

Review and Interpretation of Financial Statements

What does your financial report say?

A clean audit opinion is the starting point, not the finish line.

OUTLINE

What we will cover

1

Why the report matters

Who reads it, and what it contains

2

Case study, Part 1

Governance, performance and sustainability

3

Case study, Parts 2 and 3

Value for money and financial sustainability

4

Case study, Part 4

The Auditor-General's report and the full scorecard

5

From reading to deciding

Lessons for every entity, and a call to action



An interactive session: read the figures, discuss with your neighbour, and decide.

QUICK POLL:

A public entity has received a clean audit opinion five years in a row. Is it doing well?

- A** Yes
- B** No
- C** I cannot tell from the opinion alone



Public money shall be used in a prudent and responsible way ... financial management shall be responsible, and fiscal reporting shall be clear.

Constitution of Kenya, 2010, Article 201(d) and (e)

Clear reporting is half the duty. Reading and understanding it is the other half.

Who reads the financial report?

Citizens/Taxpayers

Are services delivered, and is public money well used?

Parliament/County Assemblies

Was money spent as appropriated? What should next year's budget be?

National/County treasuries

Budget execution, pending bills and fiscal risks

Boards and Management

Is the entity sustainable, and where must we act?

Lenders, development partners and suppliers

Can the entity pay, and can it be trusted with funds?

Oversight bodies

Auditor-General and Controller of Budget: compliance, stewardship and risk

The same report answers different questions for different users.

What does the report contain?

● Corporate governance statement

● Chairperson's and CEO's reports

● Performance against set objectives

● Five-year performance review

● Sustainability report

● Financial statements and notes

● Budget and actual comparison

● Report of the Auditor-General

● Disclosures:
Follow-up of prior audit issues

Most readers stop at one paragraph: the opinion.

Case study

Tegemeo Referral Hospital



A Level 4 county hospital



Funded by the county and by patients



About 900 staff

Question of the day: Is our hospital doing well?

What the leadership says, FY2025/26

CHAIRPERSON'S STATEMENT

"2025/26 was a year of resilience and progress. The new Board has set a bold course, and the hospital remains on track to become a regional centre of excellence."

MEDICAL SUPERINTENDENT'S REPORT

"We strengthened our workforce, expanded access to care, and received a fifth consecutive unmodified audit opinion, a testament to sound financial management."

FINANCIAL PERFORMANCE: OUTLOOK

"The hospital is well positioned to grow its revenue and services in 2026/27."

PART 1 · GOVERNANCE, PERFORMANCE AND SUSTAINABILITY

Governance over five years

Indicator	2021/22	2022/23	2023/24	2024/25	2025/26
Medical Superintendent (CEO)	Dr John	Dr Mary (acting)	Dr Mark (acting)	Dr Mark (acting)	Dr James
Board seats filled (of 9)	9	4	5 (all new)	5	9 (all new)

The Board in 2025/26

7 men, 2 women

More than two-thirds of one gender

No finance or audit skills

None of the members has a finance or audit background

Same age, same community

All members are in one age bracket and from one community

No evaluation since 2021/22

Four years without assessing itself

 **Plenary: What does this tell us about the hospital?**

PART 1 · GOVERNANCE, PERFORMANCE AND SUSTAINABILITY

Service delivery over five years

Indicator	2021/22	2022/23	2023/24	2024/25	2025/26
Referrals received	4,600	5,200	5,600	5,850	5,600
Patients referred out	1,200	1,400	1,800	3,000	4,500
Referred out as % of referrals received	26%	27%	32%	51%	80%
Days key equipment out of service	10	15	60	120	190
Bed capacity	350	350	340	320	300
Bed occupancy rate	85%	86%	96%	108%	121%
Outpatient visits ('000)	210	215	205	190	175
Preventable disease admissions	11,000	11,500	12,600	15,200	18,400
Inpatient mortality rate	3.1%	3.0%	3.6%	4.4%	5.2%
Children fully immunised	88%	87%	84%	78%	71%



Plenary: What does this tell us about the hospital?

PART 1 · GOVERNANCE, PERFORMANCE AND SUSTAINABILITY

Performance against Strategic Plan targets

Key performance indicator	Strategic Plan target 2026/27	Actual 2023/24	Actual 2024/25	Actual 2025/26
Average outpatient waiting time (hours)	1.5	3	4	5
Specialist clinics held per week (all specialties)	22	15	12	9
Surgical operations	6,500	5,400	4,800	3,900
Laboratory turnaround time (hours)	1	2	3	4
Facility deliveries	9,500	8,600	7,900	6,800
Children fully immunised	92%	84%	78%	71%

MANAGEMENT'S EXPLANATION

"Targets were not achieved due to budgetary constraints."

 **Group 1: What does this tell us about the hospital?**

PART 1 · GOVERNANCE, PERFORMANCE AND SUSTAINABILITY

The sustainability report, 2025/26

	What the sustainability report says	What the rest of the annual report shows
Environment	"We planted 500 trees and placed waste bins around the compound."	• Note 22: The incinerator has been out of service since March 2025. • A contractor collects the medical waste.
Social	"Staff held a fun day and donated food to a local children's home."	• Children fully immunised fell from 88% to 71%. • Outreach spending fell from KShs 70 million to 25 million. • Preventable disease admissions rose from 11,000 to 18,400.
Governance	"The hospital remains committed to sustainable and quality service delivery."	• No audit committee for two years. • Board not evaluated since 2021/22. • Hospital infection rate not reported since 2023/24.

Group 2: Does the sustainability report tell the hospital's real story?

PART 2 • VALUE FOR MONEY

What the hospital spent, and what it delivered

Item	2021/22	2022/23	2023/24	2024/25	2025/26
Clinical staff	520	515	500	480	455
Non-clinical staff	260	265	410	430	445
Salaries (KShs m)	820	860	960	1,010	1,080
Salaries as % of total expenses	47%	47%	46%	49%	52%
Days lost to strikes	–	–	30	45	60
Expired drugs written off (KShs m)	3	4	25	48	62
Outreach (KShs m)	70	72	55	45	25
Total expenses per outpatient visit (KShs)	8,400	8,600	10,100	10,900	11,800

NOTE 9

Most non-clinical staff hired since 2023/24 are outside the approved establishment.



Group 3: What does this tell us about the hospital?

PART 3 • FINANCIAL SUSTAINABILITY

Revenue performance

KShs million	2021/22	2022/23	2023/24	2024/25	2025/26
County Government transfers	1,050	1,100	1,150	1,150	1,200
Fees for patient services	800	860	920	900	850
Other income	60	50	40	30	20
Total revenue	1,910	2,010	2,110	2,080	2,070
Total expenses	1,760	1,840	2,070	2,070	2,065
Surplus for the year	150	170	40	10	5
Waivers and write-offs	40	50	70	90	180
Waivers and write-offs as % of fees	5%	6%	8%	10%	21%

NOTE 7

Waivers are approved by the Medical Superintendent. The hospital has no Board-approved waiver policy.

FINANCIAL PERFORMANCE: OUTLOOK

"The hospital is well positioned to grow its revenue and services in 2026/27."



Group 4: What does this tell us about the hospital?

PART 3 · FINANCIAL SUSTAINABILITY

Financial position at 30 June

KShs million	2021/22	2022/23	2023/24	2024/25	2025/26
Cash in the bank	180	200	130	70	40
Receivables	180	200	250	300	520
Inventories (drugs and supplies)	60	70	125	170	145
Property, plant and equipment	1,450	1,560	1,575	1,570	1,545
Total assets	1,870	2,030	2,080	2,110	2,250
Trade and other payables	120	130	145	160	270
Statutory deductions payable	—	—	15	40	85
Borrowings	150	130	110	90	70
Total liabilities	270	260	270	290	425
Net assets	1,600	1,770	1,810	1,820	1,825

NOTE 31

45% of receivables are more than one year old.

THE BOARD'S STATEMENT

"Nothing has come to the attention of the Board to indicate that the hospital will not remain a going concern."

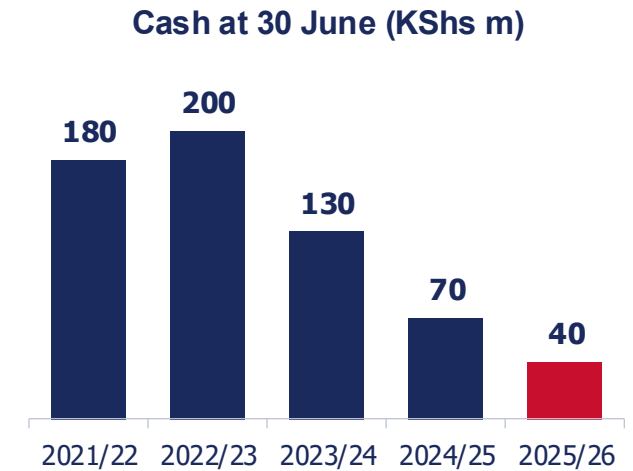


Group 5: What does this tell us about the hospital?

PART 3 · FINANCIAL SUSTAINABILITY

Cash flow

KShs million	2021/22	2022/23	2023/24	2024/25	2025/26
Cash from operations	210	230	40	25	30
Investing activities	(170)	(190)	(90)	(65)	(40)
Financing activities	(20)	(20)	(20)	(20)	(20)
Net change in cash	20	20	(70)	(60)	(30)
Cash at 30 June	180	200	130	70	40
Days of spending covered by cash	37	40	23	12	7



MANAGEMENT'S COMMENTARY

"The hospital generated positive cash flows from operating activities in every year under review."



Group 6: What does this tell us about the hospital?

PART 3 • FINANCIAL SUSTAINABILITY

Budget performance, 2025/26

Revenue: budgeted KShs 2,350 million, collected KShs 2,070 million (88%)

Spending, KShs million	Original budget	Adjustment	Final budget	Actual	Utilisation
Salaries	1,020	+60	1,080	1,080	100%
Board expenses	30	–	30	30	100%
Casual and contract staff	75	–	75	75	100%
Drugs and medical supplies	460	(60)	400	340	85%
Repairs and maintenance	90	–	90	35	39%
Outreach and community health	70	–	70	25	36%
Other expenses	605	–	605	480	79%
Total spending	2,350	0	2,350	2,065	88%

BUDGET NOTE

KShs 60 million moved from drugs to salaries during the year. Reason given: "Due to operational needs."



Group 7: What does this tell us about the hospital?

PART 4 • THE AUDITOR-GENERAL'S REPORT, FIVE YEARS

Is this hospital doing well?

Part of the report	2021/22	2022/23	2023/24	2024/25	2025/26
Opinion on the financial statements	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified
Lawfulness and effectiveness in use of public resources	No issues	No issues	Issues raised	Issues raised	Issues raised
Internal controls, risk management and governance	No issues	No issues	Issues raised	Issues raised	Issues raised
Unresolved prior-year matters	0	0	0	5	9

Extracts from the 2025/26 report

Staff were recruited outside the approved establishment.

Statutory deductions of KShs 85 million were not remitted.

The Board did not have an audit committee for two years.

PART 4 • THE AUDIT OPINION

The full scorecard

Area	Your verdict
Governance	
Service delivery	
Value for money	
Financial sustainability	
Audit opinion on the financial statements	Unmodified (clean), five years running

PART 4 · WHAT THE AUDIT OPINION IS DESIGNED TO TELL US

Two different questions

The audit opinion asks

Are the figures fairly presented?

The annual report asks

Is the entity doing well?

A clean opinion answers the first question. Only reading the whole report answers the second.

PART 4 · FROM READING TO DECIDING

What would you put before the Board?

1

Governance

One decision:

2

Service delivery

One decision:

3

Value for money

One decision:

4

Financial sustainability

One decision:

BEYOND HOSPITALS

The same lesson for every entity

Each of these could have a clean opinion. Each report would still be telling a story.

● **County government**

Own-source revenue flat for five years while pending bills double

● **Public school**

Fee arrears rising every year while enrolment falls

● **Water company**

Water lost before billing rising from a third to half of production

● **State corporation**

Staff costs taking a growing share as Exchequer funding stalls

● **University or TVET**

More students, fewer lecturers, and pension arrears growing

● **Development fund**

Many projects started every year, few completed

CALL TO ACTION

Starting at your next Board or management meeting

1

Ask for five years

Request a five-year trend, not just this year's figures

2

Read beyond the opinion

Start with governance and performance, then read the numbers

3

Table the questions

Is it well governed, delivering, giving value for money, and able to keep going? Is the audit committee working?

4

Follow up

Agree actions with owners and dates, and track prior audit issues until they are closed

5

Tell the real story

Preparers: fill every section honestly



Do not wait for the annual report: review the quarterly reports at every meeting.

Before we celebrate the opinion, ask: What does our financial report **really** say?

Thank you