care of Kshs.3, 067,789 resulting in an unreconciled variance of Kshs. 968,187.

In the circumstances, the accuracy and completeness of rendering of services – medical services income Kshs.4, 035,976 could not be confirmed.

**Management Response**

*The Kshs 968,187 variance refers to revenue received from NHIF which includes capitations and reimbursements received during the FY 2021/2022.*

*Going forward, the hospital management will ensure to support all revenues as required by International Public Sector Accounting Standards (Accrual Basis).*

**Committee Observation**

That the management violated the provision of paragraph 63 (1) (a) of the Public Finance Management Regulation, 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 county government revenue and other public moneys relating to their county departments or agencies"

**Committee Recommendations**

1. **That going forward the management must adhere to the provision of paragraph 63 (1) (a) of the Public Finance Management Regulation, 2015**
2. **That the matter is resolved**

## 3.7 Variances Between the Financial Statements and Supporting Schedules

The statement of financial performance reflect medical cost and general expenses items disclosed in note 15 and note 21 to the financial statements which are at variances with their supporting schedules as listed below;

| | **Balance as per the Statement of Receipts & Payments** | **Balance as per supporting schedule** | **Variance** |
|---|---|---|---|
| **Component** | **(Kshs.)** | **(Kshs.)** | **(Kshs.)** |
| Food and Ration | 1,366,016 | 1,341,016 | 25,000 |
| Dressing and Non-Pharmaceuticals | 352,360 | 317,950 | 34,410 |
| Sanitary and Cleansing | 168,530 | 155,230 | 13,300 |
| Refined fuels and lubricant | 381,458 | 481,263 | 195 |
| Bank charges | 3,821 | 0 | 3,821 |
| Contracted Service | 204,000 | 408,000 | -204,000 |
| Other Fuels | 320,000 | 390,800 | -70,000 |
| Travelling and Accommodation | 0 | 174,300 | -173,300 |
| General Office Supplies | 209,500 | 49300 | 160,200 |
| Printing and Stationary | 179,250 | 0 | 179,250 |

| | Balance as per the Statement of Receipts & Payments | Balance as per supporting schedule | Variance |
|---|---|---|---|
| **Component** | **(Kshs.)** | **(Kshs.)** | **(Kshs.)** |
| Food and Ration | 1,366,016 | 1,341,016 | 25,000 |
| Telephone and mobile phone services | 63,000 | 0 | 63,000 |

In addition, the statement of financial performance reflects transfers to other Government entities – MOH Office amount of Kshs 500,000, while the supporting Note 20 to the financial statements and inter-entity confirmation letter at Appendix iv reflect Nil balance, resulting in an unexplained variance of Kshs 500,000.

In the circumstances, the accuracy and completeness of medical costs and general expenses could not be confirmed.

**Management Response**

*The hospital management has taken note of the variances and states that the variances were as a result of the limited knowledge that the management had on the preparation of the financial statement. The hospital management has made steps to learn more on preparation of financial statements in line with International Public Sector Accounting Standards (Accrual Basis)*

**Committee Observations**

1. That management failed to support expenditures totaling Kshs 474,160 with relevant documents and schedules during the time of audit and committee deliberations. The expenditures include; Food and rations Kshs 25,000, Dressing and Non-Pharmaceuticals Kshs. 34,410, Sanitary and Cleansing Kshs. 13,300, General Office Supplies Kshs. 160,200, Printing and Stationary Kshs. 179,250 and Telephone and mobile phone services Kshs. 62,000.
2. That the Management failed to provide evidence to support transfer of Kshs 500,000 to MOH during the time of audit and committee deliberations

**Committee Recommendations.**

1. **That Pursuant to Article 226(5) of the Constitution of Kenya, 2010 which states that *if the holder of a Public Office or a political office, directs or approves the use of Public Funds contrary to the law or instruction, the person is liable for any loss arising from that use and shall make good, the loss, whether the person remains the office holder or not*, the Accounting officer Department of Medical Services, Public Health and Sanitation immediately initiates recovery of Kshs. 971,160 related to**

**unsupported expenditures of Kshs. 474,160 and unsupported transfers to MOH amounting to Kshs. 500,000 from Dr. Agwanda Anfilled, the then Medical Superintendent/Accounting Officer and submit a report on the same to this Assembly within a period 90 days upon adoption of this report.**

2. **That the matter remains unresolved**

## 3.8 Inaccuracies in the Statement of Financial Position

The statement of financial position reflects total net assets and liabilities amount of Kshs 7,041,882 while the recomputed balance amounts to Kshs 6,346,952, resulting in an unexplained variance of Kshs 694,930. Further, the statement reflects total assets balance of Kshs 5,596,480 while with the re –computed total net assets and liabilities balance is Kshs 6,346,952, resulting in a variance of Kshs 750,472 and unbalanced statement of financial position.

In the circumstances, the accuracy and completeness of the statement of financial position could not be confirmed

**Management Response**

*The variances noted are as a result of the amendments/adjustments made on the originally submitted financial statements. The management has taken note of the gap noted and taking up measures to ensure that all future amendments/adjustments are supported.*

**Committee Observation**

That the management failed to adhere to Section 164(3) of the Public Finance Management Act, 2012, which states that "*the accounting officer shall prepare the financial statements in a form that complies with relevant accounting standards prescribed and published by the Accounting Standards Board from time to time.*"

**Committee Recommendations**

1. **That going forward, the management must ensure that the financial statements reflect the true and fair position of the hospital as required by Section 164(3) of the Public Finance Management Act, 2012.**
2. **That the matter is unresolved**

# 4.0 REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

## 4.1 Incomplete Assets Register

Review of the Hospital's asset register revealed that details of three (3) motor vehicles, all buildings and four (4) of the seven (7) parcels of land occupied by the Hospital were not recorded in the assets register. This is contrary to Regulation 136(2) of the Public Finance Management (County Governments) Regulations, 2015, which provides that, the register of land and buildings shall record each parcel of land and each building and the terms on which it is held.

Further, the Hospital did not have ownership documents for six (6) parcels of land and other assets were not tagged with unique identification codes. In addition, land Information indicates that one (1) parcel of land is in dispute with the community.

In the circumstances, Management was in breach of law

**Management Response**

*The hospital management has noted the concern raised in the OAG's report and corrective measures have been made to include the motor vehicles and the parcels of land in the asset register.*

*The management has also made steps to tag all the other the hospital plant and equipment's as recommended by the OAG.*

*The issue of land ownership has been a long-standing issue and the hospital management is in the process of engaging the local leadership, the community and the Department of Health in bid to ensure that all the parcels that the hospital sits on are transferred to the hospital and Title deeds obtained.*

**Committee Observation**

That the management did not maintain an updated asset register contrary to Regulation 136(2) of the Public Finance Management (County Governments) Regulations, 2015, which provides that, the register of land and buildings shall record each parcel of land and each building and the terms on which it is held.

**Committee Recommendations**

1. **That going forward, the management must adhere to Regulation 136(2) of the Public Finance Management (County Governments) Regulations, 2015.**
2. **That the matter is resolved**

## 4.2 Irregular Management of Imprests

Review of imprest records revealed that the Hospital did not maintain an imprest register as required by Regulation 93(4)(c) of the Public Finance Management (County Governments) Regulations, 2015 which stipulates that 'before issuing temporary Imprests under paragraph (2), the Accounting Officer shall ensure that the applicant imprest has been recorded in the imprest register including the amount applied for. Further, it was noted that imprest was issued to an officer on behalf of other staff, contrary to Regulation 91(2), which requires an officer authorized to hold and operate an imprest to make formal application for the imprest through an imprest warrant.

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

**Management Response**

*The management has duly noted failure of hospital's management to maintain the imprest register during the year ended 30" June 2022. This weakness resulted into an officer taking imprest on behalf of other staff. This has since been corrected and an updated imprest register is now in place in imprest management.*

**Committee Observations**

1. That the management did not maintain an imprest register as required by Regulation 93(4)(c) of the Public Finance Management (County Governments) Regulations, 2015 which stipulates that 'before issuing temporary Imprests under paragraph (2), the Accounting Officer shall ensure that the applicant imprest has been recorded in the imprest register including the amount applied for.
2. That the management issued imprest to an officer on behalf of other staff, contrary to Regulation 91(2), which requires an officer authorized to hold and operate an imprest to make formal application for the imprest through an imprest warrant.

**Committee Recommendations**

1. **That going forward, the management must adhere to provisions of Regulation 93(4)(c) of the Public Finance Management (County Governments) Regulations, 2015.**
2. **That going forward, the management must adhere to Regulation 91(2) of the Public Finance Management (County Governments) Regulations, 2015.**
3. **That the matter is resolved**

# 5.0 REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

## 5.1 Long Outstanding Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kes.2,450,775 out of which balances amounting to Kshs.1,244,375 are long outstanding with some relating to the year 2020 and earlier years.

In the circumstances, Management controls over payables may not be effective and the hospital risks legal suits from unpaid suppliers.

**Management Response**

*The management acknowledges the long outstanding pending bills. These bulk of the pending bills were accrued during the UHC period and has since spilled over to subsequent years to date.*

*The hospital management is in constant engagement with the Department of Health to assist on modalities of offsetting the verified and validated pending bills.*

**Committee Observations**

1. The management accrued debts amounting Kshs. 1,244,375 relating to the year 2020 and earlier years
2. That the management had an outstanding trade and other payables amounting to Kshs. 2,450,775 as at 30th June 2022
3. That the management failed to repay the above debts on first charge basis, contrary to Regulation 41(2) of the Public Finance Management (County Governments) Regulations, 2015, which states that 'debt service payments shall be a first charge on the County Revenue Fund and the Accounting Officer shall ensure this is done to the extent possible that the county government does not default on debt obligations.

**Committee Recommendations**

1. **That going forward, the management must adhere to Regulation 41(2) of the Public Finance Management (County Governments) Regulations, 2015**
2. **That the matter remains unresolved**

## 5.2 Control Weakness in Revenue Collection

The Hospital maintains its financial records including cash book and ledgers in manual form despite having a financial management system (Funsoft).

Further, review of the revenue collection system revealed that the Cashier was also the billing clerk and there was no evidence of daily reconciliation between the revenue recorded in the financial information system and Mpesa statement transactions while the Mpesa password was still in possession of the former hospital administrator.

In the circumstances, the effectiveness of internal controls over revenue collection could not be confirmed

**Management Response**

*The hospital management took none of the issues raised and has since made corrective measures as follows:*

- *The cash office and the billing offices have been separated and different officers posted in each of the offices as had been recommended.*
- *The Hospital's health administrator 1s now undertaking daily revenue reconciliations as reported by the Financial management system (Funsoft) and the M-Pesa Paybill statements.*

**Committee Observations**

1. That the hospital maintained its financial records including cash book and ledgers in manual form despite having a financial management system (Funsoft).
2. That there was no evidence of daily reconciliation between the revenue recorded in the financial information system and Mpesa statement transactions.

**Committee Recommendations**

1. **That going forward, the hospital management must maintain its financial records including cash book and ledgers in financial management system (Funsoft).**
2. **That going forward, management must ensure daily reconciliation between the revenue recorded in the financial information system and Mpesa statement transactions.**
3. **That the matter is resolved.**

## 5.3 Weak Controls in Inventory Management

Review of the hospital's inventory system revealed several weaknesses which included; the lack of technical training for the clerical officer managing the store, the absence of role segregation resulting in lack of checks and balances in stock management, a non-automated store system compared to the automated pharmacy.

Further, there was inadequate access control and security measures in the store area, absence of documented handovers when the storekeeper was absent. In addition, there was no evidence that an end of year stock take was carried out.

In the circumstances, the existence and an end of year or effectiveness of internal controls over inventories could not be confirmed.

- **Management Response**

*The hospital management acknowledges the weakness highlighted in the report and corrective measures are being undertaken.*

*The management is engaging the Department of Health to post a supply chain officer to the hospital to efficiently and effectively undertake supply chain and procurement functions aimed at reducing the existing gaps. The supply chain officer will oversee all functions performed by other officers working at the hospital stores.*

**Committee Observations**

That the facility inventory system revealed the following weaknesses; the lack of technical training for the clerical officer managing the store, the absence of role segregation resulting in lack of checks and balances in stock management, a non-automated store system compared to the automated pharmacy.

- **Committee Recommendations**

1. **That the Accounting officer to the facility demonstrate to this Assembly by way of a report corrective measures taken to ensure proper inventory management of the facility within 90 days upon adoption of this report.**
2. **That the matter is unresolved.**

## 5.4 Weakness in the Filing System

- The Hospital did not have a systematic filing system for both financial and procurement records. Consequently, it was not possible to retrieve information for audit purposes. In addition, most procurement files were still in custody of a former officer.

In the circumstances, effectiveness and efficiency of the filling system could not be confirmed.

**Management Response**

- *The hospital has noted this weakness and is in engagement with the Department of health to post an accountant and supply chain officer at the hospital to ensure efficient and effective execution of the accounting and the supply chain functions respectively, which includes proper filling and documentations.*

**Committee Observations**

That the hospital did not maintain a proper and systematic filing system for both financial and procurement records

**Committee Recommendations**

1. **That going forward, the management must ensure proper and systematic filing system for both financial and procurement records in the facility.**
2. **That the matter is resolved**

## 5.5 Failure to Meet Level 4 Hospital Requirements

Review of records maintained by the facility and physical inspection of medical equipment's available at the facility revealed that the facility only had twenty-two (22) members of staff against the seventy-five (75) various medical professionals required as per Kenya Quality Model for Health. Further, the hospital does not offer all services required of a level 4 hospital such as surgical unit; renal dialysis; intensive care unit; high dependency units while the x-ray and ultrasound machines had broken down.

In addition, the Hospital had no procurement officer nor an accountant. The hospital administrator doubled up as the procurement officer.

**Management Response**

*The hospital being a level 4 hospital is required to have operational Pediatric Unit, Surgical Unit,*

*Operating Theatre with consultants in each unit. But we are currently lacking any consultant. The hospital only has one medical officer. The County Government of Kisumu is in the process of finalizing the construction of maternity Theatre Complex and posting of consultants and more officers.*

*The X-ray and the Ultrasound equipment have since been repaired and are functional*

**Committee Observations**

1. That the hospital did not meet a number of key specifications as prescribed by the Kenya Quality Model for Health policy guidelines with reference to their medical personnel staffing.
2. That the hospital does not offer all services required of a level 4 hospital such as surgical unit; renal dialysis; intensive care unit; high dependency units while the x-ray and ultrasound machines had broken down.
3. That the hospital had no procurement officer or an accountant

**Committee Recommendations**

1. **That the Accounting Officer, Department of Medical Services, Public Health and Sanitation demonstrate to this Assembly by way of a report, corrective measures taken to adhere to the Kenya Quality Model for Health policy guidelines within 60 days upon adoption of this report.**
2. **That the Department of Medical Services, Public Health and Sanitation immediately deploy a qualified procurement officer and accountant to the hospital to support in the financial management. A report on the deployment be submitted to this Assembly within a period of 60 days upon adoption of this report.**
3. **That the matter is unresolved**

## 6.0 SUMMARY OF OBSERVATIONS

1. That the management failed to adhere to Public Finance Management Act, 2012, Section 164(1) which states that; *''At the end of each financial year, the accounting officer for a county government entity shall prepare financial statements in respect of the entity in formats to be prescribed by the Accounting Standards Board.*
2. That there was lack of qualified accountant in the management of Nyakach Sub-County Hospital to assist in proper preparation of the financial statements.
3. That the Management failed to disclose the values of property, plant and equipment, intangible assets, investment, property and inventory in the financial statements of the FY 2021/2022 for lack of values. The management submitted that they had reached Health department to assist in engaging a valuer. However, the management failed to provide evidence to this effect.
4. That the management failed to explain the variance amounting to Kshs. 1, 783,740 between the notes and the financial statements in regards to trade and other payables as at the time of audit and committee deliberations.
5. That the management failed to adhere to the provision of paragraph 90(1) of Public Finance Management Regulation, 2015 which states that "Accounting Officers shall ensure bank accounts reconciliations are completed for each bank account held by that Accounting Officer, every month and submit a bank reconciliation statement not later than the 10th of the subsequent month to the County Treasury with a copy to the Auditor-General.
6. That the management violated the provision of paragraph 63 (1) (a) of the Public Finance Management Regulation, 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 county government revenue and other public moneys relating to their county departments or agencies"
7. That the management failed to adhere to Section 164(3) of the Public Finance Management Act, 2012, which states that "the accounting officer shall prepare the financial statements in a form that complies with relevant accounting standards prescribed and published by the Accounting Standards Board from time to time."
8. That the management did not maintain a register of land and buildings contrary to Regulation 136(2) of the Public Finance Management (County Governments) Regulations, 2015, which provides that, the register of land and buildings shall record each parcel of land and each building and the terms on which it is held.
9. That management failed to support expenditures totaling Kshs 474,160 with relevant documents and schedules during the time of audit and committee deliberations. The expenditures include; Food and rations Kshs 25,000, Dressing and Non-Pharmaceuticals Kshs. 34,410, Sanitary and Cleansing Kshs. 13,300, General Office Supplies Kshs. 160,200, Printing and Stationary Kshs. 179,250 and Telephone and mobile phone services Kshs. 62,000.

10. That the Management failed to provide evidence to support transfer of Kshs 500,000 to MOH during the time of audit and committee deliberations
11. That the management did not maintain an imprest register as required by Regulation 93(4)(c) of the Public Finance Management (County Governments) Regulations, 2015 which stipulates that 'before issuing temporary Imprests under paragraph (2), the Accounting Officer shall ensure that the applicant imprest has been recorded in the imprest register including the amount applied for.
12. That the management issued imprest to an officer on behalf of other staff, contrary to Regulation 91(2), which requires an officer authorized to hold and operate an imprest to make formal application for the imprest through an imprest warrant.
13. The management accrued debts amounting Kshs. 1,244,375 relating to the year 2020 and earlier years
14. That the management had an outstanding trade and other payables amounting to Kshs. 2,450,775 as at 30th June 2022.
15. That the management failed to repay the above debts on first charge basis, contrary to Regulation 41(2) of the Public Finance Management (County Governments) Regulations, 2015, which states that 'debt service payments shall be a first charge on the County Revenue Fund and the Accounting Officer shall ensure this is done to the extent possible that the county government does not default on debt obligations
16. That the hospital maintained its financial records including cash book and ledgers in manual form despite having a financial management system (Funsoft).
17. That there was no evidence of daily reconciliation between the revenue recorded in the financial information system and Mpesa statement transactions.
18. That the facility inventory system revealed the following weaknesses; the lack of technical training for the clerical officer managing the store, the absence of role segregation resulting in lack of checks and balances in stock management, a non-automated store system compared to the automated pharmacy.
19. That the hospital did not maintain a proper and systematic filing system for both financial and procurement records
20. That the hospital did not meet a number of key specifications as prescribed by the Kenya Quality Model for Health policy guidelines with reference to their medical personnel staffing.
21. That during the FY 2021/2022, the hospital was not offering services required of a level 4 hospital such as surgical unit; renal dialysis; intensive care unit; high dependency units while the x-ray and ultrasound machines had broken down.
22. That the hospital had no procurement officer or an accountant

# 7.0 SUMMARY OF COMMITTEE RECOMMENDATIONS

1. **That Pursuant to Article 226(5) of the Constitution of Kenya, 2010 which states that if the holder of a Public Office or a political office, directs or approves the use of Public Funds contrary to the law or instruction, the person is liable for any loss arising from that use and shall make good, the loss, whether the person remains the office holder or not, the Accounting officer Department of Medical Services, Public Health and Sanitation immediately initiates recovery of Kshs. 971,160 related to unsupported expenditures of Kshs. 474,160 and unsupported transfers to MOH amounting to Kshs. 500,000 from Dr. Agwanda Anfilled, the then Medical Superintendent/Accounting Officer and submit a report on the same to this Assembly within a period 90 days upon adoption of this report.**
2. **That going forward, the Management must adhere to the requirements of Section 164(1) of the Public Finance Management Act 2012 which require an accounting officer for a county government entity to prepare financial statements in respect of the entity in formats to be prescribed by the Accounting Standards Board**
3. **That the Department of Medical Services, Public Health and Sanitation immediately deploy a qualified accountant to the hospital to support in the financial management of the Hospital. A report on the deployment be submitted to this Assembly within a period of 60 days upon adoption of this report.**
4. **That the Accounting Officer, department of Medical Services, Public Health and Sanitation immediately initiate the process of valuation of assets in the hospital and a report on the same be submitted to this Assembly within a period of 90 days upon adoption of this report.**
5. **That going forward, the management of the hospital must adhere to paragraph 90(1) of Public Finance Management Regulation, 2015 which states that "Accounting Officers shall ensure bank accounts reconciliations are completed for each bank account held by that Accounting Officer, every month and submit a bank reconciliation statement not later than the 10th of the subsequent month to the County Treasury with a copy to the Auditor-General."**
6. **That going forward the management must adhere to the provision of paragraph 63 (1) (a) of the Public Finance Management Regulation, 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 county government revenue and other public moneys relating to their county departments or agencies"**
7. **That going forward, the management must ensure that the financial statements reflect the true and fair position of the hospital as required by Section 164(3) of the Public Finance Management Act, 2012 which states that "the accounting officer shall prepare the financial statements in a form that complies with relevant accounting standards prescribed and published by the Accounting Standards Board from time to time."**

8. That going forward, the management must adhere to provisions of Regulation 136(2) of the Public Finance Management (County Governments) Regulations, 2015 which provides that, the register of land and buildings shall record each parcel of land and each building and the terms on which it is held.
9. That going forward, the management must adhere to provisions of Regulation 93(4)(c) of the Public Finance Management (County Governments) Regulations, 2015 which requires an officer authorized to hold and operate an imprest to make formal application for the imprest through an imprest warrant.
10. That going forward, the management must adhere to Regulation 91(2) of the Public Finance Management (County Governments) Regulations, 2015 which states that "Accounting Officers shall ensure bank accounts reconciliations are completed for each bank account held by that Accounting Officer, every month and submit a bank reconciliation statement not later than the 10th of the subsequent month to the County Treasury with a copy to the Auditor-General.
11. That the CEC Member Finance, ICT and Economic Planning constitute a Task force within 30 days upon adoption of this report to ascertain the accuracy and value of the pending bills for the hospital as at 30 June, 2022. That a report of the Task force be submitted to this Assembly within 90 days upon constitution of the Task force.
12. That the management is hereby instructed to immediately suspend any further payment related to the said pending bills until the outcome of the process is determined.
13. That going forward, the management must adhere to Regulation 41(2) of the Public Finance Management (County Governments) Regulations, 2015 which states that 'debt service payments shall be a first charge on the County Revenue Fund and the Accounting Officer shall ensure this is done to the extent possible that the county government does not default on debt obligations.
14. That going forward, the hospital management must maintain its financial records including cash book and ledgers in financial management system (Funsoft).
15. That going forward, management must ensure daily reconciliation between the revenue recorded in the financial information system and Mpesa statement transactions.
16. That the Accounting officer to the facility demonstrate to this Assembly by way of a report corrective measures taken to ensure proper inventory management of the facility within 90 days upon adoption of this report.
17. That going forward, the management must ensure proper and systematic filing system for both financial and procurement records in the facility.
18. That the Accounting Officer, Department of Medical Services, Public Health and Sanitation demonstrate to this Assembly by way of a report, corrective measures taken to adhere to the Kenya Quality Model for Health policy guidelines within 60 days upon adoption of this report.
19. That the Department of Medical Services, Public Health and Sanitation immediately deploy a qualified procurement officer and accountant to the hospital

## ADOPTION SCHEDULE

We, the Hon. Members of the Public Accounts and Investments Committee, having considered the audited financial statements of the Nyakach County Level IV Hospital for the financial year 2021/2022, hereby append our signatures in affirmation that these are the true deliberations from the Committee.

| | MEMBER | POSITION | SIGNATURE |
|---|---|---|---|
| 1. | **Hon. Ken Ouko** | **Chairperson** | |
| 2. | **Hon. Geoffrey Warindu** | **Vice chairperson** | |
| 3. | **Hon. Seth Okumu** | **Member** | |
| 4. | **Hon. Nancy Matara** | **Member** | |
| 5. | **Hon. James Were** | **Member** | |
| 6. | **Hon. Reuben Rakwach** | **Member** | |
| 7. | **Hon. James Omollo** | **Member** | |