COUNCIL OF GOVERNORS

COUNTY HEALTH DEPARTMENTS

FINANCIAL MANAGEMENT AND PROCEDURES MANUAL FOR COUNTY HEALTH SPENDING UNITS

This document was developed by the Council of Governors, with support from the following partners:

- United States Agency for International Development (USAID), through PROPEL Health Kenya and HERO
- Bill and Melinda Gates Foundation
- Amref Health Africa

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AUGUST 2024

FOREWORD

This Financial Procedures Manual (FPM) has been developed to incorporate best practices in Public Financial Management (PFM), Public Finance Management Legal Framework (PFMLF) and the accruals-based International Public Sector Accounting Standards (IPSASs). The IPSASs aim to set high-quality financial management and reporting standards for public institutions including public health entities. The standards facilitate the availability of quality financial information to enhance better management of public resources and for quality decision-making. The IPSAS-based financial reporting framework plays a big role towards achieving transparency and accountability in the public sector.

The recently enacted Facilities Improvement Financing (FIF) Act, 2023 has also been incorporated in this manual. The FIF Act provides the legal and regulatory framework for public health facility improvement financing; the management and administration of facility improvement financing; and for connected purposes.

This manual has been developed to meet the following objectives; To document all set policies, processes and procedures that are useful in enhancing quality bookkeeping and reporting by health facilities; To establish strong accounting and financial reporting controls to guide the finance and accounting personnel in the public health sector; To enhance compliance with best practices in Public Financial Management, Public Financial Management Legal and Regulatory Framework and IPSASs, and; To guide data gathering and analysis for the preparation of financial statements for the facilities periodically.

This manual applies to hospitals and health facilities that shall adapt it to meet their current and future financial requirements. The accounting aspects of planning and budgeting are covered in detail in this manual; however, as operations facilities become more complex and the required legislation is created to provide the necessary legislative framework, technical procedures, such as program-based budgeting, will be developed.

H.E FCPA AHMED ABDULLAHI EGH

CHAIR

COUNCIL OF GOVERNORS

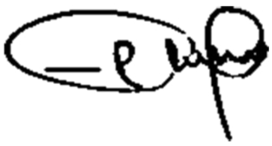
ACKNOWLEDGEMENT

The development of this customized Financial Procedures Manual is commendable since it aims to improve the county's financial management and guide users to make sound decisions. This manual is a model that can be adapted to various circumstances and further strengthen internal controls, improve the reporting system, and guide financial management within the county health facilities.

This manual has been developed to provide guidance and quick references to the accounting personnel. It is, however, not a substitute for reading and referring to the IPSASs as issued by the International Public Sector Accounting Standards Board; Guidelines for Public Sector Financial Management issued by Kenyan Public Sector Accounting Standards Board (PSASB), The Institute of Certified Public Accountants of Kenya (ICPAK), as well as consultation with the experts in public sector financial management.

The development of this manual was made possible through key contributions from the National Treasury, the Council of Governors (COG), the Public Sector Accounting Standards Board and the United States Agency for International Development (USAID) through PROPEL Health.

The COG acknowledges the participation, support and dedication of the County Government Officials in the development of this manual. It is our desire that this accounting manual shall make a significant contribution to the Public Financial Management agenda in Kenya.



MARY MWITI

CHIEF EXECUTIVE OFFICER

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CONTENTS

FOREWORD 2

Acknowledgement 3

List of Tables 9

List of Figures 9

Abbreviations 10

CHAPTER 1 12

INTRODUCTION 12

1.1 Background 12

1.2 Mandate of the County Department of Health 13

1.3 Institutional Arrangements of the County Department of Health 13

1.4 Objectives of the Financial Procedures Manual 13

1.5 Primary Users of the Manual 14

1.6 Custody and Issue of the Manual 15

1.7 Changes to the Manual 15

1.8 Flowchart Symbols Used 16

CHAPTER 2 17

GLOSSARY OF TERMS 17

CHAPTER 3 19

ACCOUNTING POLICIES 19

3.1 Funds Flow and Preparation of Financial Statements 19

3.2 Responsibility of County Department of Health and Facility Staff 19

3.3 Basis of Financial Statements Preparation 21

- 3.3.1 Fixed Assets 21
- Intangible Assets 22
- 3.3.2 Depreciation 22
- 3.3.3 Translation in Foreign Exchange 22
- 3.3.4 Recognition of Income 22
- 3.3.5 Inventory/Stock 22

3.4 Investment Guidelines 22

3.5 Standard Chart of Accounts 23

CHAPTER 4 25

PLANNING AND BUDGETING 25

4.1 Introduction 25

4.2 Medium-Term Expenditure Framework (MTEF) and Budget Cycle 25

- 4.2.1 Phase One: Prioritization and Resource Envelope Determination 25
- 4.2.2 Phase Two: Preparation of Budget Estimates and Work Plans 27

4.2.3 Timelines for Departmental Planning and Budget Formulation 28
CHAPTER 5 30
PROCUREMENT 30
5.1 Introduction 30
5.2 Procurement Plans 30
5.2.1 Preparation of Procurement Plan 30
5.2.2 Revision of the Annual Procurement Plan 30
5.2.3 Total Cost of Acquisition 31
5.3 Procurement Process 31
5.3.1 Invitation to Bid 31
5.3.2 Methods of Procurement 31
5.3.3 Submission and Receipt of Bids 32
5.3.4 Composition of Ad Hoc Tender Opening Committee 32
5.3.5 Role of the Ad Hoc Tender Opening Committee 32
5.3.6 Evaluation of Tenders 32
5.3.7 Professional Opinion by the Head of Procurement to the Accounting Officer 33
5.4 Contract Management 33
5.4 Procurement Timelines 34
CHAPTER 6 36
REVENUE MANAGEMENT AND PROCEDURES 36
6.1 Background 36
6.2 Revenue Sources 36
6.3 Fee Policy, Structure and Billing 37
Fee Policy 37
Fee Structure 38
Billing Process 38
6.5 Fee Collection and Accounting Procedures 40
6.5.1 Objective of a Receipting System 41
6.5.2 Strategies to Achieve the Objective 41
6.5.3 General collection guidelines 41
6.5.4 Departmental Reports 41
6.5.5 Inpatient Billing 42
6.6 Health Centre Accounting Procedures 45
6.6.1 Collection Control 45
6.7 Restrictive Use of Funds and Donors Funds 46
6.7.1 Overview 46
6.7.2 Type of Expenses Disallowable 46
6.7.3 Procedures 47

6.7.4 Accounting for Grant Income ... 49
6.8 Waivers and Exemptions ... 49
6.8.1 Establishment of the Waiver and Exemption Committee ... 49
6.8.2 Functions of Waiver Committee ... 49
6.8.3 Types of Waivers ... 50
6.8.4. Waiver Threshold ... 50
6.8.5 Waiver process ... 50
CHAPTER 7 ... 51
CASH AND BANK MANAGEMENT ... 51
7.1 The Cash Management System ... 51
7.2 Objective of Cash Book Maintenance ... 51
7.2.1 Receipts ... 51
7.2.2 Payments ... 52
7.2.3 Separate cash Book for each Bank Account ... 52
7.2.4 Easy Reference to Source Documents ... 52
7.2.5 Payment Voucher/Receipt Number ... 52
7.2.6 Cheque and Receipt Numbers ... 52
7.3 Bank Reconciliation Process ... 52
7.4 Petty Cash Procedures ... 55
7.5 Accounting for Imprest ... 58
7.5.1 Definition of Imprest ... 58
7.5.2 Objective of Imprest Procedures ... 58
7.5.3 Strategies to Achieve the Objective ... 58
CHAPTER 8 ... 59
ACCOUNTING FOR EXPENDITURE ... 59
8.1 Types of Expenditure ... 59
8.2 Payment Process ... 59
8.2.1 Receiving Invoice ... 59
8.2.2 Payment Voucher ... 59
8.2.3 Payment approval ... 59
8.3 Payment Process Flowchart ... 60
8.4 Commitment Control ... 63
CHAPTER 9 ... 64
INVENTORY MANAGEMENT AND STORES PROCEDURES ... 64
9.1 Objective of Good Stores Procedure ... 64
9.1.1. Strategies to achieve the objective ... 64
9.1.2 Characteristics of Good Inventory Management ... 64
9.1.3 Steps Involved in Receiving ... 65

9.1.4 Proper Authorisation of Usage of Stores 65
9.2 Detailed Inventory Management Process 66
9.3 Inventory Measurement and Valuation 68
9.3.1 Measurement of Inventories 68
9.3.2 Cost Formula 68
9.3.3 Net Realisable Value 68
CHAPTER 10 69
FIXED ASSETS MANAGEMENT 69
10.1 Overview 69
10.2 Procedure 69
10.3 The Asset Register 72
10.4 Disposal of Fixed Assets 72
10.5 Vehicle Maintenance 72
10.6 Impairment of fixed assets 73
CHAPTER 11 74
PROCEDURES FOR PERIODIC FINANCIAL REPORTING 74
11.1 Legal Framework 74
11.2 Type of Reports 74
11.3 Procedures 74
11.4 The Annual Accounts Closing Procedures 75
11.4.1 Statement of Financial Performance 76
11.4.2 Statement of Financial Position 77
11.4.3 Statement of Changes in Net Asset 79
11.8 Statement of Cash Flows 80
11.9 Statement of Comparison of Budget and Actual Amounts 82
11.10 Financial Records Management 83
11.10.1Accountable Documents 83
11.10.2. Document Retention 84
11.10.3 Books of Accounts at the County/Facility 85
CHAPTER 12 88
INTERNAL AUDIT, INTERNAL CONTROL AND RISK MANAGEMENT 88
12.1 Internal Control 88
12.2 Role and Scope of Internal Audit 88
12.3 Risk Identification and Assessment 89
CHAPTER 13 90
OVERSIGHT- STATUTORY AUDIT AND ROLE OF COUNTY ASSEMBLY 90
13.1 Role of OAG and Statutory Audits 90
13.2 Role of the County Assembly 91

13.2.1 Budget Process 91
13.2.2 Legislative Oversight 91
13.3 Role of the Controller of Budget 92
LIST OF CONTRIBUTORS 93
CHAPTER 14 94
SAMPLE FORMS AND TEMPLATES 94
Appendix 1: Imprest Surrender Form 94
Appendix 2: Petty Cash Replenishment Form 95
Appendix 3: Petty Cash Voucher 96
Appendix 4: BIN Card 97
Appendix 5: Goods Issue Note 98
Appendix 6: Petty Cash Certificate Form 99
Appendix 7: Bank Reconciliation Statement 100
Appendix 8: Payment Voucher 102
Appendix 9: Local Purchase Order 103
Appendix 10: Salary Sheet 104
Appendix 11: Fixed Assets Register 105
Appendix 12: Financial Statements Reporting Template- Level 4 and 5 Hospitals 106
Appendix 13: Threshold Matrix for Use of the Methods of Procurement at the Facilities 106

LIST OF TABLES

Table 1.1 Responsibility Matrix for Health Facility Personnel........19
Table 1.2: Responsibilities, Timings and Deliverables of the Budget Process........28
Table 1.3: Procurement timelines........34
Table 1.3: Data Flow diagram- Out-Patient Flow Chart and Charges........39
Table 1.4: Data Flow diagram- In-Patient Flow chart and charges........40
Table 1.5: Procedures for Receipt and Recording of Fees........44
Table 1.6: Procedure for Transfer of Funds........47
Table 1.7: Procedure for Bank Reconciliation........53
Table 1.8: Procedures for Petty Cash Control........57
Table 1.8: Procedures for Making Payments........62
Table 1.9: Inventory Management Process........66
Table1.10: Process of Fixed Assets Management........71
Table 1.11: Statement of Financial Performance........76
Table 1.12: Document Retention........85
Table 1.13: Books of Accountable Documents........86

LIST OF FIGURES

Figure 1.1-Flowchart Symbols........16
Figure 1.2: SCOA User Manual Role in Support of PFM Act, 2012........24
Figure1.3: Payment Process Flowchart........60
Figure 1.4: Steps in Inventory Management........64
Figure 1.5: Steps in Receiving........65
Figure 1.6: Procedure for Assets Recovery........73

ABBREVIATIONS

AIA	Appropriation in Aid
AIE	Authority to Incur Expenditure
AO	Accounting Officer
APP	Annual Procurement Plan
APR	Annual Performance Review
AWP	Annual Work plan
BAC	Budgets and Appropriations Committee
BPS	Budget Policy Statement
CBROP	County Budget Review and Outlook Paper
CDOH	County Director of Health
CECM	County Executive Committee Member
CGE	County Government Entities
CHMT	County Health Management Team
CRF	County Revenue Fund account
CO	Chief Officer
COG	Council of Governors
CT	County Treasury
DSA	Daily Subsistence Allowance
EFT	Electronic Funds Transfer
FIF	The Facilities Improvement Financing Act
FPM	Financial Procedures Manual
GFS	Government Financial Statistics
GL	General Ledger
HCF	Health Care Financing
HRIO	Health Records Information Officer
IAD	Internal Audit Department
IAS	International Accounting Standards
IFMIS	Integrated Financial Management Information System
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards
JV	Journal Voucher
KEMSA	Kenya Essential Medical Supply Authority
KEPH	Kenya Essential Package for Health
LPO	Local Purchase Order
LSO	Local Service Order
MTEF	Medium-Term Expenditure Framework
NT	National Treasury
OAG	Office of Auditor General
OCOB	Office of Controller of Budget

PFM	Public Finance Management
PFMLF	Public Finance Management Legal Framework
PIM	Public Investment Management
PPDA	Public Procurement and Disposal Act
PPDR	Public Procurement and Disposal Regulations
PR	Procurement Requisition
PSASB	Public Sector Accounting Standards Board
RGAS	Revised Government Authority System
SCHMT	Sub County Health Management team
SCOA	Standard Chart of Accounts
SP	Spending Unit

CHAPTER 1

INTRODUCTION

1.1 Background

Chapter 12 of the Constitution of Kenya, 2010 provides that there shall be openness and accountability including public participation in public financial matters; that public funds shall be used in a prudent and responsible manner and fiscal reporting shall be clear.

Further, Section 164 (1) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, each county government entity (hospital) prepare financial statements for the institution.

Section 164 (3) requires that the financial statements be prepared in compliance with relevant accounting standards as prescribed and approved by the Public Sector Accounting Standards Board of Kenya from time to time.

Universal Health Coverage (UHC) is a major priority of the Government of Kenya that seeks to ensure that all Kenyans access and receive essential quality health services without suffering financial hardship.

In its effort to improve equitable access to quality and affordable essential healthcare for all Kenyans, the government has developed legislative and policy instruments to achieve this goal including the Kenya Universal Health Coverage Policy 2020–2030.

The parliament and senate recently passed four acts –Social Health Insurance (SHI) Act, Primary Healthcare Act, Facilities Improvement Financing (FIF) Act and Digital Health Act – that will contribute to transforming the country's current health financing landscape including ensuring efficiency in health sector governance and resource utilization.

However, the 2023 Kenya Health Facility Census Report showed that only 7% of all health facilities demonstrated service readiness to offer basic outpatient services.

Given that county governments run the largest network of primary and secondary health facilities in Kenya, there is a need for increased efforts towards ensuring facilities meet minimum standards to offer quality health services.

The 2023 FIF Act provides a legal framework for counties to implement direct facility financing by addressing the element of financial autonomy for county-run health facilities.

The FIF Act enables counties to align financial management processes of health facilities that are rooted in the 2012 Public Financial Management (PFM) Act, to strategic purchasing aspirations as envisaged in the 2023 Social Health Insurance (SHI) Act.

With the legislation in place, the focus now shifts to its operationalisation. This includes the development of an implementation manual, preparation of regulations and/or guidelines for health facilities, and training facility managers on recent changes thereby promoting an enabling environment.

1.2 Mandate of the County Department of Health

The County Department of Health (CDoH) is responsible for developing health service delivery strategies and structures, including the management of health facilities and pharmacies at the county level, ambulance services; promotion of primary health care, provision of community health services; provision of health education; and implementation of preventative health programmes including vector control.

1.3 Institutional Arrangements of the County Department of Health

The Constitution of Kenya, 2010 established a two-tier system of government at national and county levels with distinct health functions. The national government is responsible, for health policy formulation, national referral hospitals and capacity building. The county governments are responsible for quality health service delivery at primary and secondary levels of care. Each of the 47 county governments has established a County Department of Health (CDoH) to oversee and coordinate health functions. Each CDoH is organized at two levels of coordination at county and sub-county levels. County health facilities are the key service delivery institutions and are organized according to levels of service per the Kenya Essential Package for Health (KEPH) classification.

The health facilities are also classified administratively as county referral hospitals or sub-county referral hospitals. County and sub-county referral hospitals (KEPH level 4&5) are governed by a facility board and a management team. Some counties have specific legislation or guidelines on appointments of facility board members while others rely on pre-devolution Ministry of Health (MOH) guidelines on constituting facility boards.

As counties embark on implementing Direct Facility Financing (DFF), it is necessary to harmonize procedures for constituting facility governance structures including establishing clear mechanisms for appointments and gazettement of board members. The CDoHs are organized following the definition provided in the Public Financial Management (PFM) Act of 2012 and its subsidiary regulations. Chief officers of health serve as the accounting officers with the primary mandate to oversee all PFM affairs of the department. This mandate is exercised directly or through delegated authorities to health facility managers or heads of health spending units. Despite drawing its mandate from the PFM and having elaborate structures, most CDoHs lack single documented policy manuals to guide financial management procedures and corporate governance in health facilities.

1.4 Objectives of the Financial Procedures Manual

The purpose of this manual is to provide a single reference document on financial procedures that CDoHs can use at their health facilities/spending units.

The overall objectives of the finance and operations manual and training tools are to strengthen financial management and reporting by the county health facilities and increase transparency and accountability in the use of public resources.

The expected results include timely preparation of high-quality in-year budget reports that will provide an opportunity for early action and publication of quarterly and annual financial statements. This manual will guide the best practices in accounting and financial management. Because of the size and nature of public health institutions, this manual includes simple and uncomplicated processes.

The goal of this manual is to provide a simplified description of the facility's accounting systems and internal controls. This manual specifies how financial transactions will be handled and ensures that these procedures are followed consistently.

The principles and suggested procedures in this manual reflect the systems currently in operation, or being implemented by the FIF Act and those expected to be adopted by the PFM Act and Regulations.

This manual is designed for the accounting and financial management practices of the FIF Act, but its general principles and essential features apply to all projects regardless of size.

This manual consists of the required principles and elements of a financial manual and incorporates the requirements and provisions of the IPSAS, the PFM Act & regulations, and the SHIF Act. Most importantly, the reporting requirements of the various donors funding the operations of health facilities are also included in this manual.

Other reference materials that complement the use of this manual are:

- The Public Finance Management Act (PFM), 2012 - Provides governance authority over all matters related to the management of the public finances of the national and county governments in Kenya.
- The PFM Regulations, 2015 - Specifies the procedures for the governance authority over all matters related to the management of the public finances of the national and county governments in Kenya.
- The Public Procurement and Asset Disposal Act (PPDA), 2015 - Provides governance authority over all matters related to procurement for national and county governments in Kenya agencies.
- The PPDA Regulations, 2020- Specifies the procedures for the governance authority over all matters related to procurement for all ministries and agencies.
- The IPSAS Financial Reporting Templates by the Public Sector Accounting Standards Board (PSASB) - Prescribes and guides the accounting treatment of all national and county governments' financial transactions.
- The Standard Chart of Account - Provides structured guidance for classifying, analyzing, and reporting all the national and county governments' financial transactions.
- The FIF Act- Provides for an efficient, secure and accountable mechanism for the collection, retention and management of revenue derived from health services rendered at public health facilities in Kenya.
- The Integrated Financial Management Information System - Provides a customized and integrated tool for recording and reporting on all national and county governments' financial transactions.

1.5 Primary Users of the Manual

The primary users of this manual are all officers at the County Department of Health responsible for finance and accounting including:

- County Treasury Department
- County Health Department
- Internal Audit Department and the Internal Audit Committee
- The County Budget Committee

- County Health Teams (CHTs)
- Hospital, Dispensaries and Health Facilities
- Donors and Partners

1.6 Custody and Issue of the Manual

a) The counties are responsible for custody and dissemination of this manual.

b) This manual shall be available for reference purposes.

c) An electronic version of this manual shall be available on the COG's intranet for reference purposes.

1.7 Changes to the Manual

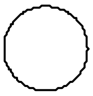
This manual is subject to periodic review to reflect the changing financial management environment as well as changes in the financial management and reporting needs of the national and county governments.

The Council of Governors will facilitate the introduction of new instructions to reflect the changing financial management environment as well as changes in the financial management and reporting needs of the national and county governments and will propose revisions to the manual.

1.8 Flowchart Symbols Used

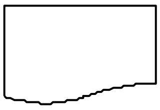
Figure 1.1-Flowchart Symbols

Connector

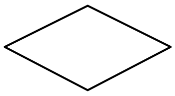


Process

Document

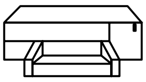


Decision



Computer Interface

Printer



CHAPTER 2

GLOSSARY OF TERMS

Accrual Accounting	The accounting treatment of a transaction whose actual value can only be ascertained after the close of an accounting period, where all or part of the transaction relates to that accounting period, such a transaction is brought into books of accounts by 'accruing'.
Accounting Policies	A set of specific rules defines how a particular transaction will be treated and accounted for in the books of accounts. Where accounting policies are laid down in this manual, they will relate to the specific treatment of a specific type of transaction.
Advance	An amount paid by the government to a contractor/supplier to secure goods or services; or an amount provided to a government employee for a specified purpose and to be adjusted by the terms and conditions of the advance.
Amortization	The writing off against profits or the loss in value of certain fixed or intangible assets where such loss is occasioned by the passage of time e.g. leasehold property (see Depreciation).
Balancing the Books	The periodical closing and adjusting of all accounts in the ledger, to ascertain the profit or loss made during the period under consideration.
Bank Reconciliation	A statement explaining the difference between the balance of an account reported by a bank by way of a bank statement and the general ledger balance (see reconciliation statement).
Cash Book	A book in which an account (record) is kept of all receipts and payments of money, by cash or cheque.
Chart of Accounts	A listing of codes based on which accounting transactions are classified to provide meaningful financial information.
Capital Expenditure	Expenditure incurred to acquire, construct or enhance physical assets.
Commitment	An obligation to make a future payment, the funds for which are reserved against the allocated budget of an entity.
Depreciation	The measure of the estimated loss in money value of a fixed asset owing to use, obsolescence or passage of time (see amortisation).
Dispensary	A health facility at level 2.
Entity	County health facilities are declared to be a county government entity under section 5(1) of the Public Finance Management Act.
Fixed Assets	An asset which is in permanent use within a business (e.g. Land, Buildings, furniture, plant, machinery, etc.)
Financial year	The financial year commencing 1 July and ending 30 June, consists of twelve-monthly periods.
Health Centre	A health facility at level 3.
Hospital	A sub-county and county health facilities at levels 4 and 5 respectively.

Imprest System	Method by which a fixed amount is advanced and the expenditure for the amount at the end of the month or period reimbursed, so that the monthly or periodic balance remains the same. Frequently used for petty cash floats.
Ledger	A collection of accounts. The principal book of accounts in which the entries from all the other books are summarized is divided into Cash Book, Bought Ledger, Sales Ledger and Nominal Ledger.
Liabilities	A term denoting the combined debts owed by a hospital or facility.
Materiality	The consideration of the significance of an amount about the context in which it is placed. In finance, an amount is not material if its effect on the accounts would not distort the overall truth and fairness of the view they give.
Spending Unit	Refers to county hospitals, health centers, dispensaries and public health units. It refers to a government component for which appropriation is allocated within the budget, and which is authorized to spend.
Petty Cashbook	A book subsidiary to the Cash Book in which all small cash payments are recorded.
Posting	The transfer of entries from the books of prime entry to their separate accounts in the ledgers.
Prepayment	Payment made in the current accounting period of which part, or all relates to a future period.
Profit and Loss Account	A summary account of all revenue and expense accounts, showing as its balance, the profit (or loss) for the period under consideration.
Provisions	Amounts written off or retained out of profits to provide for depreciation, renewals or diminution in value of assets, or retained to provide for any known liability of which the amount cannot presently be determined with accuracy.
Public Health Facilities	The whole or part of a public institution, building or place, whether for profit or not, that is operated or designed to provide in-patient or out-patient treatment, diagnostic or therapeutic interventions, nursing, rehabilitative, palliative, convalescent, preventative or other health service.
Revenue	Income received from any source.

CHAPTER 3

ACCOUNTING POLICIES

3.1 Funds Flow and Preparation of Financial Statements

All county hospitals, health centres, dispensaries and public health units are overseen by the County Department of Health (CDoH) through the office of the County Executive Committee Member (CECM) Health.

The CECM provides oversight in planning, budgeting and implementation of the devolved health functions. The Chief Officer (CO) for Health is the accounting officer.

The County Director of Health is the head of technical services in the CDoH providing technical support to CO and CECM Health.

The role of the CO in overseeing the public funds include:

1) To ensure that the annual work plans and budgets from all county health facilities and public health units are reflected in the consolidated county annual budget.
2) To approve all quarterly disbursements.
3) To issue Authority to Incur Expenditure (AIEs) to facilities in-charge and the public health officer aimed to cover operations and development of the facilities.
4) To approve all county appropriations for county health facilities and public health units.
5) To receive from the county health facilities and public health units monthly, quarterly and annual financial reports and forward them to the county treasury.
6) To monitor the performance of all county health facilities and public health units.

3.2 Responsibility of County Department of Health and Facility Staff

Table 1.1 Responsibility Matrix for Health Facility Personnel

Designation	Responsibility	Supervisor
County Executive Member for Health	Health Policy and Oversight	Governor
Chief Officer Health/Accounting Officer	• Accounting Officer CDoH • Oversee resource allocation to all spending units of the CDoH • Guide the spending units on procedures and targets for AIA collections • Enforce provisions of the PFM Act. • Link between the CDoH, the county assembly and the county treasury • Appoint AIE holders and approve authority to Incur Expenditure • Review and approve financial reports of all spending units	CECM of Health
Medical Superintendent (Holder of	• General support and supervision of revenue collected at the facility. • Overall administration of financial resources • Approve all expenditures and payments at the facility	Chief Officer Health

Designation	Responsibility	Supervisor
Authority to Incur Expenditure)	level • Accountability for the performance of revenue collected at the facility and other finances at the facility • Enforcer of the waiver and exemption policy at the facility	
Nursing Officer in Charge	• Oversee in-patient care at the health facilities • Ensure all services offered during patient care (in-patient and outpatient) in all the departments are accurately recorded and billed • Submit all health facility financial and expenditure needs to the Hospital Management Team (HMT) • Guide the departments in meeting financial and quality standards • Ensure accountability to the HMT on financial resources allocated • Recommend patients for waivers and exemptions • Mainlining inpatient charge sheets and submitting patient accounts for discharge	Medical Superintendent/Officer in charge
Hospital Administration Officer	• Prepare monthly collection reports (cash, insurance and grants) • Guide revenue management at the health facility	Medical Superintendent
Hospital Accountant	• Review the collection report and analyze the cash book • Record all the expenses • Prepare summary reports on all revenue collected at the facility	Hospital Administration Officer
Cashier/Revenue Clerk	• Receive cash and bank all the collections • Accounting of all collection in the facility bank accounts • Maintain the cash book • Preparing credit reports for the pre-paid schemes • Compile reports for capitation clients per month	Hospital Accountant
Clinicians and Nurses at the outpatient	• Support in the inclusion of all the relevant charges for outpatient services • Support the implementation of appropriate waivers and exemptions for clients in outpatient	Medical Superintendent, Nurse officer in charge
In-patient accounts clerk	• Ensure that all inpatient charge sheets are received and recorded for billing • Identify and claim all prepaid schemes as appropriate • Regular reconciliation to determine the difference between claims and reimbursements	Hospital Accountant
Health Records Office	• Monthly reports on facility performance on out-patient, in-patient and other important indicators for use in the management of revenues	Health Records Information Officer (HRIOs)
Heads of all departments generating revenue	• Prepare monthly collection report • Ensure department staff follow the fee collection rules • Ensure that accurate records of fees, waivers and exemptions are maintained every month • Submit the requirements for the use of funds collected at the facility/department	Medical Superintendent/Officer in charge
Hospital Board/Committee	• Act as a link between the hospital and the community • Ensure the hospital complies with the PFM Act and all	Chief Officer for Health Services

Designation	Responsibility	Supervisor
	relevant statutes • Considers and submits for approval to the Chief Officer for health annual work plan and budgets • Considers and submits for approval to the Chief Officer for health the quarterly budgets • Ensure the quarterly implementation plans and budgets are based on available resources • Formulate strategies for resource mobilization for the hospital • Monitor the utilisation of health improvement financing • Perform all other duties assigned in the National FIF Act 2023 and other relevant county laws	

3.3 Basis of Financial Statements Preparation

The financial statements are prepared and presented in Kenya Shillings, which are the entities' functional and reporting currencies.

The financial statements are prepared under the PFM Act (including any other applicable legislation) and International Public Sector Accounting Standards (IPSAS).

The financial statements are prepared on a historical cost basis except for the measurement at revalued amounts of certain items of property, plant, and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value.

The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. Preparation of other financial statements should be in line with internationally accepted accounting standards.

3.3.1 Fixed Assets

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

When significant parts of property, plant and equipment are to be replaced at intervals, the entity records such parts as individual assets with specific useful lives and depreciates them accordingly.

Likewise, when a major inspection is performed, its cost is recorded in the carrying amount of the plant and equipment as a replacement if the recorded criteria are satisfied.

Any additional maintenance and repair costs are recorded as surplus or deficit as they are incurred. An asset is first valued at its fair value when purchased in a non-exchange transaction for nil or nominal consideration.

At any time, the threshold for capitalisation should be the local equivalent of Kshs 10,000, including all costs incidental to the purchase of the same asset. Any single fixed asset acquired with a value less than Kshs 10,000 should be complimented to the income and expenditure account in the year of acquisition.

However, all assets less than Kshs 10,000 should be entered in the inventory file for accountability.

Intangible Assets

Software

3.3.2 Depreciation

Depreciation is calculated on a straight-line basis to write off the cost or valuation of fixed assets over the expected useful lives at the following annual rates: -

Buildings	-	2%;
Furniture & Fittings,	-	20%.
Equipment and vehicles	-	25%
Motor vehicles	-	25%
Electronic Assets	-	33.3%

Full depreciation will be charged in the year of acquisition and no depreciation will be charged in the year of disposal. If a donor's policy differs from the one described above, the National Treasury's policy will take precedence over the straight-line method of writing off the cost of the fixed asset.

3.3.3 Translation in Foreign Exchange

Assets and liabilities denominated in foreign currencies are translated into Kenya Shilling at the average or mid-point rates of exchange ruling at the balance sheet date. All gains and losses arising from the translation are recorded in the receipts and payments account for the relevant period.

3.3.4 Recognition of Income

Revenue shall be recognised as per applicable accounting standards.

3.3.5 Inventory/Stock

Inventory is reported at a lower cost and estimated net realisable value. In general, cost is calculated on an average basis, including transportation and handling fees.

The estimated net realizable value is the price at which inventory can be realized in the usual course of business after accounting for realization costs. Provision is made for slow-moving, obsolete and defective inventories.

3.4 Investment Guidelines

Health facilities are required to conduct a feasibility study before investing in fixed assets, including facility infrastructure. Public Investment Management (PIM) guidelines were developed by the National Treasury to facilitate national and county government entities to strengthen processes for project selection, appraisal, budgeting, monitoring, evaluation and reporting.

The PIM guidelines are aimed at supporting expenditure control and spending by providing standard processes for project identification, appraisal, budgeting, monitoring, evaluation and reporting, and ensuring that only priority projects are financed and fully implemented.

The Public Investment Management process shall comprise five distinct and sequential stages as indicated below:

a) Project identification and planning
b) Project feasibility and appraisal
c) Project selection for budgeting
d) Implementation, monitoring, evaluation and reporting
e) Project closure, sustainability and impact assessment

3.5 Standard Chart of Accounts

County governments follow the Standard Chart of Accounts (SCOA) developed by the National Treasury. The SCOA provides a clear description of government objectives and is a key tool in measuring performance and enhancing effective decision-making. The current SCOA provides a platform for integrating planning, budgeting and accounting functions of the national and county government and alignment to international standards – in particular, the Government Financial Statistics (GFS) Manual, 2001 and International Public Sector Accounting Standards (IPSAS).

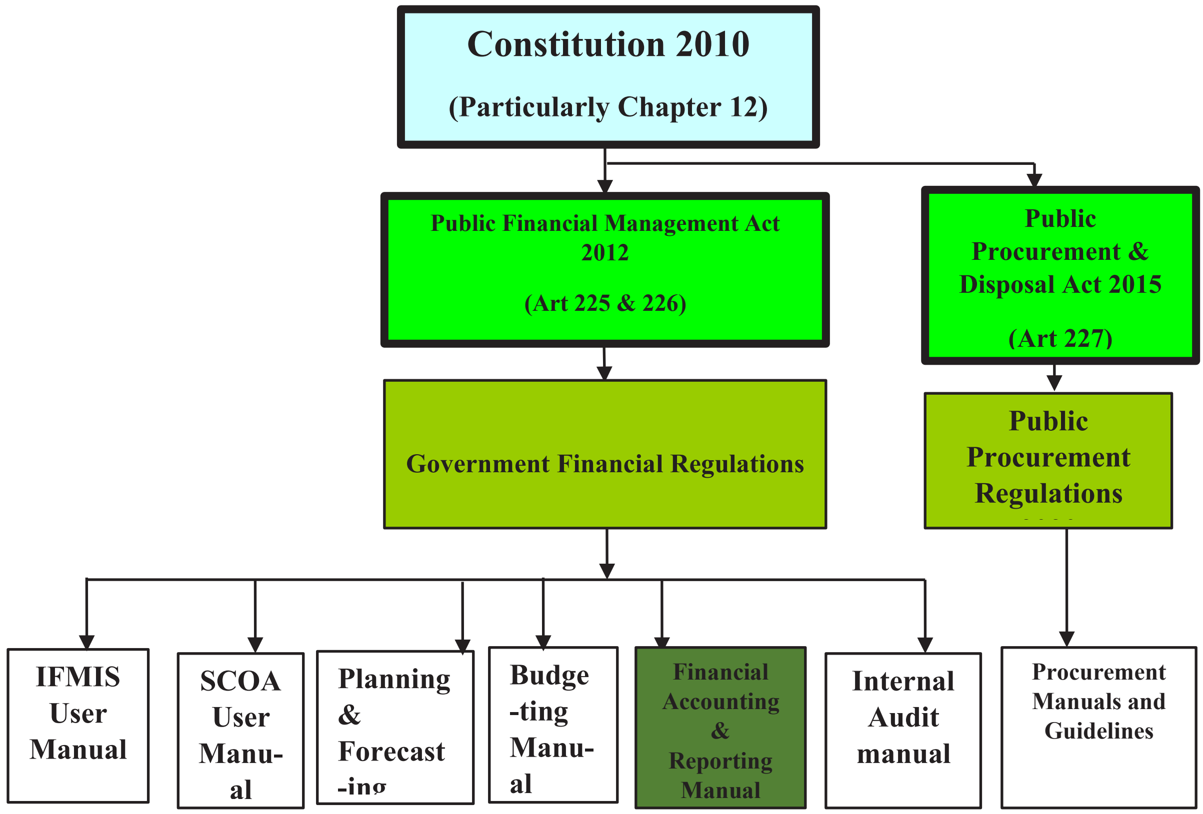
Objectives of the SCOA, which consists of eight segments and 45 digits are:

a) To ensure consistency between budget allocations and Integrated Financial Management System (IFMIS) codes.
b) To ensure uniformity in accounting practice throughout government.
c) To facilitate performance accounting by aggregation of costs based on cost centers, programmes and functions of government.

d) To address the financial reporting requirements of the users of the general-purpose financial statements, by International Standards.
e) To facilitate benchmarking of government's performance with similar governments, as SCOA is consistent with structures used elsewhere.
f) To facilitate the integration of recurrent and development activities.

The diagram below shows where the SCOA User Manual fits within the PFM legal and regulatory framework in support of the implementation of the PFM Act 2012:

Figure 1.2: SCOA User Manual Role in Support of PFM Act, 2012



The SCOA User Manual replaced the Revised Government Accounting System User's Manual (RGAS) that was issued in 1989. The RGAS described the accounting codes and the rudimentary computerized accounting system that existed before the advent of IFMIS. The SCOA manual is the single point of reference in accounting and budgeting codes by all national and county Government institutions.

The SCOA, which consists of eight segments and 45 digits aims to:

a) Ensure consistency between budget allocations and Integrated Financial Management System (IFMIS) codes.

b) Ensure uniformity in accounting practice throughout the government.

c) Facilitate performance accounting by aggregation of costs based on cost centers, programmers and functions of government.

d) Address the financial reporting requirements of the users of the general-purpose financial statements, following International Standards.

e) Facilitate benchmarking of government's performance with similar governments, as SCOA is consistent with structures used elsewhere.

f) Facilitate the integration of recurrent and development activities.

CHAPTER 4

PLANNING AND BUDGETING

4.1 Introduction

Section 125 of the PFM Act outlines the planning and budget preparation process for county governments. The planning process involves the preparation of an integrated development plan with medium and long-term priorities of the county government and its entities. At the planning stage, county entities are required to establish financial and economic priorities aligned with the medium and long-term development goals of the county government. The annual planning and budget preparation process is guided by provisions of the PFM Act and the PFM county regulations of 2015.

The County Government Act also requires that the budget be aligned to the county integrated development plan; county sectoral plans; county spatial plan; and cities and urban areas plans.

4.2 Medium-Term Expenditure Framework (MTEF) and Budget Cycle

The Medium-Term Expenditure Framework (MTEF) is the backbone of public finance management for all the sectors in Kenya. The MTEF is a tool for integrating planning, budgeting and performance evaluation. As a result, all activities planned by the Department of Health and its spending units must be properly budgeted, implemented and reviewed appropriately within the MTEF framework. The MTEF cycle is divided into four phases: prioritization and resource envelope determination, budget estimates and work plans preparation, legislative approval, and budget execution, monitoring and reporting.

4.2.1 Phase One: Prioritization and Resource Envelope Determination

The first phase of the budget formulation process involves the identification of priorities by each sector of the county government.

Annual Performance Review

The budget formulation process in the County Department of Health begins with the Annual Performance Review (APR) where all spending units are expected to review the programmatic and financial performance of the concluded financial year. The APR process begins immediately at the end of the financial year in June and is intended to conclude by the 30th of August. Detailed procedure for the APR is communicated by the accounting officers for health through a circular/memo to all heads of programs and spending units. The templates for preparing the APR are also provided by the accounting officer, while the APR reports for all programs and spending units are consolidated by the planning unit at the Department of Health.

The planning unit then prepares high-level summaries of the department's APR to be submitted to the County Treasury to inform the development of the County Budget Review and Outlook Paper (CBROP).

Annual Development Plan

The Annual Development Plan (ADP) is the yearly extract from the County Integrated Development Plan (CIDP). Preparation of the ADP is provided for under article 220 (2) of the Constitution of Kenya, 2010, County Government Act (CGA) 2012, Part XI, on County Planning and Section 126 of the Public Finance Management Act, 2012. The ADP captures strategic priorities for the medium term that reflect the county government's priorities and plans; a description of how the county government is responding to changes in the financial and economic environment; programmes to be delivered with details for each programme relating to services or goods to be provided; measurable indicators of performance and budget allocated to the programme.

The ADP preparation process begins with a circular issued by the County Executive Member for Finance to all accounting officers in the county government. Once the circular is received, the accounting officer for health issues a memo to all programs and spending units to begin the review of the medium-term priorities in the CIDP and identify priority programmes and projects to be implemented within the next financial year.

County Budget Review and Outlook Paper

The County Budget Review and Outlook Paper (CBROP) is prepared by the County Treasury and submitted to the County Assembly by September 30th for legislative review and approval. The CBROP provides a review of actual fiscal performance in the previous financial year compared to the budget appropriation for that year and updated macroeconomic and financial forecasts for the coming financial year.

The CBROP also shows how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles and provides the reasons for any deviation from the financial objectives.

The CBROP is a key document for the County Department of Health and its spending units since it provides a policy-level summary of the programmatic performance of key health programs based on findings from the APR and other review processes. Additionally, the CBROP provides an indicative budget ceiling for health based on macroeconomic forecasts. The indicative budget ceiling is key information to facilitate planning and prioritization at the sector level

Sector Working Groups and Resource Bidding

Respective Sector Working Groups (SWGs) are responsible for the prioritisation and formulation of sector budget proposals. The structure and composition of SWGs are as per the guidelines by the County Treasury in the annual budget circulars. The chief officer of medical services in the health department is the chairperson of the health sector working group unless stated otherwise.

Every year, the health sector working group prepares the MTEF sector report including a detailed review of the previous MTEF period encompassing the financial and non-financial performance of the health sector. It also identifies health sector priorities to be implemented in the next medium-term period along with details on funding sources.

Heads of spending units within the health sector are required to participate in the sector working group discussions and to ensure the priorities of their respective units are accurately reflected in the consolidated health sector bid. Recommendations of the health sector MTEF report form the basis of resource negotiations with the other sectors.

At the start of the sector working group engagements, the chairperson will communicate in writing to heads of the spending units, instructing them to begin the programme performance reviews and identify medium-term priorities.

Identification of capital projects to be implemented in the next budget should be conducted in accordance with the Public Investment Management Regulations (PIMR) published in the Legal Notice no 54 of 2022.

In the case of health facilities, a detailed justification for any capital projects must be prepared and submitted to the chief officer alongside budget proposals. The justification should indicate the cost of the proposed capital project relative to the projected revenues of the health facility.

County Fiscal Strategy Paper

The County Fiscal Strategy Paper (CFSP) is a policy document that sets out the policy goals and priority development areas to guide budget preparation for the subsequent financial year and the medium term.

The CFSP builds on the macroeconomic forecast of the CBROP, reports from the sector and resource bidding discussions and the overall national budget policy statement. It outlines the county's financial outlook with respect to revenues and expenditures and provides information on how county development priorities will be funded.

The CFSP provides final budgetary ceilings to all departments based on an analysis of the fiscal outlook. The budgetary ceilings in the CFSP guide the County Department of Health during the next phase of preparing itemized and program-based budgets as well as work plans.

4.2.2 Phase Two: Preparation of Budget Estimates and Work Plans

Budget Preparation

The county budget preparation process begins on the 31st of August each year through a circular from the County Executive Member for Finance providing guidelines, format and timelines to be followed in the budgeting process.

As part of the annual budget, every county entity, including the Department of Health and its spending units, is required to prepare and submit medium-term development priorities to be consolidated in the county's annual development plan.

a) Additionally, each entity and its spending units prepare financial and economic priorities and discuss the same with the County Treasury to inform the determination of budget allocations.
b) Upon receiving the budget preparation circular, the accounting officer in the County Department of Health will constitute a Budget Committee to coordinate the process of preparing the entity's budget.
c) The Budget Committee/CHMT/SCHMT/HMT/Facility Management Team shall prepare a Performance Programme Review and medium-term priorities for the last three years.
d) The Budget Committee/CHMT/SCHMT/HMT/Facility Management will also prepare a Programme-Based Budget for the next three years including a list of capital projects.
e) The two documents shall be submitted to the accounting officer for review and submission to the County Treasury.

Steps in Budget Preparation at the Facility Level

a) At the start of the budget preparation cycle, the accounting officer responsible for health shall issue guidelines/memos to the spending units to begin the preparation of their budget plans.
b) Upon receiving instructions from the accounting officer, heads of spending units will instruct their respective section heads to prepare budget proposals/plans based on the approved work plans and submit them to the person responsible for budgeting/planning within the spending unit for consolidation.
c) The consolidated plans will then be discussed and approved by the hospital/facility management team chaired by the head of the spending unit or their delegate.
d) The head of the spending unit shall submit the consolidated plan to the facility board of management or committee for approval. The approved facility plan is then shared with the County Department of Health Budget Committee for consolidation into the departmental budget.
e) The health facility shall participate in departmental budget retreats for final compilation and resource allocations.

Annual Work Planning

The Annual Work Plans (AWP) are developed by the County Department of Health to provide a framework outlining the activities to be undertaken during the financial year. These activities are informed by the resource availability as determined by the health sector working group.

The development of the AWP is coordinated by the planning unit of the County Department of Health in coordination with other units or programs.

On instructions by the accounting officer, the departmental planning unit at the headquarters will develop and circulate AWP guiding documents consisting of:

a) The AWP templates: this provides a standardized AWP format for the spending units and includes details of activities, strategic goals and objectives, target outputs, key performance indicators, responsibility and timing of all activities.

b) The guidelines on completion of the activities in the AWP which include: the timelines, expected inputs, and responsibility for completion of the activity. The objective of these guidelines is to ensure that the AWP is completed appropriately and is consistent with the expected quality at the initial stage.

c) The costing guidelines for the development of the expenditure estimates included in the AWP: including ceilings for each of the expenditure categories, development and recurrent budgets and standard costing of inputs.

A similar process in preparing the health facility budget will be followed in developing the AWP.

4.2.3 Timelines for Departmental Planning and Budget Formulation

The PFM Act, 2012 sets clear timelines for the various planning and budgeting documentation.

The table below illustrates the responsibilities, timings and deliverables of the budget preparation process.

Table 1.2: Responsibilities, Timings and Deliverables of the Budget Process

Activity	Responsible	CDOH Deadline	Treasury Deadline
Budget Implementation Guidelines			
Issue budget implementation guidelines to all the spending units	National Treasury/CEC Finance	Jul-05	
Issue budget implementation guidelines to all Health Facilities/Entities	Chief Officer/Accounting Officer	Jul-15	
Strategic Planning and Performance Review			
Development of County Annual Development Plan	County Treasury/Chief Officer	Aug-15	
Submission of facility inputs to the Annual Development Plan (ADP)			
Annual Performance Review (Spending units i.e. Health Facilities and Entities)	Facility Heads	Jul-15	
Annual Performance Review (Counties and Sub Counties)	SCMOHs	Aug-01	
Summary statement to the governor			
Preparation of MTEF Budget Proposals			
Issue budget circular/ budget preparation guidelines to all county departments	CECM Finance	Aug-31	
Issue of the County Budget Review and Outlook Paper	CECM Finance	Sep-30	

Activity	Responsible	CDOH Deadline	Treasury Deadline
Issue budget preparation guidelines and indicative ceilings to all spending units	Chief Officer/Accounting Officer	Sep-10	
Convening Health Sector Working Group & Budget Committee	Chief Officer/Accounting Officer	Sep-30	
Drafting of facility priorities and budget proposals	Medsupt/In-charge		
Preparation of sector reports	Sector Working Group/Budget Committee	Nov-30	Jan-30
Participating in sector hearings	Budget Committee		
Drafting the CFSP and public participation	County Treasury/Chief Officer		Feb-15
Legislative approval of CFSP	County Assembly		Feb-28
4. Preparation and Approval of Programme Based Budget			
Communicating final ceilings to programs and spending units as per approved CFSP	Chief Officer/Accounting Officer		
Preparation of itemized Programme Based Budgets (PBB) budgets and work plans	Heads of Spending Units		
Consolidation of CDoH itemized and PBB Budgets	CDOH Planning unit		
Review of consolidated itemized & PBB Budgets	Accounting Officer/CHMT		
Submission of consolidated budget to the County Treasury			
Legislative approval of county budget			

CHAPTER 5

PROCUREMENT

5.1 Introduction

The procurement cycle describes the processes and procedures used to acquire goods and services. Detailed procurement policies and procedures are provided in the Public Procurement and Asset Disposal Act (PPDA, 2015), Public Procurement and Asset Regulations (PPAR, 2020), and other government manuals and circulars.

Objective of Procurement Procedures

The manual's goal is to ensure that the procurement of goods, works, and non-consultancy services is lawfully approved and that the best value for goods or services is obtained, as well as to allow efficient accountability and transparency.

5.2 Procurement Plans

The PPDA, 2015 section 53(2) provides that an accounting officer shall prepare an annual procurement plan which is realistic in a format set out in the Regulations within the approved budget before the commencement of each financial year as part of the annual budget preparation process.

5.2.1 Preparation of Procurement Plan

- At the start of the financial year, the accounting officer responsible for health shall issue guidelines/memos to the spending units to begin the preparation of their procurement plans.
- Upon receiving guidelines from the accounting officer, heads of spending units will instruct their respective section heads to prepare procurement proposals/plans based on the approved work plans and submit them to the person responsible for procurement within the spending unit for consolidation.
- The consolidated plans will then be discussed and approved by the hospital/facility management team chaired by the head of the spending unit or their delegate.
- The head of the facility shall submit the consolidated plan to the facility board of management or committee for approval.
- The approved facility plan shall then be shared with the health department accounting officer.

5.2.2 Revision of the Annual Procurement Plan

The Annual Procurement Plan (APP) is not a static document, and it shall be reviewed within a period of fourteen (14) days after the end of each quarter of the financial year to accommodate emerging needs if need be. The step-by-step instructions above shall also be applicable for the revision of the APP.

Market Survey in Procurement Planning; the procurement unit will conduct regular market surveys and generate commodity or service price lists to ensure that realistic prices are included in the APP.

5.2.3 Total Cost of Acquisition

The total cost of acquisition should be factored into the procurement plan to avoid inconveniences and delays in the clearing of products or works that may arise from inadequate resource preparation.

In the case of medical capital equipment, the costs should include transport, installation, commissioning, testing, maintenance, training and operational costs such as energy and consumables (if necessary).

The procurement unit should provide market information on prices, technology, and logistics rates to be used in the preparation of the budget and a procurement plan with the total costs including inflation and taxes.

5.3 Procurement Process

The following staff will be involved in the procurement process:

a) Accounting officer
b) Procurement in-charge
c) User department
d) Heads of Departments (HoDs)

The sourcing process is a hybrid process that uses automated and manual processes. The key responsibilities of the Users in the sourcing process are involved.

Initiation

i) Upon approval of the procurement plan, heads of user departments can initiate the procurement process by raising a purchase requisition based on the approved plan and budget. The requisition shall contain the following.
   a) Completed purchase requisition form [PA1]
   b) Extract of the annual procurement plan
   c) Relevant budget line or charge code
   d) Technical specifications for goods, terms of reference for services or bill of quantities for works

The completed procurement requisition is then forwarded to the procurement unit of the health facility. The procurement unit will verify whether the requisitioned items are available in the approved procurement plan.

ii) Once the requisitioned items are verified, the head of the procurement unit will forward the verified requisition to the finance unit.
iii) The finance unit will confirm whether the requisitioned items are included in the approved budget before forwarding them to the AIE holder for final approval.

5.3.1 Invitation to Bid

The head of procurement in the health facility shall prepare detailed tender documents and issue *invitations to bid* specifying the manual or electronic submissions.

5.3.2 Methods of Procurement

Choice of the procurement methods depends on

a. The nature of the goods, services or works to be proc.
b. The value of the procurement.
c. Critical dates for delivery.

As a principle, the procurement method is chosen during the preparation of the procurement plan.

Professional Fees shall be guided by the rates approved by the respective professional bodies. For non-regulated professional services, the fee shall be based on the time, scope and quality of services to be rendered.

5.3.3 Submission and Receipt of Bids

Submission of tender documents, whether in electronic or manual form, shall be in writing, signed, and in the case of manual submission, they shall be sealed in an envelope.

A tender shall be submitted before the deadline for submitting tenders and any tender submitted after the deadline shall not be accepted by the procuring entity.

5.3.4 Composition of Ad Hoc Tender Opening Committee

Composition: At least three members are recommended by the procurement unit to the accounting officer who shall appoint them in writing. This Committee shall comprise a chairperson, an officer from finance, three other officers and a secretary who is a procurement officer. At least three (3) members shall form a Quorum, one of whom shall not be involved in the processing or evaluation of tenders. The required output in this process is a tender opening register and tender opening minutes.

5.3.5 Role of the Ad Hoc Tender Opening Committee

The Committee shall record all tenders submitted on time, reject late submissions and give its duly signed report/minutes to the Head of Procurement.

Quotations shall be opened when they fall due. The tender and quotation box keys shall be kept by two (2) responsible officers, one of whom shall be the head of finance and the other an appointee of the accounting officer.

5.3.6 Evaluation of Tenders

Ad hoc Evaluation Committee

Composition: At least three (3) members appointed on a rotational basis comprising heads of user departments or their representatives recommended by the procurement unit to the accounting offer who shall appoint them in writing. A professional or consultant may also be appointed in writing by the accounting officer where applicable.

Secretary: Supply Chain Manager.

Quorum: At least three (3) people including the Chairperson.

Required output: Individual Evaluation Analysis; Combined Evaluation Report; Negotiation Report (where applicable), and Due Diligence (where applicable).

The structure of the Ad Hoc Evaluation Committee shall be as provided for in the regulations and the Act.

Chairperson	A head of department/division appointed in writing by the accounting officer
Other members	Consist of between three and five members appointed in writing by the accounting officer on a rotational basis comprising heads of the user department and two other departments or their representatives and where necessary procured consultants or professionals
Secretary	SCM or appointed representative in writing

5.3.7 Professional Opinion by the Head of Procurement to the Accounting Officer

The evaluation report shall be reviewed by the head of the procurement function and forwarded to the accounting officer together with the professional opinion within a day of receipt of the report. The recommendation to the accounting officer by the head of procurement shall consider the views of the user department, the evaluation committee and the successful bidder.

The accounting officer shall review and consider professional opinion within a day, in writing and;

i) approve the award to the successful tenderer,
ii) seek clarification from the HOP function or the EC before approving or rejecting the award; or
iii) reject the recommendations with reasons and give further directions.

Notification of Intention to Enter a Contract

a) Simultaneous notifications should be sent to the successful and unsuccessful bidders.
b) Reason(s) to be disclosed to the unsuccessful bidders shall only relate to their respective bids.
c) Notification to the unsuccessful bidder to include the name of the successful bidder, the tender price and the reason why the bid was successful.

Contract Agreement/Issue Purchase Orders

Sign off contract agreement/purchase order by the accounting officer and the successful bidder after lapse of 14 days period after notification of award.

5.4 Contract Management

The authorized officer/accounting officer shall appoint a contract implementation team composed of:

a) Requisitioner (user department)
b) Technical department (where applicable)
c) Procurement officer
d) Consultant (where applicable)

The contract implementation team undertake this role in the management of complex and specialized contracts. The team shall take charge of project implementation, which shall include the following.

a) Preparing monthly progress reports.
b) Managing the performance of the contractor.
c) Ensuring all required documents are submitted by the contractor.
d) Undertaking variation and amendments to contracts including reviewing the extension of the contract period, use of prime costs, use of contingencies, reimbursable costs and use of provisional sums.
e) Ensuring that there is the right quality within the required timeframe.
f) Ensuring that the contractor is paid within the contract obligations.
g) Maintaining contract administration records.
h) Contract monitoring and evaluation of outputs and deliverables.
i) Recommending termination of contracts.
j) Managing contracts close out.

Composition of the Contract Implementation Team

i. Requisitioner (User department)
ii. Technical department (where applicable)
iii. Procurement

5.4 Procurement Timelines

Table 1.3: Procurement timelines

No.	Procurement Activity		Timeline (calendar days)
1.	Pre-qualification/Expression of Interest minimum 7 days		Minimum of seven (7) days between the advertisement and the deadline for submission
2.	Tender Preparation	a. National Open	Minimum of seven (7) days between the advertisement and the deadline for submission
		b. International Open	Minimum of seven (7) days between the advertisement and the deadline for submission
3.	Restricted Tender Preparation		Minimum of seven (7) days between the advertisement and the deadline for submission
4.	Request for Proposal		Minimum of seven (7) days between the advertisement and the deadline for submission
5.	Tender Security Validity		Thirty (30) days after the period of tender validity
6.	Request for Quotations Preparation		No minimum duration if the conditions are met
7.	Submission of Best and Final Offer under Competitive Negotiations		Maximum of seven (7) days
8.	Evaluation Duration.	a. Goods, work & services	Within a maximum period of thirty (30) days
		b. Request for Proposals	Within 21 days Not more than fourteen days where conditions are met pursuant to Regulation 118 (2) of the PPADA 2015[2]
9.	Registration of Suppliers		Minimum of 14 days between the advertisement and the deadline for submission of applications
10.	Electronic Reverse Auction		Within five (5) hours
11.	Period of Notification of Intention to Enter Contract		Minimum of 14 days
12.	Extension of the Tender Validity Period		Before the expiry of the period during which tenders shall remain valid and once only for a maximum of thirty (30) Days.

No.	Procurement Activity	Timeline (calendar days)
13.	Submission Date & Time for Tender Security as part of the Bid Document.	Tender Closing date and time
12.	All Contracts must be Signed	Within the tender validity period
13.	Notice Period for Sale by Public Auction Method	Minimum fourteen (14) days

CHAPTER 6

REVENUE MANAGEMENT AND PROCEDURES

6.1 Background

Revenues are fees earned for providing services and goods. Under Article 209 (4) of the Constitution of Kenya, 2010, the county government entities can impose user charges for services they provide. Consequently, the health spending unit's various charges and fees on the selected range of services as prescribed under the County Finance Act. The objective of revenue management is to ensure that all funds collected and donated are fully accounted for in financial records and reported accordingly. Under accrual accounting, revenues are recorded at the time of delivering the service or merchandise, even if cash is not received at the time of delivery.

6.2 Revenue Sources

The main sources of revenue for a health facility may comprise any or all the following:

a) Disbursements from county exchequer.
b) Grants or loans received from exchequer.
c) User fees collected and approved as appropriations in aid in the county budget.
d) Donations or gifts.

At the start of the budget preparation cycle, a spending unit is expected to prepare a summary of revenue estimated from all sources and outline the vote heads financed by each source.

Exchequer Issues

The exchequer issues constitute monies received from the county exchequer in the form of current or capital transfers to a spending unit. Such transfers are applied against specific expenditure items.

Grants or Loans

A spending unit may receive disbursements in the form of conditional grants from the national government or external donors. Such grants will be disbursed through the county PFM system and shall be utilized and accounted for in accordance with the terms in conditional agreements.

Donations or Gifts

No county entity shall receive donations in the form of cash or kind without approval from the County Treasury. Occasions arise where a health facility may receive a donation or gift of a specific item of capital equipment as distinct from a donation of money. It is important to bring the value of all such capital donations into account although such action would generally be via the General Fund unless specific restrictions are imposed.

If a non-current asset is acquired the accounting entry involves debit to the asset account and credit to revenue. Should the asset not warrant the assignment of a value in terms of the Department's accrual accounting policy a debit to expense should be raised provided the value can be reliably measured.

All donations and fundraising receipts and revenue whether obtained directly by a health organization or from an external entity not subject to the control of a health organization are to be brought to account within the facility bank account.

Appropriation in Aid

Monies received by a spending unit as charges for services offered (in the case of hospitals) shall be treated as appropriations in aid (AIA) and budgeted appropriately. In its budget, a spending unit will indicate the total amounts and the expenditure items to be defrayed by the monies raised as AIA. The following additional criteria may be used in deciding on sums to be retained as AIA:

- Money is only used to finance activities as per a budget approved by County Assembly.
- AIA shall be applied against a vote.
- Where miscellaneous receipts are individually and collectively small and circumstances of receipt unimportant in themselves, such receipts may be credited towards AIA.

Sums due as AIA in the previous year should be credited to the AIA vote head in the year they are received. Any receipts over what is in the approved budget must be appropriated through a supplementary budget.

Fundraising by Spending Units

Fundraising is the practice of soliciting and collecting voluntary financial donations from individuals, businesses, charity institutions, or government agencies. Although fundraising normally refers to efforts to raise money for health institutions, it is sometimes used to refer to the identification and solicitation of investors or other sources of funding to provide health services.

Traditionally, fundraising has consisted mostly of asking for donations through face-to-face fundraising, such as door-knocking. In recent years, though, new forms such as online fundraising or grassroots fundraising have emerged.

General guidelines for fundraising are:

1) Fundraisers shall always act with fairness, honesty, integrity and openness.
2) Fundraisers shall comply, in all their activities with the public finance principles, practices, and applicable laws and regulations.
3) Fundraisers shall hold themselves accountable to those from whom funds are received.
4) Fundraisers shall not exploit their position for personal gain. They shall accept compensation by salary or set fee only.
5) Fundraisers shall adhere to the legal provisions of the country and county. Above all else, donors have the right to obtain complete and timely information on how their funds are used.
6) All funds raised will be used for the purpose for which they were raised, and within a reasonable timeframe.
7) Fundraising costs shall always be held to a percentage of revenue which is generally acceptable within the fundraising profession and by the public. There shall be a proper balance between costs, revenue and quality.
8) A recognized accounting method shall be used to track and control donations. Accurate and timely reports shall be available to the public, including the amounts raised, how it was spent, and the net proportion used for the purpose or cause.

6.3 Fee Policy, Structure and Billing

Fee Policy

Collection of user charges and fees by a health facility is mainly to support operations and defraying expenses, not intended for profit purposes.

Fees charged by a facility are set out in the relevant laws and subject to regular review by the County Assembly through the County Finance Act. A facility is expected to display a detailed charter describing the services offered and fees charged for each service.

Fee Structure

Annually, the CECM for Health, with the approval of the County Assembly, reviews and approves applicable charges for all spending units within the department. A spending unit or hospital shall refer to the most updated County Finance Act or user fee schedule, in determining its charges for services offered. A spending unit is not allowed to charge any fees not covered in the approved regulation.

The fee schedule changes sometimes and is not included in this manual. However, the fee categories will be found in the fee schedule provided in the County Finance Act.

All departments involved in revenue collection should have a copy of the current fee schedule. Fee posters should be prominently displayed for patients and staff. When fee changes are announced, the accounting officer shall inform the heads of all spending units in writing with instructions to update their charges accordingly. The head of the spending unit should comprehensively inform their teams through meetings and circulars. At the same time, updated fee change notices should be displayed and fee posters amended accordingly.

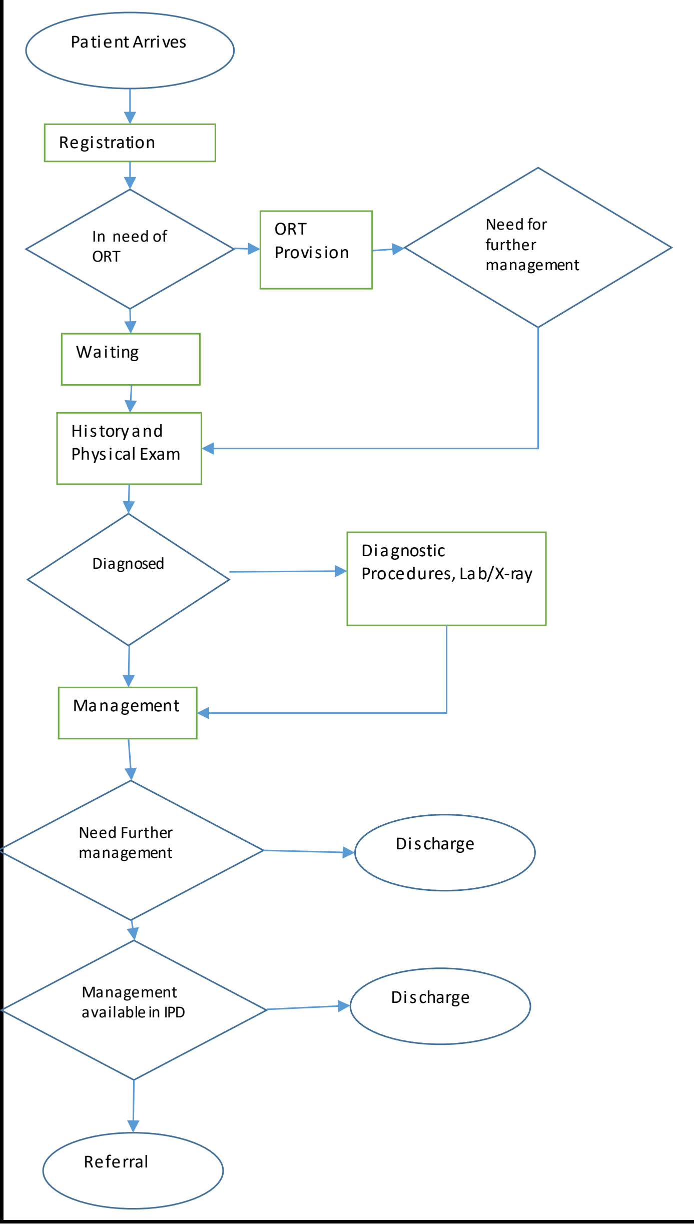
Billing Process

Unless exempted by national or county policy or legislation, all services offered in county health facilities are chargeable and should be paid for at the specified rates in the fees and tariffs schedule of the County Finance Act. Billing for services takes place at various stages of patient care and is charged by the various facility staff.

Every service or input consumed is recorded in the charge sheet either manually or electronically. At the end of the treatment, the cashier accumulates these fees and prepares an invoice after charging the appropriate codes for services rendered. The diagrams following show the patient flow process with accompanying charges at each stage of patient care.

Data Flow diagram- Out-Patient Flow chart and charges: The procedures are provided in detail below:

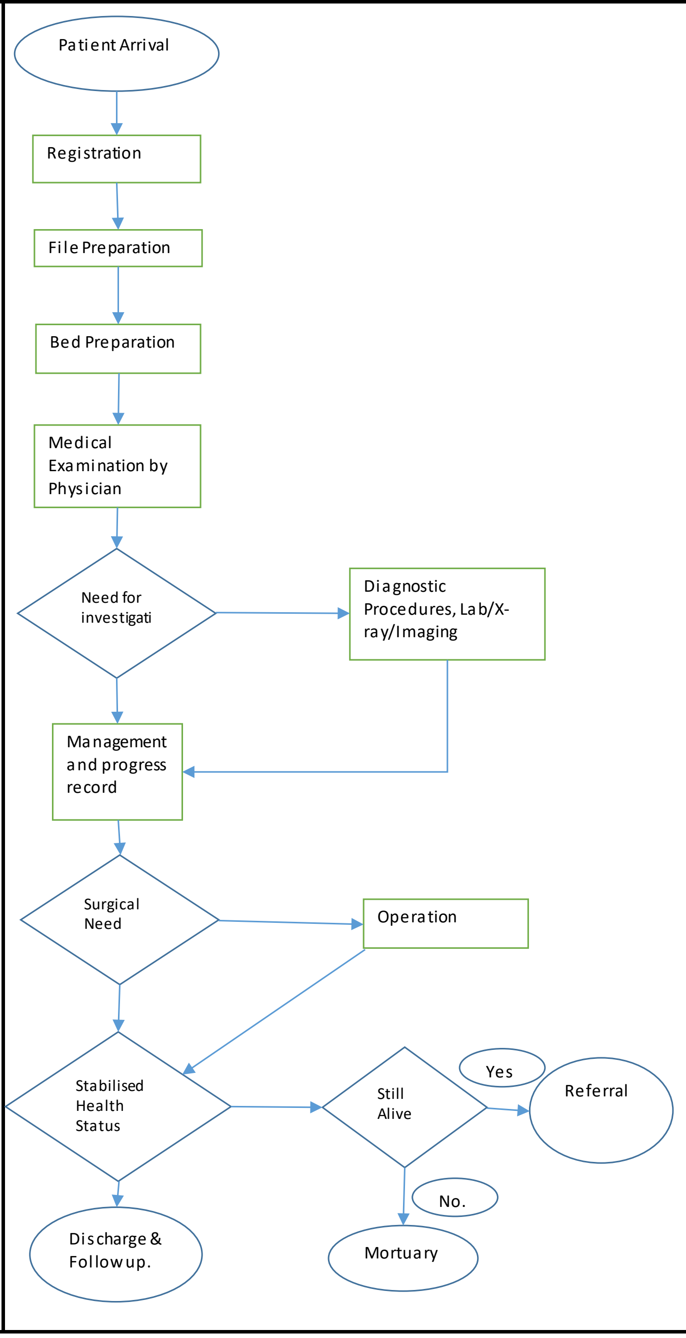
Table 1.3: Data Flow diagram- Out-Patient Flow Chart and Charges



REF	PROCESS FLOW -OUT- PATIENT ACTIVITY AND CHARGES	PROCEDURE STEPS	RESPONSIBILITY/CHARGES
1		Patient Registration	Registration Clerk
2		ORT Provision	Registration clerk
3		Physical examination, Investigation, Diagnosis	Triage Nurse (Consultation fees, any stocks used)
4		Diagnosis and investigations. Laboratory Tests, X-ray	Radiology Technician Laboratory Technician (Lab and X Ray Charges)
5		Dispensing of Drugs and Counselling	Pharmacist (Drugs and Consumables Charges)
6		Pathology	Medical Technologist
7		Review of results	Physician (Consultation fees)
		Documentation of reasons for referral	Physician
8		Consolidation of Charges and final Invoice	Cashier

Data Flow diagram- In-Patient Flow chart and charges: The procedures are provided in detail below.

Table 1.4: Data Flow diagram- In-Patient Flow chart and charges



REF	PROCESS FLOW IN- PATIENT ACTIVITY AND CHARGES	PROCEDURE STEPS	RESPONSIBILITY/CHARGES
1		Patient Registration(Check case sheet supplied from emergency / OPD)	Registration Clerk
			Registration clerk
2		Bed allocation & Preparation	Nurse- in- Charge (Bed Charges)
3		Physical examination, Investigation, Diagnosis, Diet and Nutrition	(Consultation fees, meals, bed charges & any stocks used) Physician
4		Further Diagnosis and investigations. Laboratory Tests, X-ray	Radiology Technician Laboratory Technician (Lab and X Ray Charges)
5		Dispensing of Drugs and Counselling Pathology	Pharmacist (Drugs and Consumables Charges)
6		Counselling patient for surgery	Surgeon (Consultation, Surgery fees and materials utilised)
		Review of results	Physician (Consultation fees)
7		Documentation of reasons for referral Final Review	Physician (Consultation, Mortuary charges)
8		Consolidation of Charges and final Invoice	Cashier

6.5 Fee Collection and Accounting Procedures

For the user fee programme to be successful, fees must be collected in a way that causes minimum inconvenience to patients and staff, ensures maximum collections and can be easily accounted for. The items below apply to all departments that charge fees for services (such as pharmacy, laboratory, dressings, injections, medical examinations, circumcisions, and inpatient services).

6.5.1 Objective of a Receipting System

The objective of a receiving system is to ensure that all funds collected and donated are fully accounted for in financial records and reported to the donors.

6.5.2 Strategies to Achieve the Objective

To ensure that funds are fully accounted for in financial records, the following strategies will be applied:

a. Effective control of accounting documents (receipt books, chequebooks). A receipt book will be serially numbered and have three copies. The original goes to the payer; the second copy is filed in the accounts department while the book copy remains as a permanent record. A receipt is proof of payment and the payer should obtain one.
b. Depending on the size of the organisation, the accountant/revenue clerk will receive all monies and will issue a receipt for all funds received and reconcile all funds received with amounts to be banked the following day at the end of each day.
c. Strictly all receipts issued will be recorded and analysed in the cash books for onward posting to the ledgers at the end of each month.
d. All bank transfers (direct credits) will immediately be recorded in the cash book. Prompt recording and analysis of receipts in the cash book shows up at the earliest point the levels of funds received and allows spot check of cash on hand.
e. All documents will be systematically filed in box files and made readily available for any prompt audit.
f. The accountant will be fully responsible for this receiving system and will therefore conduct the bank reconciliation to separate the duties and to show transparency of the system.
g. All receipt books will be recorded in a register kept by the accountant. The accountant will be the only one responsible for the issuance of the receipt book for use. The register will show:
    i) The serial numbers of each receipt book.
    ii) The date when the receipt book was received from the printer.
    iii) The name and signature of staff entering the new receipt books into the register.
    iv) The date the receipt book was issued for use; and the name and signature of staff requisitioning the receipt book for use.

6.5.3 General collection guidelines

(a) Consultation Out Patient Department (OPD) flow:

- Step One: The patient is seen by the service provider; the patient is prescribed medicine; the patient is prescribed diagnostic investigation.
- Step two: The patient pays at the case point (e.g., pharmacy) for drugs and lab tests.
- Step three: The patient proceeds to service points with the official receipts and obtains service.

a) Inpatient flow:
Consultation (admission centre)

- Step one: The patient is seen by a Registered Clinical Officer (RCO); the patient is Admitted to the appropriate ward.
- Step two: Treatment and laboratory tests are billed both at the departmental and ward and the appropriate register is used.

6.5.4 Departmental Reports

Daily and monthly totals should be entered in the registers. The Inpatient Register totals should separate the total laboratory from ward fees to help in reconciling them with laboratory records. The officer in charge of the department should review the summary, sign and date it to show approval.

A daily fee summary sheet should be used to calculate the monthly totals. The officer in charge of the health centre will extract the totals from each register at the end of the month and include them in the Monthly Collection Report.

The monthly total of each type of drug issued should be included in the Pharmacy Register. This provides useful information for ordering drugs and stock control.

6.5.5 Inpatient Billing

Charging

An Inpatient Summary Form must be opened for every patient on admission. This form is kept in the ward alongside patient records. When services are completed, all charges are entered on the form. When the patient is discharged, the ward nurse should ensure that all charges are recorded on the form and submit it to the nursing officer in charge for clearance, together with any supporting papers (e.g., laboratory slips).

The nursing officer in charge checks entries and calculations on the Inpatient Summary Form and records payment details as follows:

a) If Insured, write "INSURED" and the invoice number; and •
b) If cash, write "pay cash".

If cash is to be paid, the patient takes the form to the cash point, pays the total due and the revenue clerk issues a receipt. The patient returns to the ward and shows the receipt to the nurse and details of payment are entered in the Inpatient Register. Discharge papers are then issued by the nurse.

Generating Insurance Claims

Services may be claimed for inpatient services provided to a member. The various claiming processes will also be guided by the contracts with the insurers.
In case of a claim, the health officer in charge should be aware to:

a) Identify Insured beneficiaries at or soon after admission.
b) Get the member to provide documentation supporting the claim (Insurer card, Identity Card, etc.).
c) Use the fee schedule to cover the costs of claiming; and
d) Keep proper records of all claims and follow up frequently with the Statutory Insurer.

Ensure member validity and account is valid and up to date. Every visit must be notified within 24 hours and the generated notification number indicated on the form ascertaining beneficiary eligibility. Claims that are not notified shall not be reimbursed nor shall unduly filled forms be processed.

For a Spending Unit claim to be processed, the following requirements must be met:

a) Fill out the Insurer Claims form correctly.
b) The original insurance card and a clear photocopy.
c) Certificates of Contribution paid (CCP), if applicable, and MUST cover the period of hospitalization.
d) A carbon copy of the FINAL INVOICE indicating the date of admission (DOA) and date of discharge (DOD) should bear the Spending Unit seal and indicate the amount of rebate given to the contributor (for outpatient services the date the patient was seen in the facility).
Note: For G.O.K Spending Units without a seal, the receipt and invoice should bear the Spending Unit rubber stamp.

e) Contributor to produce an identity document and that of spouse in case the spouse was the patient and attach their photocopies to the claim. The identity document number quoted should be the one attached e.g. National ID, Passport or Aliens certificate.
f) In the case 90 days have elapsed from the date the patient was discharged; a letter must be written by the authorized Spending Unit official explaining the reasons behind the delay in submitting the claims.
g) The claim covers contributors, their spouses and children as below: -

   - Below 18 years of age.
   - Between 18-21 years and are fully dependent on the contributor.
   - Over 18 years and attending a full-time course, evidence of attendance at school should be attached.
   - Over 18 years but mentally or physically sick and fully dependent on the contributor, a doctor's letter to explain the nature of sickness or disability should be attached.

   Note: A copy of the birth certificate or birth notification should be attached for the above to prove the age and relationship to the contributor. A letter of authority for the use of cards for dependents over 18 years must be given by the branch manager.
h) Alterations on Spending Unit documents should be counter-signed and rubber-stamped by the Spending Unit.
i) All cards for self-employed persons must be accompanied by contribution receipts and must cover the month of hospitalisation. In case of late contribution, a receipt for penalty should also be attached.
j) The Spending Unit must send to the Insurer office, within 24 hours of admission and on the 6th day of admission for those still in admission (through email, fax or hand delivery).

Process of Claims by Insurer

Claims are processed based on receipt of the original documents accompanied by the Insurer Claims Form, completed by the healthcare provider. Insurers cannot process claims that are photocopied or scanned and or forwarded by email, as they do not qualify as original.

The standard required documentation is as follows:

1) Duly filled and signed claim form by both claimant and doctor.
2) Original receipts for the payment made.
3) Discharge summary or medical report.
4) Itemized bill for services billed.

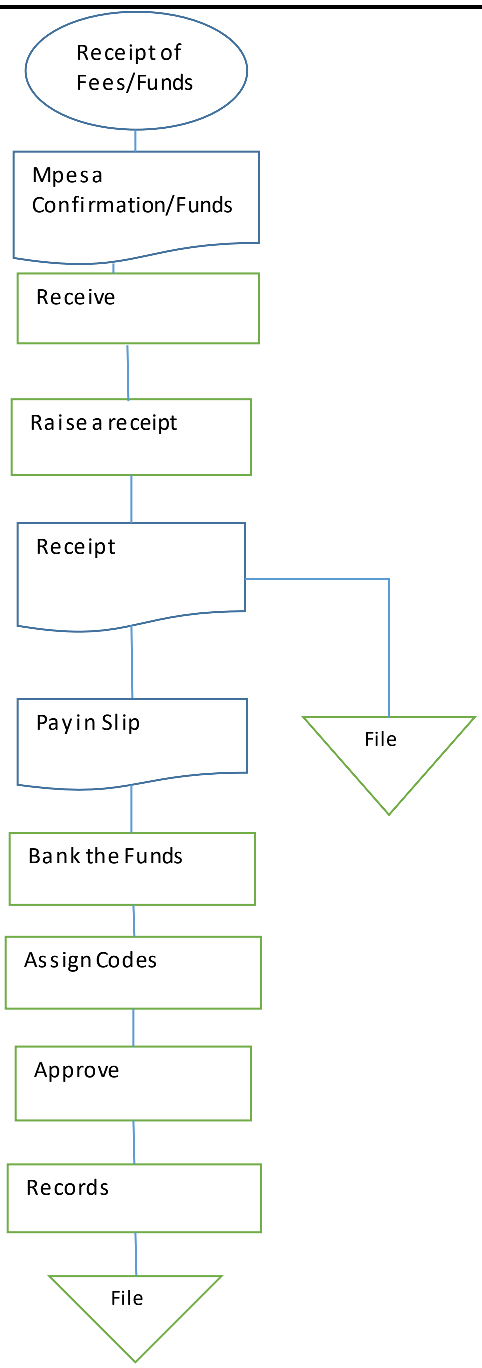
The Insurer will process original claims received according to the benefits and policy conditions. Payment is subject to the correct information being supplied, including the tariff codes and submission of claims within the specified number of days per contract.

Invoicing and Payments

All charge sheets must be submitted to the cash office by respective service providers to facilitate the preparation of a summary charge sheet and hence invoicing. In the case of insurance clients, the cashier will refer to appropriate guidelines or manuals provided by the insurance company and ensure appropriate codes are used and invoicing is done accurately. Cash payments should follow the fee payment guidelines in the regulations approved by the County Executive. To the greatest extent possible, payments in cash should be discouraged in all service delivery units. For patients benefiting from a waiver, an approved waiver file should be availed in the patient's file along with the approved invoice indicating the amount waived.

The procedures are provided in detail in the following table.

Table 1.5: Procedures for Receipt and Recording of Fees

REF	PROCESS FLOW -Receipt and Recording of Fees and Funds	PROCEDURE STEPS	RESPONSIBILITY
		1. Receive cheque or bank deposit advice, ensure it has been registered and forward it to the Cashier	Cashier/Revenue Clerk
2		2. Receive cash/cheque or bank deposit advice and raise an official receipt in triplicate. Send one copy to source of funds to acknowledge receipt. File a copy in the bank file and leave third as the book copy	Cashier/Revenue Clerk
3		3. Bank cheques and cash received immediately, and not later than the end of the business day following the date of receipt	Cashier
4		4. Code the Official Receipt using the chart of Accounts and analysis codes.	
5		5. Review Coding and approve for entry to Cashbook	Cashier/Revenue Clerk Accountant
6		6. Update the Cashbook.	Accountant
7		7. File official receipts and bank pay-in-slips, and vouchers in serial number	Accountant

6.6 Health Centre Accounting Procedures

The processes listed below are used to account for revenues at health centres. Using them helps to guarantee that revenues are maximized, money is managed, and expenditures are correctly recorded.

6.6.1 Collection Control

1. Receipt Books: Only official receipt books and automated cash registers (where in use) may be used for collecting money from facility users. Miscellaneous receipt books and county health receipt books are issued to health centres by the county accountant and must be recorded in a counterfoil Receipt Books Register (F.O.13).

2. Departmental Registers: Each department that provides chargeable services must record fees earned and services provided. Health centres must record daily collections for each department in a cash collection register. In every case, one page is used for one month and must be written in duplicate using carbon paper. The original collections page is detached and sent to the County Department of Health every month within 10 working days after the end of the month. The copy remains in the book.

3. Custody of Funds: Safe custody of funds in health centres must be ensured using cash boxes obtainable from the County Treasury. In case there is none, then the County Treasury can authorise the purchase using the funds. Facilities should work towards an electronic payment system for improved security of collections at the health facilities.

4. Banking: All money collected must be banked intact at least once every two weeks and receipt vouchers surrendered monthly to the County Treasury. Where collections are high, the money should be banked more frequently to minimize the risk of robbery. It is illegal to spend revenue at source.

5. Facility Filing (Health Centre): Health centres shall maintain a file containing notes of receipt books and cash register reports (where in use).

6. Standing Imprest: A standing imprest will be maintained by the officer-in-charge to meet petty expenses. It shall be applied for from the County Accountant using F.O. 24 (Imprest Warrant Form) and shall be recorded in the FIF imprest register. All expenses arising from the use of imprest shall be processed at the County Treasury using F.O. 21 for reimbursement and shall be surrendered on or before 30th June of every financial year and balances banked.

7. Administration of AIE: The officer in charge of the health centre shall be the AIE holder. The officer in charge and his deputy shall operate the health centre's bank account. Two alternating signatories from the health centre and County Treasury shall sign the centre's cheques. The cheque book shall be under the custody of the County Accountant as well as:
    - Clearance receipts issued for collections by the County Accountant;
    - Copies of receipt and payment vouchers;
    - Required reports; and
    - Copies of banking slips.

8. Bank Reconciliation Statement: The officer in charge of the health centre must reconcile the bank account every month with the cash book with the assistance of the County Accountant. A copy of the reconciliation statement, bank statement and bank certificate of balance should reach the County Department of Health no later than the 10th of the following concluding month. Other copies should go to the County Treasury and one copy should be retained at the facility.
9. Vote Book: Health centres must maintain a Vote Book control in which payments and commitments are recorded in line with types of expenditure approval on AIEs. A similar Vote Book control should be maintained at the County Treasury.

10. Bank Interest and Charges: When interest is credited to the bank account, an F.O. 17 voucher should be raised so that the amount may be credited to the health centre's cash book. On the other hand, when bank charges are incurred, payment vouchers (F.O. 21) should be raised to debit the charges into the health centre cash book.
11. The county accountant issues both miscellaneous and Health Care Financing (HFC) receipt books directly to the health centres on written request and ensures that issues are recorded on continuity control sheets (CCs).
12. When a collector reports to the County Accountant, the collector will be issued with an official receipt for the money deposited at the local bank.
13. The County Accountant verifies the following documents which must be produced by the facility in support of the money collected and deposited:

- F.O. 17 receipt vouchers in triplicate, signed by the officer in charge and showing the account codes.
- Collection control sheet (CCs.
- Banking slip.
- Duplicate of used miscellaneous and HCF receipt book.
- Daily till Status Report (in case of Automated Cash Register); and
- A properly posted cash book.

14. All receipts and payment vouchers are processed by the County Accountant and must follow government accounting procedures and financial regulations.

15. All payment vouchers and receipt vouchers are sorted out, balanced and entered into the computer by the County Data Centre.

16. The County Accountant maintains a Ledger with a separate folio for each health centre in which the collections for the facility and all payments made for that facility are entered. The transactions recorded in the Manual Ledger are reconciled monthly with ledger statements from the county or health headquarters.

6.7 Restrictive Use of Funds and Donors Funds

6.7.1 Overview

Full policies and procedures governing the financial management of bilateral and multilateral funding of the county and health facilities can be found in the various funds' financial management policies and procedures manuals.

The procedures described here relate solely to the responsibilities of the AO regarding the bilateral and multilateral funds.

Almost all Development Partners (donors) attach specific conditions and restrictions to the use of funds they provide to a beneficiary facility.

It is the facility's responsibility to ensure that costs incurred by the funds are:

- **Reasonable:** meaning that the costs which are generally recognized as ordinary and necessary and would be incurred by a prudent person in the conduct of normal business.
- **Allocable:** meaning that the costs are incurred specifically for the award and
- **Allowable:** meaning that the costs conform to any limitations in the award.

6.7.2 Type of Expenses Disallowable

The following are the types of items of expenditure not allowable from donor funds.

The list is not exhaustive:

a) alcoholic beverages;
b) bad debts;
c) contingencies;
d) contributions or donations;
e) goods or services for personal use interest;
f) lobbying;
g) loss on other sponsored agreements or contracts; and
h) entertainment.

6.7.3 Procedures

The health facility's management must orient and sensitize all health facility employees about the restricted use of donor funds so that when a member of staff is advanced funds for program activities, he/she understands what the funds can and cannot be spent on.

Periodically, preferably, at the end of the month, the accountant should voucher all expenditures to isolate disallowable expenditures, which must be debited to the health facility's account staff that incurred the expenditure.

Table 1.6: Procedure for Transfer of Funds

Ref.	Process	Responsibility
	Transfer of Project Funds ● Once appropriate authorisation from the various funds' steering committees has been granted, total project funds are transferred to the departments' disbursement accounts. ● The transfer may be made via bank transfer or cheque.	
	Disbursement of Project Funds ● Once the funds have been transferred to the disbursement account, normal disbursement, procurement and payment procedures outlined in this manual apply. ● All payments relating to department expenditures will be handled by the AO, and the accounting aspect of the funds will be all under the responsibility of the AIE Holder.	
	The accountant has signed off on the prior period's expenditure report. ● Once the expenditure report has been signed off on, the BO raises a check for the next period's allocation. Standard check processing procedures are followed, as described in the expenditure section of this manual. ● Once the cheque has been collected, the project's accounting team will deposit it into the appropriate bank account and return the deposit slip to the CT, where it will be filed.	

Ref.	Process	Responsibility
	- The project accounting team provides a bank statement that is reconciled with the Treasury's cash book by the accountant. - Departments that receive bilateral and multilateral funds must follow standardised accounting procedures, deposit funds into a single USD bank account, keep separate cash books, and maintain separate filing systems. Separate ledgers must be maintained, with separate reporting to the multiple fund secretariats/steering committees. - Quarterly reports shall be submitted to the External Aid Unit which will review them for completeness and will distribute them to the M&E Unit and the funds' secretariat/steering committee. - The fund's accountant will check the financial report and submit it to the Internal Audit Unit (IAU) for review. - The IAU will review the report and submit it to the fund's secretariat/steering committee. - The report will be keyed into IFMIS. *Note: In counties that have been designated to disburse funds, the check will be processed by the CFO of the CHT and given directly to the project's accounting staff. The project's accounting staff will also submit a bank statement to the CHT, which is reconciled to the cash book by the CFO.*	

6.7.4 Accounting for Grant Income

Grants that are received from the government by the spending unit are acknowledged after it is reasonably certain that both (1) the conditions for receipt will be met and (2) the grant will be received.

Income-based grants are deferred in the balance sheet and released to the income statement to match the related expenditures that they are intended to compensate. Asset-based grants are deferred and matched with the depreciation on the asset for which the grant arises.

Grants that involve recognized assets are presented in the balance sheet either as deferred income or by deducting the grant in arriving at the asset's carrying amount, in which case the grant is recognized as a reduction of depreciation.

The two approaches to accounting for government grants are highlighted below:

a) Capital Approach-This is where a grant is recognised outside profit or loss usually by crediting deferred income in liabilities; and
b) Income Approach This is where a grant is recognised in profit or loss over one or more periods usually as a credit to other income. In most cases, the periods over which an entity recognises the costs or expenses related to a government grant are readily ascertainable.

Thus, grants related to specific expenses are recorded in profit or loss in the same period as the relevant expense. Similarly, grants for depreciable assets are typically realised in profit or loss over the periods and proportions in which depreciation expense on those assets is recognised.

Donations and grants without restrictions should be recorded as income when the cash is received or when a contractually binding agreement is signed

Donations and grants with restrictions should be recorded as income when there is a binding agreement in place, initially as a receivable with a corresponding liability. The liability should be amortised to the statement of financial position as the terms and conditions of the agreement are fulfilled.

6.8 Waivers and Exemptions

Waiver – is a right conferred to an individual that entitles him or her to obtain health services in certain health facilities at no direct charge or a reduced cost.

Exemption – refers to an automatic excuse from payment based on the patient meeting certain specific conditions laid down in the Ministry of Health circulars.

6.8.1 Establishment of the Waiver and Exemption Committee

There is established a waiver and exemption committee appointed by the CECM for health services. The committee may co-opt members with relevant expertise to support it from time to time.

6.8.2 Functions of Waiver Committee

a) Review social inquiry reports and or waiver applications and make recommendations to the CECM finance through the accounting officer or health services.
b) Advise the hospital management on planning purposes and social vulnerability.
c) Prepare and submit periodic reports to the CECM health.
d) Liaise with other government agencies in identifying support services for the vulnerable population.
e) Record waivers and exemptions in the public waiver register.

6.8.3 Types of Waivers

a) Temporary waiver; This is granted in extraordinary emergencies where the patient's condition is critical yet they cannot pay their costs immediately. Such expenses should be cleared within 24 hours following the waiver grant.
b) Partial waiver – The patient pays part of the bill and the rest is waived.
c) Full waiver – The patient's entire bill is waived.

6.8.4. Waiver Threshold

a) Under the provisions of Section 159(1) of the Public Finance Management Act, 2012, CECM Finance may waive a hospital fee or charge of up to a maximum of Kshs. 1,000,000/=.
b) The accounting officer in the County Department of Health shall be subject to delegated authority from the CECM Finance and have the power to grant waivers as follows –
    a) Level 5 maximum up to Kshs. 200,000/=
    b) Level 4 maximum up to Kshs. 50,000/=
c) Any waivers above the sum of Kshs. 1,000,000/= must be approved by the County Executive Committee.

6.8.5 Waiver process

a) The waiver process begins upon admission. The social worker evaluates the patients' socioeconomic status using a structured checklist.
b) Upon admission, the nursing officer confirms the patient's social history and refers them to the medical social worker.
c) Where appropriate, the medical social worker conducts a home visit using a structured checklist. The purpose of the visit is to ascertain the true social economic status of the client.
d) A detailed report is thereafter submitted to the hospital waiver committee for deliberation and recommendation.
e) A quarterly report is submitted to the Hospital's Finance and Audit Committee management board for ratification.

CHAPTER 7

CASH AND BANK MANAGEMENT

7.1 The Cash Management System

The cash management system seeks to ensure:

a) The efficient use of public funds, donor funds, and internally generated funds.
b) The banking arrangements of the departments/facilities to comply with the requirements of the PFM Act and regulations;
c) Funds are used for the purposes stated in the budget.
d) Funds spent are within the budget limit.
e) Funds are spent following the Government of Kenya and donor's rules and regulations.

7.2 Objective of Cash Book Maintenance

A cash book is a book in which cash and bank transactions are recorded and logically analyzed to determine the current cash situation, allowing management to determine whether the available cash is sufficient to meet present and future needs.

Bank accounts cannot do this since they are not up to date. They do not include all payments made since there will be unpresented cheques in the banks. They do not always contain all the deposits made because processing takes time.

The cash book serves as a main posting source for the ledgers and houses the organisation's finances. It provides an independent record for verifying bank balances as well as a permanent, historical record for future reference. A permanent record is required for internal and external auditing purposes.

Essential Features of a Cash Book:

- A cash book must provide easily determined, accurate and current balances at any given time.
- There must be a separate cash book for each bank account.
- A cash book is an easy reference to source documents.
- A cash book must have sufficient detail to facilitate reconciliation.
- A cash book enables postings to the ledger accounts.
- The size of the cash book must be manageable and at the same time give sufficient analysis of receipts and payments.

7.2.1 Receipts

Total receipts should be recorded every day and balanced in readiness for the cashier the following day. All receipts, including direct credits or other transfers through the bank, will be recorded in the cash receipts column, regardless of whether they are in the form of cash or cheques.

7.2.2 Payments

Cheque payments are immediately entered upon their being drawn (not when they are given out). They are entered in the bank payments column including the payment voucher number and cheque numbers.

7.2.3 Separate cash Book for each Bank Account

A separate cash book for each bank account will indicate the amount of money in each account. This will allow one to decide whether to issue a cheque to a particular bank or not.

By recording both receipts and payments in the same cash book for one bank account, a running balance may be kept and the bank columns reflect the transactions shown on the bank statement, making the balance verification much easier.

7.2.4 Easy Reference to Source Documents

The cash book records bank and cash transactions. Each of these is supported by receipts and payment documentation, which validates the individual transactions and explains their nature in detail. The cash book must enable transactions to be traced back to the source documents for future reference in disputes, auditing or management queries.

7.2.5 Payment Voucher/Receipt Number

All payments must include a payment voucher containing full details of the nature of the payment and the authorities who approved it, as well as all supporting documents.

Receipts, including direct bank credits, provide documentation for all funds received. All receipts are recorded in the cash book, which is linked to the individual receipts given by the accounts department to the payer.

7.2.6 Cheque and Receipt Numbers

All cheques and receipts whether cancelled or not are recorded in the cash book sequentially. The cheque/receipt number column additionally performs a sequential check to guarantee that all cheques/receipts issued are captured.

If one wishes to know why a particular cheque was issued, one can trace the payment voucher through the cheque number entered in the cash book and the payment voucher number entered in the following column.

7.3 Bank Reconciliation Process

Data Flow diagrams
The procedures are provided in detail in the table below:

Table 1.7: Procedure for Bank Reconciliation

REF	PROCESS FLOW -BANK RECONCILLIATION	PROCEDURE STEPS	RESPONSIBILITY
1	Receive Bank Statement	1. Receive monthly bank statements from the bank.	Accountant
2	Agree to Cash Book	2. Agree the balance to the cashbook balance	Accountant
3	Identify Reconciling items	3. Identify the reconciling items	Accountant
4	Prepare Adjusting Journal	4. Prepare adjusting journals for the identified reconciling items.	Accountant
5	Sign Off	5. Review the reconciliation and sign off	Accountant
6	Process Account	6. Process the journals in the accounts and adjust the cash book.	Accountant
7	File	7. File copy of the reconciliation	Accountant

The bank balance is verified by comparing it to the bank statement balance. Unfortunately, the figures are usually not the same.

Does this imply that one or both is incorrect? No, not necessarily. The entries may be correct but not the same, because neither the bank nor the facility is aware of the transactions. Bank reconciliation is a method that involves identifying and investigating these various entries, as well as verifying the bank balance.

Bank reconciliation is a straightforward activity that can be completed rationally and carefully. The basic documents for reconciliation are:

a) An up-to-date cash book.

b) The bank statement for the month of the reconciliation.

c) The bank reconciliation for the previous month.

The strategy is next to go over the bank statement, agree on the entries with the cash book and the previous bank reconciliation, and mark the items that match in all three documents.

Where disparities were noted in the previous month's reconciliation as requiring action in the cash book, confirm that they were done in this month and mark the cash book and the previous month's reconciliation accordingly.

Any items that remain unmarked in the three documents are the reconciling items, which will explain the discrepancy between the bank statement and cash book balance.

These differences fall into several categories, the most common of which are:

a) **unpresented cheques**. These are payment cheques, which are in the cash book but not on the bank statement. This usually occurs because the payee has not yet presented them to the bank for payment. These do not require any corrective action unless they are more than six months old. If they are more than six months old, they are no longer valid and known as "stale". If a cheque has remained unpresented for more than six months from the date of drawing it is cancelled in the cash book and written back to the respective expenditure code.

b) **uncredited deposits** are amounts, which were deposited in the bank and are therefore shown as banking in the cashbook but have not yet been credited on the bank statement. If these remain uncredited for more than three days after the date of deposit and are not national cheques, then the bank must be contacted immediately to find out what happened.

c) **direct charges** and credits refer to amounts charged or credited to the account by the bank without prior knowledge of the account owners, or without cheques or deposits being made.
The bank will usually provide debit or credit notes to explain these items. If authorized, they will be recorded in the cash book. If there is no voucher to explain them, the bank must be contacted for an explanation, and no entry will be made in the cash book until the explanation is sufficient.

d) **dishonoured cheques**, which were not previously known, and are therefore not in the cash book, may be revealed by the bank statement and should be adjusted in the following month's cash book.

e) **amounts differ**. The amounts of entries between the cash book and the bank statement may be different. This could be due to the banks' inaccurate recording, under or overbanking. Supporting documentation should be reviewed to ascertain the source of the error. Where the error is on the account holder's end a correct entry is made on the cash book; where the error was made by the bank they must be contacted immediately. Many more errors can occur such as the bank charging or crediting the wrong account, but the above are the most common.

It is recommended that an accountant write cheques and enter them into the cash book while someone else prepares the bank reconciliation. The accountant should then evaluate and approve the reconciliations shortly after they are completed.

Schedules outlining the items included in the totals displayed on the reconciliation must be attached. These details will be required next month to verify the bank statement and if they have been cleared.

Important points to remember about reconciliations are:

a) They must be completed as soon as the bank statements are received. The bank should be able to provide a bank statement within three days after the end of the month.
b) Items on the bank reconciliation will be reflected in the following month unless they match entries in the cash book or bank statement.
c) On the first day of each month, the cash book is balanced and ruled off. The balances are carried forward. The bank statement is not available for revisions. If this is done, there will be no current balance for the days, as it is delayed.

d) Adjustments to the bank statement are put into the cashbook during the month in which the bank reconciliation is completed.
e) Verify the bank balance in the cash book before beginning the reconciliation process. Nothing is more frustrating than discovering that the cash book balance is arithmetically inaccurate after multiple attempts at reconciliation.

7.4 Petty Cash Procedures

The goal of petty cash imprest is to keep a float to cover minor cash payments, which will be reimbursed.

When a need for petty cash occurs, the petty cash holder will create a petty cash voucher with full details and the necessary documents before sending it to the accountant for approval.

Petty Cash Control

When the float is used up to 90%, an expenditure report is generated and reimbursement is issued. Before sending the spending report for reimbursement, the accountant/clerk will review it and go over the payment procedures that have already been completed.

The accounting officer will do surprise spot inspections on petty cash once a month. At the end of each month, the accountant will count the petty cash and certify the balance in front of the accounting officer/AIE Holders (or the appointed person in his absence). The petty cashier and verifier will both fill out the petty cash certificate form Appendix 9, which will then be delivered to the accountant.

The accountant will review the form and take appropriate action.

Safety procedures for petty cash control are:

a) Petty cash location: The petty cash fund must be held in a secured safe, with access limited to the staff cashier who is assigned the roles and responsibilities of a custodian.
b) The cashier is the custodian of the cash and will only issue it after receiving approved cash and the advance slip from the employee, who will subsequently purchase the item. In the absence of the accounting officer, he/she can delegate this approval to the accounting officer/AIE holder preparing a petty cash voucher.
c) Upon returning to the accounts office, employees will produce a receipt with the value and description used to create a serially numbered petty cash voucher. This must be forwarded for all appropriate reviews and approvals by the accounting officer.

d) The maximum amount; The petty cash fund is intended to make funds available for minor payments. It is advised that a single payment from petty cash not exceed the prescribed limit. Any payments above this amount must be made by cheque.

e) The petty cash funds must not be maintained in foreign currency.

f) All petty cash payments must be made only for approved/authorized payments using a pre-numbered petty cash slip and must be supported by evidence for payment, such as customer invoices and payee signatures.

g) The petty cashier must record all payments on a petty cash register. The petty cash register is a multi-column worksheet that captures information on the date of payment, the purpose of payment & payee, the amount paid and the running balance of the petty cash fund.

h) The petty cashier must reconcile the petty cash fund on a weekly basis and present the petty cash log to the accounting officer/AIE Holder. Every week, the cash in the petty cashbox, as well as the number of payments, must be agreed to the petty fund ceiling, and the accountant will undertake a petty cash spot check once per month.

i) When responsibility changes, a cash count and proper handover of cash and papers are required. A third person must witness and sign the handover procedure.

j) All supporting documents, i.e. petty cash slip as well as the invoice must be cancelled with a "PAID" stamp soon after a petty cash payment is processed.

Data Flow diagram

The procedures are provided in detail below:

Table 1.8: Procedures for Petty Cash Control

REF	PROCESS FLOW -PETTY CASH CONTROL	PROCEDURE STEPS	RESPONSIBILITY
1	Prepare Petty Cash Voucher Petty Cash Voucher	1. Fill in a Petty Cash Voucher (PCV) for the required amount of petty cash and forward to the Section Head for Approval	Petty Cash Applicant
2	Approve Petty Cash Voucher	2. Review PCV and ensure that: • it is reasonable and/or adequately supported by valid documentation • the purpose of the request (the activity, expenditure type and details) is clearly stated. • activity is within the approved work plan and budget approved. Approve petty cash voucher and forward to the Cashier	Accountant
3	Receive Cash	3. Receive cash from the Cashier and sign for receipt	Petty Cash Applicant
4	Hold	4. Hold PCV in petty cash box until funds are accounted for	Cashier

7.5 Accounting for Imprest

7.5.1 Definition of Imprest

An imprest is money advanced for a specific short-term purpose that must be accounted for as soon as that purpose is satisfied. It is paid to an officer rather than directly to a supplier.

The imprest limits shall be specified at the county level based on the regulations.

7.5.2 Objective of Imprest Procedures

To ensure that all funds advanced for specific short-term objectives are lawfully authorised and promptly accounted for upon conclusion of the activity.

7.5.3 Strategies to Achieve the Objective

To meet this objective, the following strategies are recommended:

a) Control over imprest
b) Appropriate retirement procedures
c) Prompt and accurate accounting
d) Control to ensure prompt retirement

No person will be issued an imprest if another imprest is already outstanding in her or his name.

It is critical that all expenditures are promptly and fully accounted for, and that an imprest be surrendered as soon as its purpose is met. As a result, no one should have more than one imprest against their name at any given time.

CHAPTER 8

ACCOUNTING FOR EXPENDITURE

8.1 Types of Expenditure

There are two principal types of expenditure:

a) Development expenditures: These are expenditures related to capital items such as fixed assets, civil works and so on.

b) Recurrent expenditures: These are expenditures related to operational expenses and include operations expenses, staff emoluments, and payment for repairs and maintenance.

The objectives for payment procedures are:

a) To ensure payments are made for legitimate facility activities aligned with the approved budget, annual procurement plan and work plan.
b) To guide processing and approving payments.
c) To ensure prompt payments to suppliers and beneficiaries.
d) To ensure proper controls are followed and appropriate documentations are raised.
e) To ensure payments are made to the right payee.

8.2 Payment Process

8.2.1 Receiving Invoice

- The procurement unit (PU) receives an invoice.
- The PU verifies and forwards the invoice with supportive documents (GRN, vote head, etc.) to the finance department.

8.2.2 Payment Voucher

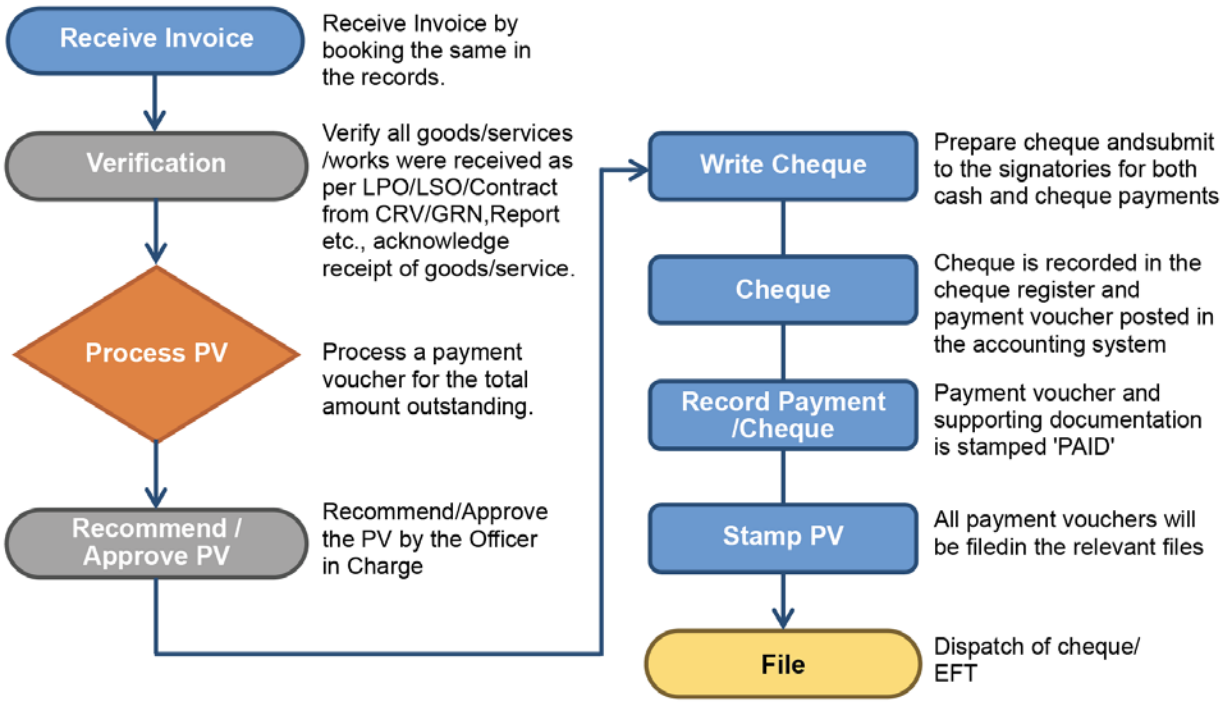
- The accountant verifies the invoice and payment documents.
- The accountant confirms the availability of a vote to pay.
- The accountant prepares a payment voucher & submits it to the head of the spending unit.

8.2.3 Payment approval

a) The accountant reviews the payment voucher to ensure it is accurate and free from errors.
b) The heads of the spending unit approve the payment voucher.
c) The payment is made to the supplier against the approved payment voucher.
d) The cheque is released to the supplier or the bank for transfer through Electronic Funds Transfer (EFT).
e) The payment voucher details are entered into the accounting system to update the cashbook, general ledger and supplier account.
f) The payment voucher and supporting documents are serially filed.
g) The receipt from the supplier is attached to the payment voucher together with supporting documents and stamped 'PAID' on each page.

8.3 Payment Process Flowchart

Figure1.3: Payment Process Flowchart

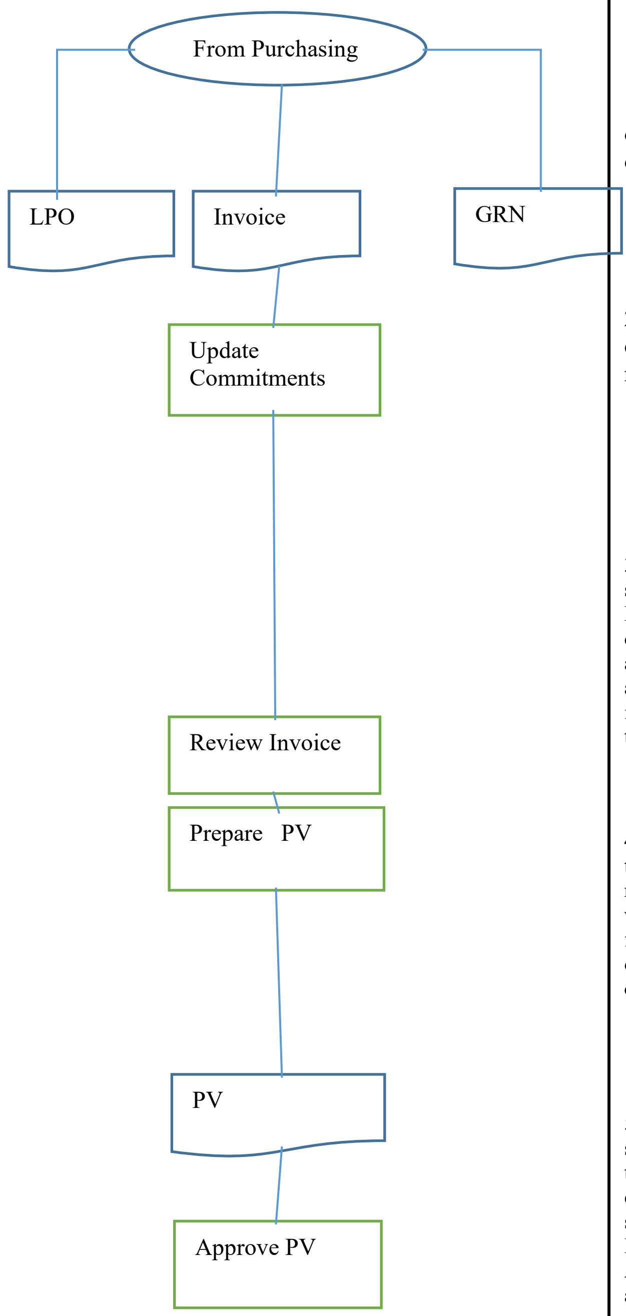


Transaction Description	Input Document
Payments-General	Payment Voucher
Payments-Imprest	Imprest Application Warrant
Accounting for Imprest	Imprest surrender Form/Accounting for Imprest Form
Vote Book/Budget Control Analysis	Requisition Form/Memo
Claiming Travel Expenses	Travel Claim Form
Petty Cash Payments	Petty Cash Request Form
Corrections, Bank Charges	Journal Voucher
Accrued Expenses	Supplier Invoice
Inventory Receipt	Goods Receipt Note/AP Invoice
Inventory issue	Goods issue (S13)
Fixed Assets Additions	Fixed Assets Journal Entry

Transaction Description	Input Document
Fixed Assets Depreciation	Fixed Assets Journal Entry
Fixed Assets Disposal	Fixed Assets Journal Entry
Payroll Expenditure	Payroll Journal Entry
Budget Income	Journal Voucher
Receipt of Funds	Official Receipt
Update Chart of Accounts	Master File Amendment Form
Update the Procedures Manual	Procedures Change Request Form

Data Flow Diagram: The procedures are provided in detail below: -

Table 1.8: Procedures for Making Payments



REF	PROCESS FLOW - MAKING PAYMENTS	PROCEDURE STEPS	RESPONSIBILITY
1		1. Receive Purchase orders/contracts as evidence of ordering goods.	Accountant
2		2. Record LPOs as commitments and file in LPO number order	
3		3. Receive invoice and supporting goods/service Received Notes (GRN) and other documents. Review invoice against supporting documents and check calculations. Ensure it is certified for receipt of goods by the end user.	Accountant
4		4. Prepare Payment Vouchers if the invoice is correct in all respects. Forward PV together with supporting documents to the finance department. If not in order, return to the procurement office or end user as appropriate.	Accountant
5		5. Review PV against supporting documents to ensure there is sufficient evidence of receipt of goods or services according to specific LPO or contract. Also, review the correctness of amounts on the documents and ensure PV complies with payment policies.	Accountant

REF	PROCESS FLOW - MAKING PAYMENTS	PROCEDURE STEPS	RESPONSIBILITY
		Sign for review and forward to the Head of Spending Unit	

8.4 Commitment Control

The accounting officer/AIE holder must ensure that the entrusted funds are applied only for the purposes intended by the County Assembly. The accounting officer/AIE holder must be satisfied that any payments made by the entity are both within the scope of the vote and also covered by specific statutory authority where necessary; and that parliamentary or county approval has been sought, by way of Supplementary Estimate or otherwise, in all cases where it is appropriate to do so. The accounting officer/AIE holder is responsible for ensuring that the financial management and internal controls systems are effective, efficient, and transparent. The signature appended to the financial statements indicates that this was done.

Roles and responsibilities of the accounting officer/AIE holder in ensuring the efficient administration of public funds and commitments:

a) Ensure that funds are used solely for the purposes approved by the County Assembly and that all payments fall within the scope of the allocated budget (Vote) and have statutory authority where required. Each facility shall have its vote book.

b) Request approval from the County Assembly for expenditures exceeding the original budget allotment such as Supplementary Estimates.

c) Maintain an efficient, transparent, and effective financial management system, ensuring internal control is in place. This responsibility is affirmed by the signature appended to the financial statements.

d) Manage commitments and expenditures properly, ensuring that goods and services are only ordered when sufficient budget balances are available.

e) Ensure payments for procured goods and services are made within the commercially accepted timeframes, preferably immediately after delivery, to prevent the accumulation of arrears or pending bills.

f) Ensure pending bills not settled at year-end remain at the facility level and escalate to the county department level. The pending bills shall be cleared as a first charge in the approved budget, to avoid accumulation, as provided for under section 41(2) of the Public Finance Management (County Governments) Regulations, 2015.

g) Ensure all county entities reprioritize their projects and programs and align their expenditure to the availability of funds and cash flow forecast to reduce future pending bills.

The accounting officer/AIE holder must ensure proper management and control of commitments and expenditures. It is emphasized that goods and services are ordered/procured, or LPOs/LSOs are issued only when there are sufficient balances in the Vote. Goods or services ordered must be paid within the commercially accepted time frame immediately after delivery. It is emphasized that there shall be no buildup of arrears (pending bills).

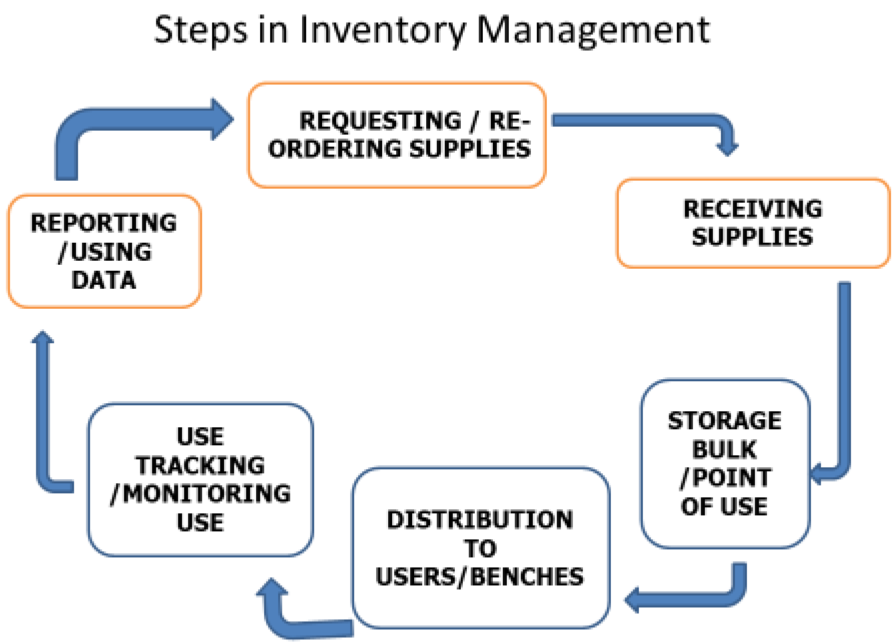
CHAPTER 9

INVENTORY MANAGEMENT AND STORES PROCEDURES

9.1 Objective of Good Stores Procedure

The objective of the stores' procedure is to facilitate the storage and provision of store materials and items to the projects and ensure that store items are properly stocked and used most cost-effectively.

Figure 1.4: Steps in Inventory Management



9.1.1. Strategies to achieve the objective

a) Proper authorisation of usage of stores
b) Proper documentation and recording of store materials and items

9.1.2 Characteristics of Good Inventory Management

a) Each store and facility must have an approved stock list.
b) Maintenance of accurate records of all stock movements.
c) Ensuring accurate physical stock balances.
d) Minimizing waste of laboratory supplies and reagents to reduce expenses.
e) Ensuring timely reordering or purchasing to avoid stockouts.
f) Providing information on dead and excess stock.

9.1.3 Steps Involved in Receiving

Figure 1.5: Steps in Receiving

9.1.4 Proper Authorisation of Usage of Stores

When store items are purchased such as stationery, office teas etc., they will be entered on a stock card. (Appendix 6). A 'Goods Received Note' must be raised for all items received and a 'Stores Issue Note' for all items issued out.

This is maintained to keep a record of store items coming in and going out for use.

A stock sheet has columns for date, reference, stock in, stock out, and balance. Each stock item will have a stock sheet.

Before any stock is issued the accountant with delegated authority from the accounting officer will sign the store's requisition and upon that authority, the store's officer will issue the store items and enter them on the stock sheet going out and balance off the stock sheet.

a) Proper documentation and recording

The store requisitions and stock sheets are properly kept, and entries are promptly recorded, allowing stock levels and usage to be monitored and maintained. A separate monitoring register is kept in the photocopying and printing rooms to track the use of stationery.

b) Stock verification procedures

At the close of the day, the store officer will verify each line of store item, and balance and sign off the physical stores to the book balance.

Stocks; (i) Perpetual stock records should be maintained where possible. (ii) Store records should not be handled by persons responsible for the physical handling of stock in the store. (iii) Reports should be prepared periodically on stock which is: (a) slow-moving, (b) obsolete, (c) outside maximum or minimum requirements, and (d) damaged.

At the end of the month, the accountant will physically count the store items in the presence of the accounting officer who can delegate this function to the store officer. The accountant may delegate this function to one of his accounting officers. Any discrepancies between the physical stores and book values shall be investigated and reported to the accounting officer.

Only the accounting officer is permitted to authorise any write-off. The accounting officer will prepare a report to the Board on all stores written off in the year

Stocktaking

(i) All classes of stock should be counted at least once a year.

(ii) Employees will get written instructions on how to conduct the stock take.

(iii) Where perpetual stock records are maintained, periodic test counts will be made on a cyclic basis.

(iv) All counts should be double-checked.

(v) Adjustments to stock records will be investigated and properly authorised.

9.2 Detailed Inventory Management Process

Table 1.9: Inventory Management Process

Reference	Process	Responsibility
	Ordering stock Ensure that the purchase of stock items complies with procurement procedures as detailed in the Procurement Procedures Manual.	
	On delivery of goods ● Check goods delivered against the delivery note. ● Check that the goods delivered are following the specifications on the PO. The storekeeper shall make this check jointly with the requesting department(s) of the stock item or the technical unit that is responsible for such stock item, and also in liaison with the Procurement Unit. ● Check goods to ensure there is no damage. ● Prepare a GRN. ● Forward documents to the County Treasury for payment, following payment procedures	
	In the event of partial delivery or delivery of unacceptable goods: ● Ensure this is noted on the invoice and proper adjustment is made on the invoice. ● Perform adequate follow-up regarding the above before payment is made. ● Ensure the delivery note has been adjusted. ● Ensure the GRN reflects these adjustments.	

Reference	Process	Responsibility
	● Return goods to the vendor if unacceptable, i.e., not per specifications.	
	Requisition for store items For all items required from stock, a Requisition Form must be raised.	Requester
	On issuing stock ● Confirm stock requisition for issuance has been raised. ● The administration department gives final authorization for the stock items	Requester/ Warehouse Manager/Recipient/ Department of Administration
	Stock takes and reconciliations ● Check the accuracy of the stock ledger balances to stock held each month. This reconciliation shall be reviewed by the procurement department/CT/CFO and HFO.	
	● A stock check shall be done monthly by the accountant assigned to the spending units. This check is done on a randomly chosen day, without giving prior notice to the warehouse. During the check, five items from the stock list are verified against the physical stock, with a stock count for each item. An additional five items are verified from the physical stock to the stock list.	
	● Any discrepancies in the stock check are investigated. The results of the stock check are then passed to the AIE Holder, CHO/AO for review.	
	● Investigate discrepancies in the physical inventory report and make recommendations to the AIE Holder/CHO/AO for action.	
	● At the end of the fiscal year, the spending unit supervises the warehouse stock take and reconciles it to the year-end stock listing in the account books.	
	● Adjust stock cards as needed after investigation/analysis of physical inventory discrepancies	

9.3 Inventory Measurement and Valuation

9.3.1 Measurement of Inventories

Inventories shall be measured at the lower of cost and net realizable value, except:

a) Where inventories are acquired through a non-exchange transaction, their cost shall be measured at their fair value as at the date of acquisition.

b) Inventories shall be measured at the lower of cost and current replacement cost where they are held for:

- Distribution at no charge or for a nominal charge; or
- Consumption in the production process of goods to be distributed at no charge or for a nominal charge.

As per IPSAS 12, the cost of inventories shall comprise all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition.

The costs of purchase of inventories comprise (a) the purchase price, (b) import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and (c) transport, handling, and other costs directly attributable to the acquisition of finished goods, materials, and supplies. Trade discounts, rebates, and other similar items are deducted in determining the costs of purchase.

9.3.2 Cost Formula

The cost of inventories shall be assigned by using the first-in, first-out (FIFO) or weighted average cost formulas. An entity shall use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified.

The FIFO formula assumes that the items of inventory that were purchased first are sold first, and consequently, the items remaining in inventory at the end of the period are those most recently purchased or produced. Under the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period, and the cost of similar items purchased or produced during the period. The average may be calculated periodically, or as each additional shipment is received, depending upon the circumstances of the entity.

9.3.3 Net Realisable Value

The cost of inventories may not be recoverable if those inventories are damaged, they have become wholly or partially obsolete, or their selling prices have declined. The cost of inventories may also not be recoverable if the estimated costs of completion or the estimated costs to be incurred to make the sale, exchange, or distribution have increased. The practice of writing inventories down below cost to net realizable value is consistent with the view that assets are not to be carried over the future economic benefits or service potential expected to be realized from their sale, exchange, distribution, or use.

CHAPTER 10

FIXED ASSETS MANAGEMENT

10.1 Overview

Asset and liability management is guided by various legislative authorities in the country. A review of the current institutional framework indicated a lack of coordination in the management of assets and liabilities in the public sector.

The existing legal, regulatory, and institutional frameworks pose certain challenges and significant gaps. These include:

a) The legal framework is fragmented, uncoordinated and inadequate.
b) Lack of a coordinated institutional framework.
c) Use of alternative accounting principles.
d) Lack of a standardised assets and liabilities register.
e) Lack of legislation on unclaimed non-financial assets.
f) Lack of standardised automated information systems

The assets of the facility should be protected against the following:

- loss of value;
- theft; and
- misuse;

10.2 Procedure

Each asset should be under the custody of a specific responsible officer. For fixed assets, a Fixed Assets Register will be maintained and reconciled to the General Ledger every month. The accountant will be responsible for the fixed assets register.

For Level 2& 3 facilities, the County Department of Health accountant will oversee the fixed assets register.

The fixed assets register will contain the following minimum details on each fixed asset:

- A description of the assets.
- A serial number, model number and HF number of each asset.
- The source of the assets.
- The date of purchase of the assets.
- The location and condition of the assets.
- The purchase price/valuation of the assets.
- The cost of the assets.
- The depreciation rate of the assets; and
- The accumulated depreciation and net book value of the assets.

Each fixed asset should be identified with a unique identification code number, which will serve as its sort code in the Fixed Asset Register.

A physical verification exercise should be conducted for all fixed assets of HF at least every financial year. The physical verification exercise should be completed before scheduling the annual financial audit. The physical verification should include the following:

a) physical count;
b) assessment of condition; and
c) assessment of physical security of the assets, e.g. ease of access to the assets through keys/locks, passwords, immobilising gadgets etc.

A logbook should be maintained for each asset, to record the users and rate of usage. Adequate insurance covers all assets, and comprehensive cover on vehicles is preferred. The procedures are provided in detail in Table1.10: Process of Fixed Assets Management

Table1.10: Process of Fixed Assets Management

REF	PROCESS FLOW -Fixed Assets Acquisition, Recording and Depreciation	PROCEDURE STEPS	RESPONSIBILITY
1	Raise requisition	1. Raise and sign fixed assets purchase requisition	End user or Head of Spending Unit
2	Approve Requisition	2. Approve purchase if within approved work-plan and budget. Forward to Finance Department	Head of Spending Unit
3	Check against Budget/Work plan	3. Check that requisition is included in the approved work- plan and is within budget. If not, return requisition to budget holder with an explanatory note.	Head of Spending Unit
4	Forward to CO for approval	4. If within budget indicate availability of funds and forward to CO	Chief Officer
5	Approve Purchase	5. Approve purchase of fixed assets and forward to procurement.	CO Health
6	Procurement Procedures	6. Observe appropriate procurement procedures to select supplier and acquire	Procurement
7	Receive the Item and Verify; GRN and Invoice	and inspect to ensure that the condition is satisfactory and is in accordance with the terms and conditions of the related purchase contract. If the item is technical in nature, get an expert to test and certify quality condition. Assign a unique tag number to the asset and complete a Goods Received Note	Stores/Appropriate Technical Expert
8	Physically Tag the Asset; Go to 9	8. Physically tag the fixed asset and forward copy of GRN, the invoice and relevant supporting	Stores Department

10.3 The Asset Register

The county government shall keep a register to record details of capital assets at its disposal. The register should have the following details:

a) The type and description of each asset.

b) The acquisition cost of the asset.

c) The supplier details to facilitate subsequent after-sales maintenance and renewal.

d) The date of purchase of each asset.

e) The estimated useful life to assist in determining the time of replacement.

f) The physical location of the asset and the person allocated to determine the accountable person at any one time.

g) The condition of the asset condition.

h) The identification and tag number of the asset. For this purpose, the engraved number of items of furniture and office equipment, if land; registration details, title number; if vehicles, the vehicle registration number, if buildings, the block number and age.

i) The date of disposal of the asset (if applicable) and proceeds.

10.4 Disposal of Fixed Assets

Subject to specific rules that may be issued by an independent government institution responsible for assets management & disposal, such as the Public Procurement Authority, the chief officer of finance is required to adhere to the following policy guidelines:

a) Any disposal of government assets must be conducted in a manner that maximises the government's return. All government assets should be disposed of by centralized open public tender/auction.
b) The chief officer of finance is in charge of identifying and suggesting assets for disposal after thorough physical verification of fixed assets.
c) No disposal of any property can be conducted without prior authorization.
d) Fixed assets are disposed of following Public Procurement Oversight Authority of Kenya (PPOA) regulations.

Accounting Entries

This posting process automatically passes the following journal.

DR. Expense line e.g. Computers

CR. Bank (Development or recurrent account)

(To record payment for fixed asset supplied)

The cash generated from disposal is accounted for as follows:

DR. Cash/Bank.

CR. Revenue on disposal

(To record cash received on disposal)

10.5 Vehicle Maintenance

Vehicle operation costs include the costs of running the vehicle, repairs, and maintenance.

Vehicle maintenance costs can be controlled by closely monitoring their use and conducting regular maintenance. The facility shall maintain a vehicle logbook for each vehicle which will include the following information:

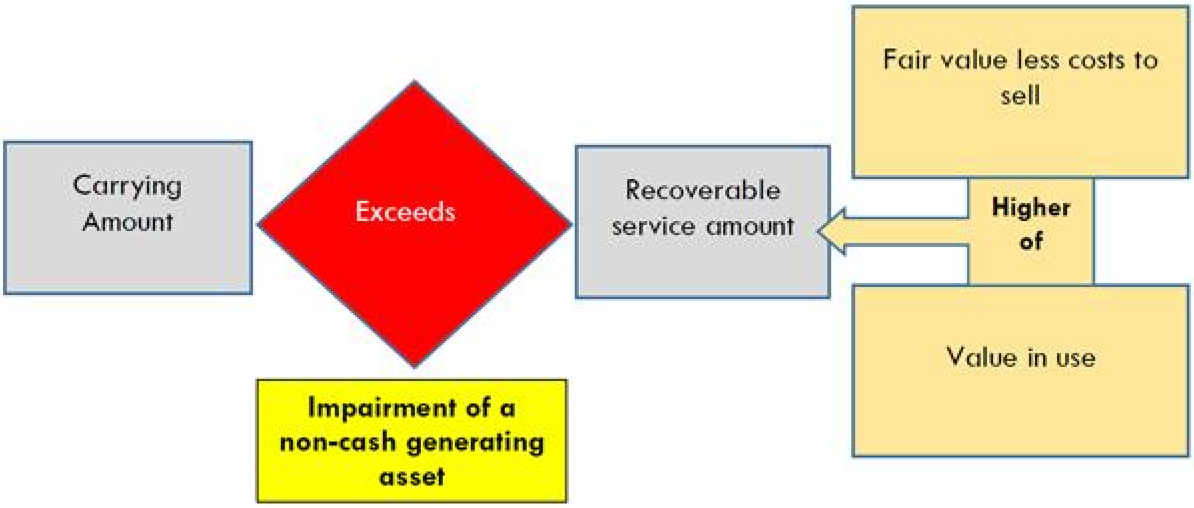
- Name of the driver
- Date and time of the journey
- Start location and destination of each journey
- Mileage at the start and on reaching the destination
- Purpose of the journey, which shall be initiated by the person using the vehicle.

10.6 Impairment of fixed assets

Impairment is a loss in an asset's future economic benefits or service potential, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.

The IPSAS requires an entity to recognise impairment when its assets are carried at more than their recoverable service amount. The standard prescribes procedures that an entity must apply to ensure assets are carried at no more than their recoverable service amount, as illustrated below.

Figure 1.6: Procedure for Assets Recovery



The IPSAS standards require that at each reporting date, an entity is required to assess whether there is an indication that an asset may be impaired. A list of external and internal impairment indicators is described by the standard. If there's an indication that the entity's asset(s) may be impaired, then the asset(s) recoverable service amount must be estimate.

CHAPTER 11

PROCEDURES FOR PERIODIC FINANCIAL REPORTING

11.1 Legal Framework

Articles 122,124,158,163,164 and 166 of the Public Finance Management (PFM) Act, 2012 specify both quarterly and annual reporting requirements. This manual provides procedures to ensure timely submission of the various reports.

The PFM Act, 2012 requires that the financial statements be prepared and submitted not later than 3 months after the year.

Section 164 Subsection 2 (f) of the PFM Act, 2012 requires the accounting officer to include in the financial statement, a statement of the county government entity's performance against predetermined objectives.

Section 164 of the Public Finance Management Act, 2012 requires the Board of Management to prepare financial statements for that entity, that provide a true and fair view of the entity's state of affairs at the end of the financial year and its operating results for that year. The Board of Management is also responsible for ensuring that the entity maintains proper accounting records that accurately the entity's financial status. The council members are also responsible for safeguarding the assets of the entity.

Section 164 (3) requires that the financial statements be prepared following applicable accounting standards as defined and authorized by the Public Sector Accounting Standards Board (PSASB) of Kenya from time to time.

The PSASB was established and constituted following sections 192 and 193 of the PFM Act, 2012. The financial reporting template provided by the PSASB has included these components.

The reporting procedures for the facility will reflect the specific requirements of each donor and what constitutes generally accepted accounting practice. The formats and the timeliness of the financial reports will depend on the donor requirements and the external auditors of the facility.

11.2 Type of Reports

The minimum reports to be produced monthly include:

a) income and expenditure statement - Every month the accountant will provide a variance analysis per funder to the AIE and corrective action taken where necessary;
b) balance sheet;
c) cash analysis report; and
d) bank reconciliation.

11.3 Procedures

Financial reporting methods will adhere to standard accounting practices in any facility's accounting function including:

a) General ledgers will be closed at agreed dates at the end of the month.
b) The accountant will circulate a comprehensive checklist for the periodic/year-end closing procedures to include the completion of:

- imprest retirement – date;
- petty cash certificate forms;
- stock take and fixed assets verification counts;
- bank reconciliations;

c) A Trial Balance will be extracted and from this, the various financial reports will be extracted in the agreed formats.
d) The accountant will be responsible for ensuring that the figures indicated in the reports reflect the underlying accounting records and are in formats accepted by the users of these statements for decision-making.
e) The accounting officer/AIE holder should sign off the financial reports before submission to the relevant users. Once submitted, the accountant should seek feedback from the relevant users e.g. the donors.

11.4 The Annual Accounts Closing Procedures

a) The CO will provide the departments with a timeframe for receiving LPOs and vouchers by the end of the fiscal year, typically two weeks before June 30.

b) LPOs and vouchers received during that period are encumbered and committed, allowing them to be handled after June 30.

c) Encumbrances, commitments and any overdue payments can be paid off during the grace period, similarly, outstanding revenues may be received.
d) The departments/facilities will prepare and submit a statement of undercharged commitments within 15 working days after the end of the fiscal year to the County Treasury.

e) The departments shall submit annual accounts within three months after the end of the fiscal year to the County Treasury and CO. The annual accounts should include:
    1) A statement of cash receipts and payments which recognises all cash receipts, cash payments, and cash balances controlled by the departments and separately identifies payments made by third parties on behalf of the departments.
    2) Accounting policies, explanatory notes, and comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the statement of cash receipts and payments following Cash Basis IPSAS requirements.

f) The annual accounts must:

1) Support checks of transactions to ensure they have been processed accurately and completely.
2) Enable effective budgetary control (by identifying allocations, disbursements, undercharged commitments, and fund balances).
3) Have a budgetary appropriation for each program of expenditure in the national budget.
4) Have a budgetary allotment (allocation) for each program of expenditure that will not exceed the appropriation.
5) Have a budgetary commitment that will not exceed budgetary allotment as this will reflect a sound budgetary control.
6) Be made available to all those required by the PFM Act to receive financial reports; and be timely and accurate.

Against the backdrop of the PFM legal background, PSASB has prescribed the International Public Sector Accounting Standards (IPSAS Accrual) for Level 4 and 5 hospitals in Kenya and provided a financial reporting template to enhance compliance with the prescribed standards. There are five key statements to be prepared as listed in the following table:

11.4.1 Statement of Financial Performance

Table 1.11: Statement of Financial Performance

Description	Insert Current FY	Insert Comparative FY
	KShs	KShs
Revenue from Non-Exchange Transactions		
Transfers from the county government	Xxx	xxx
In-kind contributions from the county government	Xxx	xxx
Grants from donors and development partners	Xxx	xxx
Transfers from other government entities	Xxx	xxx
Public contributions and donations	Xxx	xxx
	Xxx	**xxx**
Revenue from Exchange Transactions		
Rendering of services- medical service income	Xxx	xxx
Revenue from rent of facilities	Xxx	xxx
Finance /Interest Income	Xxx	xxx
Miscellaneous Income	Xxx	xxx
Revenue from Exchange Transactions	**Xxx**	**xxx**
Total Revenue	**Xxx**	**xxx**
Expenses		
Medical/Clinical costs	Xxx	xxx
Employee costs	Xxx	xxx
Board of management expenses	Xxx	xxx
Depreciation and amortization expense	Xxx	xxx
Repairs and maintenance	Xxx	xxx
Grants and subsidies	Xxx	xxx
General expenses	Xxx	xxx
Finance costs	Xxx	xxx

Description	Insert Current FY	Insert Comparative FY
	KShs	KShs
Total expenses	**Xxx**	**xxx**
Other gains/(losses)		
Gain/Loss on disposal of non-current assets	Xxx	xxx
Unrealized gain on fair value of investments	Xxx	xxx
Medical services contract gains/losses	Xxx	xxx
Impairment loss	(xxx)	xxx
Gain on foreign exchange transactions	Xxx	xxx
Total Other Gains/(Losses)	**Xxx**	**xxx**
Net Surplus / (Deficit) for the Year	**Xxx**	**xxx**

11.4.2 Statement of Financial Position

Description	Note	Insert Current FY	Insert Comparative FY
		KShs	KShs
Assets			
Current Assets			
Cash and cash equivalents		xxx	xxx
Receivables from exchange transactions		xxx	xxx
Receivables from non-exchange transactions		xxx	xxx
Inventories		xxx	xxx
Total Current Assets		**xxx**	**xxx**
Non-Current Assets			
Property, plant, and equipment		xxx	xxx
Intangible assets		xxx	xxx
Investment property		xxx	xxx
Total Non-Current Assets		**xxx**	**xxx**
Total Assets (A)		**xxx**	**xxx**
Liabilities			

Description	Note	Insert Current FY	Insert Comparative FY
		KShs	KShs
Current Liabilities			
Trade and other payables		xxx	xxx
Refundable deposits from customers/patients		xxx	xxx
Provisions		xxx	xxx
Finance lease obligation		xxx	xxx
Current portion of deferred income		xxx	xxx
Current portion of borrowings		xxx	xxx
Social Benefits		xxx	xxx
Total Current Liabilities		**xxx**	**xxx**
Non-Current liabilities			
Provisions		xxx	xxx
Non-current Finance lease obligation		xxx	xxx
Non-current portion of deferred income		xxx	xxx
Non - current portion of borrowings		xxx	xxx
Service concession arrangements		xxx	xxx
Social benefits		xxx	xxx
Total Non-current Liabilities		**xxx**	**xxx**
Total Liabilities (B)		**xxx**	**xxx**
Net Assets (A-B)		**xxx**	**xxx**
Represented by:			
Revaluation reserve		xxx	xxx
Accumulated surplus/deficit		xxx	xxx
Capital fund		xxx	xxx
Net Assets		**xxx**	**xxx**

11.4.3 Statement of Changes in Net Asset

Description	Revaluation reserve	Accumulated surplus/Deficit	Capital Fund	Total
As of July 1, 20xx (previous year)	**Xxx**	**xxx**	**xxx**	**xxx**
Revaluation gain	Xxx	-	-	xxx
Surplus/*(deficit)* for the year	-	xxx	-	xxx
Capital/Development grants	-	-	xxx	Xxx
As of June 30, 20xx (previous year)	**xxx**	**xxx**	**xxx**	**Xxx**
At July 1, 20xx (current year)	**xxx**	**xxx**	**xxx**	**Xxx**
Revaluation gain	xxx	-	-	Xxx
Surplus/(deficit) for the year	-	xxx	-	Xxx
Capital/Development grants	-	-	xxx	Xxx
At June 30, 20xx (current year)	**xxx**	**xxx**	**xxx**	**Xxx**

(Note:

1. *For items that are not common in the financial statements, the entity should include a note on what they relate to – either on the face of the statement of changes in equity/net assets or among the notes to the financial statements.*

2. *Prior year adjustments should have an elaborate note describing what the amounts relate to. In such instances, a restatement of the opening balances needs to be done.*

11.8 STATEMENT OF CASH FLOWS

Description	Note	Insert Current FY	Insert Comparative FY
		KShs	KShs
Cash Flows from Operating Activities			
Receipts			
Transfers from the county government		xxx	xxx
Grants from donors and development partners		xxx	xxx
Transfers from other government entities		xxx	xxx
Public contributions and donations		xxx	xxx
Rendering of services- medical service income		xxx	xxx
Revenue from rent of facilities		xxx	xxx
Finance / interest income		xxx	xxx
Miscellaneous receipts(*specify)*		xxx	xxx
Total Receipts		**xxx**	**xxx**
Payments			
Medical/Clinical costs		xxx	xxx
Employee costs		xxx	xxx
Board of Management expenses		xxx	xxx
Repairs and maintenance		xxx	xxx
Grants and subsidies		xxx	xxx
General expenses		xxx	xxx
Finance costs		xxx	xxx
Refunds paid out		xxx	xxx
Total Payments		**xxx**	**xxx**
Net Cash Flows from Operating Activities	42	**xxx**	**xxx**
Cash Flows from Investing Activities			
Purchase of property, plant, equipment		(xxx)	(xxx)
Purchase of intangible assets		(xxx)	(xxx)
Proceeds from the sale of PPE		xxx	xxx

Description	Note	Insert Current FY	Insert Comparative FY
		KShs	KShs
Acquisition of investments		(xxx)	(xxx)
Net Cash Flows used in Investing Activities		**(xxx)**	**(xxx)**
Cash Flows from Financing Activities			
Proceeds from borrowings		xxx	xxx
Repayment of borrowings		(xxx)	(xxx)
Capital grants received		xxx	xxx
Net Cash Flows used in Financing Activities		**(xxx)**	**(xxx)**
Net Increase/(decrease) in Cash and Cash equivalents		**xxx**	**(xxx)**
Cash and cash equivalents as at 1 July		xxx	xxx
Cash and cash equivalents as at 30 June		**xxx**	**xxx**

11.9 STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Description	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% of utilisation
	A	b	c=(a+b)	d	e=(c-d)	f=d/c%
	KShs	KShs	KShs	KShs	KShs	
Revenue						
Transfers from the County government	Xxx	xxx	xxx	xxx	xxx	%
Grants from donors and development partners	Xxx	xxx	xxx	xxx	xxx	%
Transfers from other government entities	Xxx	xxx	xxx	xxx	xxx	%
Public contributions and donations	Xxx	xxx	xxx	xxx	xxx	%
Rendering of services- medical service income	Xxx	xxx	xxx	xxx	xxx	%
Revenue from rent of facilities	xxx	xxx	xxx	xxx	xxx	%
Finance / interest income	xxx	xxx	xxx	xxx	xxx	%
Miscellaneous receipts (*specify)*	xxx	xxx	xxx	xxx	xxx	%
Total income	**xxx**	xxx	**xxx**	**xxx**	**xxx**	%
Expenses						
Medical/Clinical costs	xxx	xxx	xxx	xxx	xxx	%
Employee costs	xxx	xxx	xxx	xxx	xxx	%
Remuneration of directors	xxx	xxx	xxx	xxx	xxx	%
Repairs and maintenance	xxx	xxx	xxx	xxx	xxx	%
Grants and subsidies	xxx	xxx	xxx	xxx	xxx	%
General expenses	xxx	xxx	xxx	xxx	xxx	%

Finance costs	xxx	xxx	xxx	xxx	xxx	%
Refunds	xxx	xxx	xxx	xxx	xxx	%
Surplus for the period	**xxx**	**xxx**	**xxx**	**xxx**	**xxx**	%
Capital expenditure	**xxx**	**xxx**	**xxx**	**xxx**	**xxx**	%

Budget notes

1. Provide an explanation of differences between actual and budgeted amounts (any over/ 90% under) IPSAS 24.14

2. Provide an explanation of changes between the original and final budget indicating whether the difference is due to reallocations or other causes. (IPSAS 24.29)

3. Where the total of actual on comparable basis does not tie to the statement of financial performance totals due to differences in accounting basis (budget is cash basis; statement of financial performance is accrual) provide a reconciliation.).

11.10 Financial Records Management

11.10.1Accountable Documents

Accountable documents are forms that, once completed, can be exchanged or negotiated for cash, products, or services. In general, each item in the books of account must be supported by competent accounting documentation with at least the following features:

a) Clearly explain the nature and details of the transaction being recorded and show the date of its occurrence.
b) Provides information on who authorised the transaction and when they did so. The individuals listed must have the requisite authorisation, which was provided following established financial authority standards.
c) Displays the budget code assigned to the transaction in the standard chart of accounts.
d) Demonstrates that the prices involved were set based on arm's length discussion and that, as far as practicable, third-party invoices or cash acknowledgement documents have been acquired and securely filed.
e) Displays cross-reference numbers for all connected documents, including cheques, bank accounts, supplier invoices, purchase orders, delivery notes, invoices, and tax assessments.
f) Displays the dates on which the transaction was recorded in the books of account, as well as the person responsible for posting.

These financial documents include:

i. Local Purchase Orders
ii. Local Service Orders
iii. Payment Vouchers
iv. Petty Cash Vouchers
v. Credit Notes
vi. Receipt Books
vii. Inventory Records
viii. Blank Cheques
ix. Imprest Warrants
x. Counter Receipt Vouchers
xi. Counter Issue Vouchers

xii. Inspection and Acceptance Certificates
xiii. Letters of Appointment to Inspection and Acceptance and
xiv. Supplier Legal Documents such as Single Business Permits, Tax Compliance Certificates, and Company Registration Numbers.

Proper management and retention of these documents are essential for maintaining accurate financial records and ensuring transparency and accountability.

These forms and documents, when completed, can be exchanged or negotiated for money, goods, or services. Each entry in the books of account must be backed by proper accounting documents with the following characteristics:

a) Clearly explain the details of the transaction, including the date it occurred.

b) Identifies transaction authorisations and dates to ensure compliance with financial requirements.

c) Includes the full budget code from the uniform chart of accounts, showing where the transaction is allocated.

d) Provides evidence that prices were negotiated at arm's length, with third-party invoices or cash acknowledgements obtained and securely filed.

e) Contains cross-references to related documents such as cheque numbers, bank accounts, supplier invoices, purchase orders, delivery notes, tax assessments, etc.

f) Records the date the transaction was posted to the books and identifies the person responsible for the posting.

These documents must be stored securely, preferably in a safe, and issued in sequential serial numbers. Each county government department shall keep a register of accountable documents that include the following:

i. The date the documents were received.

ii. The first and last serial numbers in the sequence.

iii. The date the documents were issued.

iv. The name and signature of the officer to whom the documents were issued.

This practice ensures proper tracking and accountability of all documents.

11.10.2. Document Retention

The PFM regulations for counties require that where the accountable documents are in electronic form, the accounting officer shall ensure the appropriate mechanism is put in place for safeguarding and tracking them.

Used accountable documents must be maintained for the periods specified in the county governments' PFM Regulations as tabulated below:

Table 1.12: Document Retention

S/No	Type of document	Preservation period
1.	Principal ledger	10 years
2.	Cash books	10 years
3.	Journals	3 years
4.	Payment vouchers	5 years
5.	Paid cheques or electronic payments	3 years
6.	Completed indent warrants	12 months after the end of the financial year to which they relate.
7.	Completed order forms	12 months after the end of the financial year to which they relate.
8.	Duplicate receipts	12 months after the end of the financial year to which they relate.
9.	Duplicate payment vouchers	12 months after the end of the financial year to which they relate.
10.	Receipt books: 1. Fully used 2. Obsolete, partly used	6 months after the date of completion but must be inspected by the Auditor General and the disposal noted in the main counterfoils receipts, and book registers.

Any damaged or spoilt accountable document should be cancelled and a note made in the register. Lost accountable documents should be reported in writing to the accounting officer. The report should contain an explanation of how the loss occurred, and any remedial actions taken.

11.10.3 Books of Accounts at the County/Facility

According to Section 98 of the county financial regulations, accounting officers must keep a cash book showing receipts and payments in all offices concerned with receiving cash or making payments, as well as any other books and registers required for the proper maintenance and production of the Vote accounts for which he or she is responsible.

Accountable documents are used as the basis for recording transactions to each county government department's subsidiary and primary books of account. The books in the table below should be kept at the counties.

Table 1.13: Books of Accountable Documents

Book	Mode	Description
1. Cashbook	Manual/electronic	All transactions involving a receipt or payment are recorded in the department's **cash book**, which is both a primary and subsidiary book of account. The cash book can be manual or electronic. It should be kept for every bank account. IFMIS has a cash book under the General Ledger module.
3.General ledger	System/manual	The general ledger is the "intersection" of the different modules of the IFMIS. The structure of the general ledger has a direct relationship with the structure of the chart of accounts as illustrated in the IFMIS manuals. The general ledger houses the uniform chart of accounts which is accessible from any of the other modules in the IFMIS. All book adjustments by use of journal entries are done via the general ledger module. Most counties have the IFMIS ledger from which they generate a trial balance. Where possible journals have been used to post items processed outside the IFMIS general ledger. Manual ledgers can be also kept though it's cumbersome. Examples of various ledger accounts are: 1. Imprest holder 2. Payment register 3. Account analysis
Vote book	Manual/electronic	The vote book is used to record and monitor a department's commitments, expenditures and remaining fund allocations. The Vote Book is a control ledger designed to ensure that expenditure incurred in respect of each sub-item does not exceed the funds allocated for the current financial year and the releases granted to date. It should be reconciled every quarter to warrants issued by the County Treasury. IFMIS has an inbuilt vote book.
The Journal	Manual/Electronic	A journal is one of the books of primary entry. The journal keeps a record of unusual movements between accounts. It is used to record any double entries made which do not arise from other books of primary entry. It can be used to record the following: 1. Opening of the accounts at the beginning of the financial year,

Book	Mode	Description
		2. Passing audit and accounting adjustments, 3. Reallocations, 4. Correction of errors, and 5. Transfer between accounts. All journal vouchers should be duly authorised by the Director of Finance or an officer authorised by him. When it is essential to make journal entries in the accounts, the voucher must include the explanation for the adjustment.

CHAPTER 12

INTERNAL AUDIT, INTERNAL CONTROL AND RISK MANAGEMENT

12.1 Internal Control

Internal control refers to the entire system of financial and other controls established by management in order to carry on the operations of the health organization in an economical, efficient, effective, and orderly manner, ensure adherence to management policies, safeguard its assets, and ensure, to the greatest extent possible, the accuracy and reliability of its records.

The primary objectives of internal control are to ensure:

a) The reliability and integrity of information.
b) Compliance with policies, plans, procedures, laws and regulations.
c) The safeguarding of assets.
d) The economical and efficient use of resources; and
e) The accomplishment of established objectives and goals for operations or programs.

Segregation of duties is a key internal control intended to minimize the occurrence of errors or fraud by ensuring that no employee can both perpetrate and conceal errors or fraud in the normal course of their duties. Generally, the primary incompatible duties that need to be segregated are:

a) Authorization or approval
b) Custody of assets
c) Recording transactions
d) Reconciliation/Control activity

Some examples of incompatible duties are:

a) Authorizing a transaction, receiving and maintaining custody of the asset that resulted from the transaction.
b) Receiving funds (checks or cash) and approving write-off of receivables.
c) Reconciling bank statements/accounts and booking entries to the general ledger
d) Depositing cash and reconciling bank statements.
e) Approving time cards and having custody of paychecks

If internal control is to be effective, there needs to be an adequate division of responsibilities between those who perform accounting procedures or control activities and those who handle assets.

12.2 Role and Scope of Internal Audit

Internal audit is undertaken by an independent internal audit unit that reports directly to the Organisation's Board Audit and Risk Committee. The Organisation's finance and accounting function is key auditee by the internal audit. The internal audit function (as detailed in Section 73 of the PFM Act) has been put in place to ensure that there are appropriate arrangements in place for conducting internal audit according to the guidelines of the PSASB

Modern internal auditing is a comprehensive review function. It is an independent appraisal of the diverse operations and controls within an organization to determine whether:

a) The policies and procedures are in place
b) Organizational structure in terms of selection and is fit for purpose
c) Has Clarified the roles of oversight board
d) The organizational plans are in place
e) acceptable policies and procedures are followed;
f) established standards are met;
g) resources are used economically and efficiently; and
h) the organization's objectives are achieved

12.3 Risk Identification and Assessment

The risk management and internal audit processes are concerned with identifying and mitigating risks within the organisation. The financial management processes and other critical risks described in the preceding sections have many risk areas and must be constantly monitored, identified and managed. This is done through a risk management process supported by a robust internal audit. This section of the manual provides an overview of the risk and internal audit procedures as they pertain to financial management and other critical risks.

Management and mitigation of risks is a core function of each functional area of the institution the finance and accounts function is expected to:

- Complete risk identification templates in which risks are identified, rates them, their impacts, probability and therefore the level of overall risk.
- This identification and assessment of risk is carried out annually at the beginning of the financial year and may be updated if issues arise during the year.

Risk Reporting

Risk mitigation strategies are defined to address the identified risks and an annual risk review is carried out by the risk and internal systems function to determine the effectiveness of the mitigation strategies. CO Health, as the accounting officer, shall review the findings and recommendations of the risk assessment report and provide feedback on the implementation of the suggested recommendations as well as comment (if any) on the findings.

CHAPTER 13

OVERSIGHT- STATUTORY AUDIT AND ROLE OF COUNTY ASSEMBLY

13.1 Role of OAG and Statutory Audits

The Office of the Auditor General (AOG) is charged with the primary oversight role of ensuring accountability within the three arms of government (the Legislature, the Judiciary and the Executive) as well as the Constitutional Commissions and Independent Office.

Article 229(6) of the Constitution of Kenya, 2010 requires the Auditor-General to confirm whether or not public money has been applied lawfully and in an effective way.

Types of Audits

Various types of audits may be carried out by external auditors, which include:

a) Statutory year-end audit of financial statements carried out by the Office of the Auditor General
(OAG).
b) Audits carried out by other government auditors such as the Public Procurement Oversight Authority, and the Ethics and Anti-Corruption Commission, among others.
c) Targeted audits e.g. audits as may be conducted at the request of oversight agencies and the National Assembly, sometimes triggered by its Sector Committee/County Assembly.
d) Audits commissioned by development partners and donors.

Statutory Audit Timelines and Requirements

The statutory audit is subject to timelines as indicated in the Constitution of Kenya, 2010 and in the PFM Act. Key statutory timelines are:

- Under Article 229 of the Constitution, the Auditor General must audit and report on the organisation's financial statements within 6 months of the end of the financial year.

The organisation shall prepare and submit financial statements within three months of the end of the financial year i.e. by 30th September.

Management Responses

External auditors may raise audit queries and raise audit issues through management letters (MLs) for clarification.

Queries from the Auditor General must be responded to within the timeframe indicated in the management letter/auditors reports. Queries not addressed within the expected timeline are detailed in the Audit Report that is presented to the National Assembly, which may require the CRJ to respond. To avoid this scenario, management and AIE holders must prioritize responses to audit queries that may be directed at them.

13.2 Role of the County Assembly

13.2.1 Budget Process

The **Budget Approval and Appropriation** give legal effect to the approved budget, assigning the authority and mandate to incur expenses and raise revenues to county government departments.

Based on the agreement reached with the County Assembly, the Executive makes necessary changes and adjustments to the budget and submits it to the County Assembly together with the Appropriation Bill for their approval. The County Assembly reviews and approves the documents, authorizing county departments to incur expenses starting on July 1st. Changes to tax rates, fees and licenses are implemented through the approval of a Finance Bill.

The functions of the County Assembly include:

a) Investigate, inquire into and report on all matters related to coordination, control and monitoring of the County Budget.
b) Discuss and review the estimates and make recommendations to the County Assembly.
c) Examine the County Budget Policy statement presented to the County Assembly.
d) Examine Bills related to the National Budget, including Appropriations Bills.
e) Evaluate tax estimates, economic and budgetary policies and programs with direct budget outlays

Budget and Appropriations Committee (BAC)

The function of the committee includes:

a) Coordination and control of the county budget.
b) Review of County Assembly and County Executive budgets.
c) Review and approve the County Fiscal Spatial Plan (CFSP).
d) Examination of any budget-related legislation.
e) Introduction of Appropriations Bills, evaluation of tax estimates, economic and budgetary policies and programmes with direct outlays to the County Assembly.

The County Assembly adopts the report and recommendations of the BAC with or without amendments and approves the budget estimates allowing for enough time for the relevant Appropriations Bills to be passed by 30 June.

The County Treasury shall compile and publish the budget estimates within 21 days after the County Assembly's approval. The CEC Finance takes all reasonable steps to ensure that estimates are available to all departments.

13.2.2 Legislative Oversight

The County Assembly provides legislative oversight on behalf of the public for all aspects of county administration, including audits. Regularity (financial and compliance) audit reports from the Auditor General are typically examined by the County Public and Investments Committee (PAIC) of the County Assembly, with actionable recommendations produced and accepted by the Whole House. For other audit reports, the PAIC may call on members of sector or departmental committees to review recommendations for approval by the Whole House.

The Auditor-General then follows up on any recommendations from these reports. In addition to its higher-level function in safeguarding devolution, the Senate oversees the evaluation of audit results.

Legislative oversight represents the final phase of the audit process, focusing on feedback. Both the County Assembly and the Senate are involved at various levels (the Senate may focus only on specific audit matters rather than every single audit).

Public Accounts and Investment Committees (PAIC) or ad-hoc committees (for special audits) will receive, examine and consider the relevant audit report, and may request responses, explanations or clarifications from a representative of the auditee institution. Once the deliberations are complete, a report will be prepared recommending actions to be taken.

In the case of Regularity Audits (Financial and Compliance) this report must be published within nine months of the end of the financial year, or three months after receiving the Auditor-General's audit report. Other audit reports (Special Audits) are not time-bound and generally work within the timelines dictated by the County Assembly or the Senate as the appointing authority.

Finally, once reports are published, this audit feedback step culminates with a directive to the Auditor-General to follow up on report recommendations and report within the timeframes established by the appointing body.

13.3 Role of the Controller of Budget

The Office of the Controller of Budget (OCoB) is an independent office established under Article 228 of the Constitution of Kenya, 2010 with the core mandate of overseeing the implementation of the budgets of the national and county governments by authorizing withdrawal from public funds. The Office is also expected to prepare, publish and distribute statutory reports, conduct investigations based on its initiative or a complaint from a member of the public, and use alternative dispute resolution mechanisms to resolve disputes. The OCoB has a mandate to advise parliament on problems linked to the transfer of funds to state organs or any other public organizations.

Functions of the Controller of Budgets include:

a) Oversight role- This role entails managing the implementation of the budgets of both national and county governments. The Controller of Budget monitors the use of public funds throughout the year and reports to Parliament on how the funds were used.
b) Controlling role- The controlling function includes authorising withdrawals from public funds. Before authorising any withdrawal from Public funds, the Controller of Budget must first ensure that the withdrawal is legal, as per Article 228(5) of the Constitution of Kenya, 2010.
c) Reporting role- This function entails the preparation of quarterly, annual and special reports to the legislature and executive on budget implementation matters of the national and county governments as provided by the law according to (Article 228 (6) of) the Constitution of Kenya, 2010.
d) Advisory role- This function involves advising Parliament on financial matters where a Cabinet Secretary has stopped the transfer of funds to a state organ or public entity. The suspension of funds cannot be lifted or sustained before the Controller of Budget reports to Parliament.
e) Investigation role- Under Article 252 (1) (a) of the Constitution, the Controller of Budget (independent office) has the power to conduct investigations on its initiative or following a complaint made by a member of the public on budget implementation matters

LIST OF CONTRIBUTORS

Name		Organization
1.	Ms. Mary Mwiti	CEO Council of Governors (COG)
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26.	Paul Abonyo	PROPEL Health Kenya
27.	Wycliff Ongara	PROPEL Health Kenya
28.	Dr Chome Isaac	USAID HERO
29.	Dennis Mwambi	USAID HERO
30.	Rose Betty Mukii	AMREF
31.	Reena Atuma	Population Reference Bureau
32.	Eric Kiambo	Thinkwell Kenya
33.	Martin Simiyu	Thinkwell Kenya
34.	Mary Mwami	AFIDEP
35.	County Executive Committee Members for Health	
36.	County Chief Officers for Health and Finance	
37.	County Directors of Health and Budget	

CHAPTER 14

SAMPLE FORMS AND TEMPLATES

Appendix 1: Imprest Surrender Form

……………. (Insert name of County/Facility) Date ………………..Form No……………..			
Imprest Surrender Form			
Name of official: ----------------------------------Signature………………………….			
Imprest request number……………………………………………………………….			
Schedule:			
Reference	Breakdown of expenditure	Amount KShs.	
1		XXXX	
2		XXXX	
3		XXXX	
Total spent		XXXX	
Amount advanced		XXXX	
Balance		XXXX	
Amount banked (b)(Receipt number)		XXXX	

(Any difference between the amount banked (b) and the Balance is explained.

(If the expenses are more than the advance, the official is paid the difference)

Authorisation is hereby given for the purpose and on the date stated above.

Accountant………………………………… Date…………………………

Director of Accounting Services…………… Date…………………………

Chief Officer……………………………… Date…………………………

Appendix 2: Petty Cash Replenishment Form

XYZ COUNTY (Insert name of County) Date ………………..

Petty cash/Imprest Replenishment form

Name of requesting officer: ---------------------------------Signature………………………….

Schedule:

			KShs.	
Amount advanced	(A)		XXXX	
Amount spent to date	(B) (Break down attached)		XXXX	
Balance	A-B=C		XXXX	
Amount requested			XXXX	
(Amount requested must not exceed Kshs.700,000)				

Authorisation is hereby given for the purpose and on the date stated above.

Accountant………………………………………….Date…………………………………………………

Head of treasury…………………………………. Date…………………………………………………

Chief Officer………………………………………. Date…………………………………………………

Appendix 3: Petty Cash Voucher

(Insert name of County/Facility) Petty Cash Payment form		Voucher Number -------- Date ………………..		
PAYEE:----------------------------------				
Expense code	Particulars	Units	Rate	Amount (KShs)
Total				

Authorisation is hereby given for the purpose and on the date stated above.

Accountant………………………………………….Date…………………………………………………

Head of Treasury…………………………………Date…………………………………………………

Chief Officer…………………………………….Date…………………………………………………

Original-Issued to Payee

Copy- Filed for Audit.

Appendix 4: BIN Card

BIN CARD								
Description..				Minimum Level.................................				
Material Code				Maximum Level...............................				
Location Code				Ordering Level....................................				
Bin No				Ordering Quantity...........................				
RECEIPTS			ISSUES			BALANCE	AUDIT	
Date	G.R.No	Qty	Date	Regn No	Qty	Qty	Date	Initials

Appendix 5: Goods Issue Note

County……………..

Goods Issue Note/Stores Issue Advise

Date……………………........................Dept.……………………………

GIN No…………………………………….

No.	Item/Description	PO Qty	Del. Qty	Amount

Store Officer ……………………………

Received by:………………….............

Authorizing Officer ……………………………

Appendix 6: Petty Cash Certificate Form

PETTY CASH COUNT FORM

Office: **Currency:**

Date of Count: ______________________

Time of Count: ______________________

COUNT OF CASH ON HAND				
Denomination			**Quantity**	**Amount**
		x		
		x		
		x		
		x		
		x		
		x		
		x		
Total petty cash on hand:				
Add:				
Vouchers (see attached list)				
Combined Total:				
Petty Cash Imprest Balance:				
Difference:				-
Comments:				
Counted by: ______________________ **Observed by:** ____ **Approved by:** _____				

Appendix 7: Bank Reconciliation Statement

COUNTY GOVERNMENT OF ………….

HEALTH FACILITY…………………

PO BOX ………………

BANK RECONCILIATION STATEMENT

	KSHS.
Balance as per Bank statement	Xxxxxxxx
Less	
a) Payments in Cash Book not yet recorded	
in Bank statements (unpresented cheques)	(xxxxxx)
b) Receipts in Bank statement not yet recorded	(xxxxxx)
In Cash Book	
Add	
c) Payments in Bank statement not yet	
recorded in Cash Book	Xxxxxx
d)Receipts in Cash Book not yet recorded	
in bank statement	Xxxxxx
Balance as per Cash Book	**Xxxxxx**

a) Payments in Cash Book not yet recorded in Bank statement

Unpresented Cheques.

	Chq. NO	Date	Payee	Amount
1	10001	12/06/2024	suppliers	100,000
2				
				100,000

b) Receipts in Bank statement not recorded in Cash Book

	Date	Details	Amount
1	12/06/2024	Plot rates	150,000
2			
3			
			150,000

COUNTY GOVERNMENT OF ………….

HEALTH FACILITY…………………

PO BOX ………………

BANK RECONCILIATION STATEMENT

c) Payments in Bank statement not recorded in Cash Book (Unpresented cheques)

	Date	Details	Amount
1	12/06/2024	Plot rates refund	50,000
2			
			50,000

d) Receipts in Cash Book not recorded in Bank statement

	Date	Details	Amount
1	12/06/2024	Suppliers Limited	300,000
3			
			300,000

	Sign	Date
Prepared by	……………….	……………….
Reviewed by	……………….	……………….
Approved by	……………….	……………….

Appendix 8: Payment Voucher

Name of Institution…………………………..

Source of Funds………………………………….

Payment Voucher Number……………………..

Date…………………………………………….

Recipient	**Received**
Payee's Name: ______________________________	Payee's Signature:___________________________ Payee's
Address: ___________________________________	Name: ______________________________________
____	Date Received_______________________________ Local Purchase
Order (LPO) No:_____________________________	Date: _______________________________________
Goods Received Note (GRN) No: .______________	Date: _______________________________________Suppliers Invoice
No: ____	Date:____

Payee Detail	**Account Breakdown**	
	Account Code	**Amount**
	Total:	

Total Amount in Words	Check No. ………………………………… Date Issued ……………………………………

	Prepared By:	**Verified by:**	**Approved By:**	**Reviewed By:**
Title	Finance Staff	AIE Holder	Head: Dept/CHO/Accounting Officer	Examination
Name				
Signature				
Date				

Appendix 9: Local Purchase Order

LOCAL PURCHASE ORDER

VENDOR
Name: Address: Tel: No.

Date……………………………………….

LPO Number…………………………….

Item	Order Qty	Description	Unit Price	Amount

Prepared by……………………………………………………

Approved by…………………………………………………..

Appendix 10: Salary Sheet

SALARY SHE

Office: .... Currency: ....

Name	Gross Pay	Allowances			Deductions			Other	Net Pay
					Tax				

Prepared By: ____----

________________________Date___________

Reviewed By:

_________________________________Date____________

Authorised By:

_________________________________Date______________

-

Appendix 11: Fixed Assets Register

ET

Mo

Fund

%
Fund

County/Facility Name								
Fixed assets register								
Bar code	**Description / Make**	**Serial no/ code**	**Location**	**Date of purchase**	**Purchase price**	**Condition**	**Disposal date**	**Disposal price**

Appendix 12: Financial Statements Reporting Template- Level 4 and 5 Hospitals

Website Link: - [Annual-Financial-Reporting-Template-for-Level-4-and-5-Hospitals-FY-2023-24.docx (live.com)]

Appendix 13: Threshold Matrix for Use of the Methods of Procurement at the Facilities

Procurement Method	Maximum or minimum level of expenditure allowed for the use of a particular procurement method			HOSPITAL LEVEL EXPENDITURE
	GOODS	WORKS	SERVICES	
International Open tender (s 89 of the Act)	No minimum The maximum level of expenditure shall be determined by the funds allocated in the budget for the particular procurement.	No minimum The maximum level of expenditure shall be determined by the funds allocated in the budget for the particular procurement.	No Minimum The maximum level of expenditure shall be determined by the funds allocated in the budget for the particular procurement.	LEVEL 4,5&6
National Open tender (s 96 of the Act)	No minimum. The maximum level of expenditure shall be determined by the funds allocated in the budget for the particular procurement.	No minimum. The maximum level of expenditure shall be determined by the funds allocated in the budget for the particular procurement.	No minimum. The maximum level of expenditure shall be determined by the funds allocated in the budget for the particular procurement.	
Restricted tender under sec 102(1)(a) of the Act	No minimum. The maximum level of expenditure shall be determined by the funds allocated in the budget for the particular procurement.	No minimum. The Maximum level of expenditure shall be determined by the funds allocated in the budget for the procurement.	No minimum. The Maximum level of expenditure shall be determined by the funds allocated in the budget for the procurement.	LEVEL 2,3,4, & 5

Restricted tender under sec 102(1)(b) of the Act	The Maximum level of expenditure shall be KES. 30,000,000 above this threshold use open tender	The Maximum level of expenditure shall be KES. 30,000,000 above this threshold use open tender	The Maximum level of expenditure shall be KES. 20,000,000 above this threshold use open tender	LEVEL 2,3,4,5 &6
	No minimum	No minimum	No minimum	
Restricted tender under 102(1)(c) of the Act	No minimum. The maximum level of expenditure shall be determined by the funds allocated in the budget for the particular procurement.	No minimum. The maximum level of expenditure shall be determined by the funds allocated in the budget for the particular procurement.	No minimum. The maximum level of expenditure shall be determined by the funds allocated in the budget for the particular procurement	
Request for proposals (s 116 of the Act)	No minimum. The maximum level of expenditure shall be determined by the funds allocated in the budget for the particular procurement	No minimum. The maximum level of expenditure shall be determined by the funds allocated in the budget for the particular procurement	No minimum. The Maximum level of expenditure shall be determined by the funds allocated in the budget for the procurement	LEVEL,3,4,5 &6

Procurement Method	Maximum or minimum level of expenditure allowed for the use of a particular procurement method						
	GOODS	WORKS	SERVICES				
Direct Procurement under s 103(2) and (3) of the Act	No minimum or maximum expenditure under this method provided the conditions under this section are met	No minimum or maximum expenditure under this method provided the conditions under this section are met	No minimum or maximum expenditure under this method provided the conditions under this section are met	LEVEL 2,3,4,5 &6			

Request for quotations (s 105 of the Act)	The maximum level of expenditure under this method is KES. 3,000,000 per request for quotation	The maximum level of expenditure under this method is KES. 5,000,000 per request for quotation	The maximum level of expenditure under this method is KES. 3,000,000 per request for quotation	LEVEL 1,2,3,4,5 &6
Low-value procurement (s 107 of the Act)	The maximum level of expenditure under this method is KES. 50,000 per item per financial year	The maximum level of expenditure under this method is KES. 100,000 per item per financial year	The maximum level of expenditure under this method is KES. 50,000 per item per financial year	LEVEL 2,3,4,5 &6
	There is no minimum expenditure for the use of this method	There is no minimum expenditure for the use of this method	There is no minimum expenditure for the use of this method	
Competitive negotiation. (s.131 of the Act)	No minimum or maximum expenditure under this method provided the conditions under this section are met	No minimum or maximum expenditure under this method provided the conditions under this section are met	No minimum or maximum expenditure under this method provided the conditions under this section are met	LEVEL 1,2,3,4,5 &6

Procurement Method	Maximum or minimum level of expenditure allowed for the use of a particular procurement method						
	GOODS	WORKS	SERVICES				
The electronic reverse auction (s.110 of the Act	No minimum or maximum expenditure under this method provided the conditions under this section are met	No minimum or maximum expenditure under this method provided the conditions under this section are met	No minimum or maximum expenditure under this method provided the conditions under this section are met	LEVEL 1,2,3,4,5 &6.			

Force account (s.109 of the Act)	No minimum. The maximum level of expenditure shall be determined by the funds allocated in the budget for the particular procurement provided the conditions under this section are met.	No minimum. The maximum level of expenditure shall be determined by the funds allocated in the budget for the particular procurement provided the conditions under this section are met.	No minimum. The maximum level of expenditure shall be determined by the funds allocated in the budget for the particular procurement provided the conditions under this section are met.	LEVEL 1,2,3,4,5 &6.
Two stage tendering (s.99 of the Act)	No minimum. Maximum level of expenditure shall be determined by the funds allocated in the budget for the particular procurement provided the conditions under this section are met.	No minimum. Maximum level of expenditure shall be determined by the funds allocated in the budget for the particular procurement provided the conditions under this section are met.	No minimum. Maximum level of expenditure shall be determined by the funds allocated in the budget for the particular procurement provided the conditions under this section are met.	LEVEL 1,2,3,4,5 &

Procurement Method	Maximum or minimum level of expenditure allowed for the use of a particular procurement method						
	GOODS	WORKS	SERVICES				
Design competition (s.100 of the Act)	No minimum or maximum expenditure under this method provided the conditions under this section are met	No minimum or maximum expenditure under this method provided the conditions under this section are met	No minimum or maximum expenditure under this method provided the conditions under this section are met	LEVEL 1,2,3,4,5 &6.			

Framework agreement (s.114 of the Act)	No minimum or maximum expenditure under this method provided the conditions under this section are met	No minimum or maximum expenditure under this method provided the conditions under this section are met	No minimum or maximum expenditure under this method provided the conditions under this section are met	LEVEL 1,2,3,4,5
Community Participation	No minimum Maximum Kshs 10,000.000.00	No minimum. Maximum Kshs 30,000.000.00	No minimum. Maximum Kshs 5,000.000.00	LEVEL 2,3,4,5.

Level 3,4,5&6 has the Autonomy

xxx

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