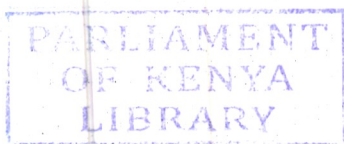


REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE



REPORT

OF

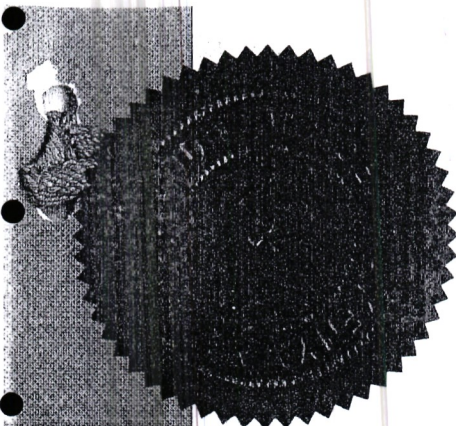
THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF NATIONAL HOSPITAL INSURANCE FUND

FOR THE YEAR ENDED 30 JUNE 2014

*Paper laid*  
*By the leader of majority party Hon. Allen Tonale*  
*on Tuesday 7/7/2015*  
*[Signature]*





**NATIONAL HOSPITAL INSURANCE FUND**

**AUDITED REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED**

**JUNE 30<sup>TH</sup> 2014**

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**Prepared in accordance with the Accrual Basis of Accounting Method under  
the International Financial Reporting Standards (IFRS)**

**National Hospital Insurance Fund**  
**Reports and Financial Statements**  
**For the year ended June 30, 2014 (Kshs'000)**

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## KEY NHIF INFORMATION

### Background information

NHIF was established by the Act of Parliament No. 9 of 1998. At cabinet level, NHIF is represented by the Cabinet Secretary for Health, who is responsible for the general policy and strategic direction of the Fund.

### Principal Activities

The principal activity of the Fund is to provide healthcare financing to all employed persons, self-employed persons and voluntary contributors.

### Directors

The following are the NHIF Board of Directors.

<u>NAME</u>	<u>TITLE/ REPRESENTING</u>	<u>DATE APPOINTED</u>
1. Hon. Mohamud Mohammed Ali	Chairman	10 <sup>th</sup> Jan. 2014
2. Dr. Elly Nyaim Opot	Kenya Medical Association	3 <sup>rd</sup> Sept. 2012
3. Mrs. Gilder Odera	Federation of Kenya Employers	3 <sup>rd</sup> Sept. 2012
4. Mr. Thomas Maara Gichuhi	Association of Insurers	3 <sup>rd</sup> Sept. 2012
5. Mr. Akelo T. Misori	Central Organisation of Trade Unions	3 <sup>rd</sup> Sept. 2012
6. Mr. Wilson Sossion	Kenya National Union of Teachers	3 <sup>rd</sup> Sept. 2012
7. Rt. Rev. Michael Joshua Sande	Christian Health Association of Kenya	3 <sup>rd</sup> Sept. 2012
8. Mrs. Catherine Muriithi	National Council of NGO'S	4 <sup>th</sup> Jan. 2013
9. Mr. Elijah Adul Onyango	Kenya National Farmers Union	1 <sup>st</sup> Nov. 2012
10 Dr. Khadija Kassachoon	Permanent Secretary/Min. of Health	1 <sup>st</sup> July 2014
11 Dr. Nicholas Muraguri	Director of Medical Services	1 <sup>st</sup> July 2014
12 Mr. Julius Mutua	Alt. Member/PS /National Treasury	3 <sup>rd</sup> Sept. 2012
13 Mrs. Mary Maungu	Alt. Member/PS/Min. of Dev. & Planning	3 <sup>rd</sup> Sept. 2012
14 Mr. Simeon Ole Kirgotty	Chief Executive Officer	15 <sup>th</sup> Jan. 2013

**National Hospital Insurance Fund**  
**Reports and Financial Statements**  
**For the year ended June 30, 2014 (Kshs'000)**

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2. Kenya Commercial Bank

Moi Avenue Branch  
P.O BOX 30081-00100  
Nairobi, Kenya

3. Co-operative Bank of Kenya

Parliament Road Branch  
P.O Box 5772-00200  
Nairobi, Kenya

**Independent Auditors**

**Auditor General**

Kenya National Audit Office  
Anniversary Towers, University Way

P.O. Box 30084

GOP 00100

Nairobi, Kenya

**Legal Service Providers**

NO.	FIRM'S NAME	PHYSICAL ADDRESS	NAME OF PARTNERS
1.	The State Law Office	Harambee Avenue P.O. Box 40112 - 00200 City Square Nairobi, Kenya	The Attorney General
2.	Munyao Muthama & Kashindi Advocates	Chaka Place, 3 <sup>rd</sup> Floor ("TCA") Argwings Kodhek Road P.O. Box 24482-00100 Nairobi Tel. +254-20-2117477/20-2715184 Email: <a href="mailto:kashindi@mmkadv.com">kashindi@mmkadv.com</a>	1. Paul Mutua Munyao 2. Adams Kioli Muthama 3. George A. Kashindi

**National Hospital Insurance Fund**  
**Reports and Financial Statements**  
**For the year ended June 30, 2014 (Kshs'000)**

		Email: <a href="mailto:mmkadvocates@mombasalawyers.com">mmkadvocates@mombasalawyers.com</a>	
10.	Kiptui Kipkemei & Co. Advocates	Ukulima Cooperative House, 7 <sup>th</sup> Floor Haile Sellasie Avenue, County Lane P.O. Box 61435-00200, Nairobi Tel. +254-20-2219956 Email: <a href="mailto:knklawyer@gmail.com">knklawyer@gmail.com</a>	1. Grace Jemutai Kiptui 2. James K. Kipkemei
11.	Mulondo, Oundo Muriuki & Co. Advocates	Finance House, 10 <sup>th</sup> Floor, Loita Street P.O. Box 24627-00100, Nairobi Tel. +254-20-2241034/2366092 Email: <a href="mailto:info@momadvocates.co.ke">info@momadvocates.co.ke</a>	1. Vincent Mulondo 2. Fredrick Oundo 3. Daniel Muriuki
12.	Ogeto Otachi & Co. Advocates	Ambassador Court, 2 <sup>nd</sup> Floor, Milimani Road P.O. 79438-00200, Nairobi Tel. +254-20-2722476 Email: <a href="mailto:info@law-consults.org">info@law-consults.org</a>	1. Kennedy Ogeto 2. Gershom Otachi

## **CHAIRMAN'S STATEMENT**

The Constitution of Kenya states that every Kenyan has a right to quality and affordable health care, and recognizes the role of the government in removing barriers to access. This was recently affirmed in Sessional Paper No. 7 of 2012 on Universal Health Coverage, which is defined as the provision of quality, affordable healthcare across the population. To ensure that the country achieves universal health care, NHIF has been tasked by the government to recruit 25 million Kenyans over the next 5 years.

The 2010-2015 Strategic Plan shifted the focus of NHIF from "kingdom" mentality organization to a 'Hunter" mentality organization (conservative to Aggressive). This was deemed appropriate at the time as the Fund enjoyed a good captive market which it could use to protect its financial strength as it took on more risks. It was felt that the likelihood of attracting new entrants was high as there still remains a high percentage of Kenyans who have no medical cover.

During the FY 2013-14 the Fund concentrated on having a strategic presence in all the 47 counties and increasing the number of empanelled health care facilities within those counties. In addition, the Fund embarked on an aggressive recruitment program. NHIF was able to achieve the benefit payments targets and surpass revenue targets. All this was achieved within the set budget.

To enhance our members' experience, the Fund offered new products and re-engineered its processes. This resulted in the Civil Servants & Disciplined Services Scheme and increase in Revenue collection points (banks and M-pesa).

The Civil Servants and Disciplined Services Scheme has been in operation since 1<sup>st</sup> January 2012. It provides medical cover for employees of the Civil Servants and Disciplined Services and their dependants (spouses and children) for outpatient care, inpatient care and Group life & Last expense (Employees only). Under outpatient care, benefits available to members include all outpatient procedures including dental & optical care; while under inpatient care

## **REPORT OF THE CHIEF EXECUTIVE OFFICER**

### **Introduction**

It is an honour to present to you the Fund's report for the year ended June 2014. For the year 2013-14, the Fund delivered an impressive performance despite high inflation rates and operational challenges.

### **2013/14 Performance Review**

I am pleased to report that the total income received in the year was Kshs. 10.65 billion which includes Kshs.708 million being surplus from the Civil Servant & Disciplined services Scheme. This represented an increase of 22% from the total income for the year 2012-13 of Kshs. 8.76 billion. Income received from the National Scheme was Kshs.9.32 billion, while that received from the Civil Servants & Disciplined Services Scheme was Kshs. 4.58 billion. The overall growth in income was attributed to:

- Membership growth from the informal sector
- Employer compliance in the formal sector

The Fund's main objective is to finance health care through the member benefits. The total benefits paid out amounted to Kshs. 8.71 billion which translates to an overall benefit payout ratio of 63% of total contributions received. Total benefits paid out from the National Scheme were Kshs. 4.84 billion (52% payout ratio), while the Civil Servants & Disciplined Services Scheme was Kshs. 3.87 billion (85% payout ratio).

### **Looking Ahead**

With Universal Health Coverage as the main focus of the 2014-2018 Strategic Plan, NHIF must act quickly to create more awareness on the benefits offered by the outpatient cover that clearly outweigh the proposed increase in contribution rates. To remain relevant, the Fund plans to come up with relevant innovations and be more responsive to our customer needs. The Fund seeks to capitalize on the gains made so far by undertaking further innovations that will see its operational efficiency improve even further. These include the smart/biometric card project, EDMS (paperless processes), contract management solution

## **CORPORATE GOVERNANCE STATEMENT**

The Board of Directors promotes the best practice of corporate governance, and is bound by the highest standards of integrity and accountability in its operations. The Board keenly adheres to the code of governance prescribed the NHIF Act and Government of Kenya guidelines.

### **Management Board**

NHIF is established as a Corporate body by an Act of Parliament, NHIF Act No. 9 of 1998 under the State Corporations Act Cap 446 with powers to sue and be sued in its own name; to own and dispose of property; and with perpetual succession and common seal.

The Board draws its representatives from different stakeholders within the health and the public sector, as set out in Section 4(1) of the NHIF Act.

### **Composition of the Board**

The composition is as follows:

- ❖ Chairman
- ❖ Permanent Secretary or representatives - Ministry of Health
- ❖ Permanent Secretary or representative - National Treasury
- ❖ Permanent Secretary or representative - Ministry of Devolution and Planning
- ❖ Director of Medical Services
- ❖ Federation of Kenya Employers
- ❖ Central Organization of Trade Unions (K) - COTU
- ❖ Kenya National Union of Teachers (KNUT)
- ❖ Kenya National Farmers Union (KNFU)
- ❖ Kenya Medical Association (KMA)
- ❖ Christian Health Association of Kenya (CHAK)
- ❖ Association of Kenya Insurers (AKI)
- ❖ National Council of NGOs
- ❖ Chief Executive Officer (Secretary)

The governance, control and administration of the Fund are vested in the Management Board.



***National Hospital Insurance Fund***  
**Reports and Financial Statements**  
**For the year ended June 30, 2014 (Kshs'000)**

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**Board Responsibilities**

The roles of the Chairman and Chief Executive Officer are separate and their responsibilities clearly defined. The Board defines the Fund's strategic intent, objectives and values and ensures that procedures and practices are in place to protect the Fund's assets and reputation. It is responsible for the stewardship of the Fund and assumes responsibility for retaining full and effective control over the Fund.

The conduct of Board members is consistent with their duties and responsibilities to the Fund and they must always act within the limitations imposed by the NHIF Act.

In order to ensure that the Board is able to discharge its responsibilities, the Management is required to provide adequate and timely information on the Fund's policies. It also considers an operational report from the Chief Executive Officer; Management Accounting for each quarter; reports from each Board Committee, specific proposals for capital expenditure and acquisitions; and major issues and strategic opportunities for the Fund.

The Fund also trains its Board members continuously on Board processes. Members of the Board have attended varied courses on Corporate Governance Principles and Practices.

**REPORT OF THE DIRECTORS**

The Directors submit their report together with the audited financial statements for the year ended June 30<sup>th</sup>, 2014 which show the state of the Fund's affairs.

**Principal activities**

The principal activity of the Fund is to provide healthcare financing to all employed persons, self-employed persons and voluntary contributors.

**Results**

The results of the Fund for the year ended June 30<sup>th</sup>, 2014 are set out on pages 20-24

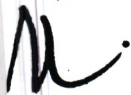
**Directors**

The members of the Board of Directors who served during the year are shown on page 3.

**Auditors**

The Auditor General is responsible for the statutory audit of the Fund in accordance with Section 8 (2) of the Public Finance Management (PFM) Act, 2012, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

By Order of the Board



.....

**Simeon Ole Kirgotty**

**Chief Executive Officer**

Date: **15.5.2015**.....

***National Hospital Insurance Fund***  
**Reports and Financial Statements**  
**For the year ended June 30, 2014 (Kshs'000)**

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Nothing has come to the attention of the Directors to indicate that the Fund will not remain a going concern for at least the next twelve months from the date of this statement.

**Approval of the financial statements**

The Fund's financial statements were approved by the Board on 30th September 2014 and signed on its behalf by:



.....  
**CHAIRMAN**



.....  
**CHIEF EXECUTIVE**

# REPUBLIC OF KENYA

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Fax: +254-20-311482  
E-Mail: oag@oagkenya.go.ke  
Website: www.kenao.go.ke



P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON NATIONAL HOSPITAL INSURANCE FUND FOR THE YEAR ENDED 30 JUNE 2014

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#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of National Hospital Insurance Fund set out on pages 20 to 44, which comprise the statement of financial position as at 30 June 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

#### **Auditor-General's Responsibility**

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15 of the Public Audit Act, 2003. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessments of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

the arbitration consent order made in the High Court (Milimani Commercial Court) of 6 April 2009.

- iii. A further review indicates that included in the property, plant and equipment balance of Kshs.12,110,912,000 as at 30 June 2014 is Work in Progress balance of Kshs.1,444,687,484 in respect of payments for drawings and designs for the proposed Resource Centre and whose construction has not yet commenced, over 12 years, since the land was acquired. The management has however explained that construction of the Resource Centre has not yet commenced because of lack of approval from parent Ministry.

In the circumstances, it has not been possible to ascertain the ownership status of the parcel of land in dispute and that the property plant and equipment balance of Kshs.12,110,912,000 as at 30 June 2014 is fairly stated.

### **3. Short Term Investments**

As previously reported, included in the cash and cash equivalent balance of Kshs.3,625,655,000 as at 30 June 2014 is short term investments balance of Kshs.2,120,802,000 which is net of provision for impaired investments of Kshs.1,309,237,000, under note 18 to the financial statements. The provision includes an amount of Kshs.49.5 million which had been deposited by the Fund on 26 June 2001 at the Consolidated Bank Ltd in Nairobi. However, information available indicates that the entire deposit of Kshs.49.5 million was off-set by the Bank against a guarantee executed by the former Fund Chief Executive Officer, on behalf of Euro Bank Ltd. It is not clear and the management has not explained the circumstances under which the Fund's deposit was used as a guarantee by the then Chief Executive Officer.

In the circumstances it has not been possible to confirm that the short term investment balance of Kshs.2,120,802,000 included in the cash and cash equivalent balance of Kshs.3,625,655,000 as at 30 June 2014 is fairly stated.

### **4. Trade and Other Receivables**

As similarly reported in year 2012/2013 the trade and other receivables balance of Kshs.528,480,000 as at 30 June 2014 includes Hospital receivables of Kshs.5,857,000, outstanding contributions of Kshs.252,125,000, R.D cheques of Kshs.16,242,000, staff receivables of Kshs.3,050,000, supplier advances of Kshs.4,660,000 and revenue holding account of Kshs.12,188,000 all totalling Kshs.294,122,000. These balances have been outstanding for a considerably long period of time and only provisions for bad and doubtful debts of Kshs.152,731,000 for outstanding contributions, Kshs.4,660,300 for supplier advances, Kshs.2,615,900 for R.D. Cheques, Kshs.1,055,250 for imprests, Kshs.11,990,000 for lost revenue and Kshs.260,000 for other receivables all totalling to Kshs.173,312,450 have been made in the accounts. Although the management has indicated that efforts are underway to pursue the debts which are likely to be recovered and for those unlikely, write-off mechanism will be

*National Hospital Insurance Fund*  
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**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014**

	Note	2014 Kshs	2013 Kshs
<b>REVENUES</b>			
Contributions	1	9,323,030	7,905,599
Surplus from Civil Servants Scheme	2	708,330	402,705
Other Incomes	3	618,222	449,481
<b>TOTAL REVENUES</b>		<b>10,649,582</b>	<b>8,757,785</b>
<b>OPERATING EXPENSES</b>			
Benefit Expenses	4	4,838,045	4,314,615
Administration Costs	5	3,725,551	3,268,593
Depreciation of PPE	8	228,997	228,835
Amortisation of Intangible Assets	9	18,906	30,490
<b>TOTAL OPERATING EXPENSES</b>		<b>8,811,499</b>	<b>7,842,533</b>
<b>OPERATING SURPLUS</b>		<b>1,838,083</b>	<b>915,252</b>
Finance Expenses	10	21,320	23,047
<b>SURPLUS BEFORE TAXATION</b>		<b>1,816,763</b>	<b>892,205</b>
Withholding Tax Expense	11	78,768	23,653
<b>SURPLUS AFTER TAXATION</b>		<b>1,737,995</b>	<b>868,552</b>

*National Hospital Insurance Fund*  
**Reports and Financial Statements**  
**For the year ended June 30, 2014 (Kshs'000)**

**STATEMENT OF FINANCIAL POSITION AS AT 30<sup>TH</sup> JUNE 2014**

	Note	2014 Kshs	2013 Kshs
<b><u>ASSETS</u></b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	8	12,110,912	12,252,150
Intangible assets	9	6,960	15,426
Receivable - South B estate mortgage	12	48,166	63,459
Fixed interest investments (bonds)	13	60,000	130,000
Long term deposits	14	559,343	529,766
Unquoted investments	15	118,040	133,115
<b>Total Non-Current Assets</b>		<b>12,903,421</b>	<b>13,123,916</b>
<b>Current Assets</b>			
Trade and other receivables	16	528,480	608,053
Cash and Cash Equivalent	17	3,625,655	1,869,298
<b>Total Current Assets</b>		<b>4,154,135</b>	<b>2,477,351</b>
<b>TOTAL ASSETS</b>		<b>17,057,555</b>	<b>15,601,267</b>
<b><u>EQUITY AND LIABILITIES</u></b>			
<b>Capital and Reserves</b>			
Accumulated Fund	20	12,209,923	12,209,923
Surplus Fund	21	3,875,815	2,137,820
<b>Total Capital and Reserves</b>		<b>16,085,738</b>	<b>14,347,743</b>
<b>Current Liabilities</b>			
Bank Overdraft	22	402	-
Withholding tax payable	23	7,081	6,641
Trade and other payables	24	512,256	692,860

**National Hospital Insurance Fund**  
**Reports and Financial Statements**  
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Provision for liabilities	25	<u>452,078</u>	<u>554,023</u>
<b>Total Current Liabilities</b>		<u><b>971,817</b></u>	<u><b>1,253,524</b></u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>17,057,555</b></u>	<u><b>15,601,267</b></u>

The financial statements were approved by the Board on 30<sup>th</sup> September 2014 and signed on its behalf by:



Chairman



Chief Executive Officer



*National Hospital Insurance Fund*  
**Reports and Financial Statements**  
 For the year ended June 30, 2014 (Kshs'000)

**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2014**

	Accumulated Fund	Surplus Fund	Total
At July 1, 2012	12,209,923	1,269,271	13,479,195
Changes in the year / Total comprehensive income	-	868,552	868,552
<b>At June 30, 2013</b>	<b>12,209,923</b>	<b>2,137,824</b>	<b>14,347,744</b>
At July 1, 2013	12,209,923	*2,137,820	14,347,747
Changes in the year / Total comprehensive income	-	1,737,995	1,737,995
<b>At June 30, 2014</b>	<b>12,209,923</b>	<b>3,875,815</b>	<b>16,085,742</b>

\* Adjustment on the 2012/13 financial statement surplus as a result un-expensed sundry prepayments (See note 29)

*National Hospital Insurance Fund*  
**Reports and Financial Statements**  
**For the year ended June 30, 2014 (Kshs'000)**

**STATEMENT OF CASH FLOWS FOR THE ENDED 30<sup>TH</sup> JUNE 2014**

	Notes	2014 Kshs	2013 Kshs
<b>OPERATING ACTIVITIES</b>			
Cash generated from operations	26(a)	1,533,191	773,015
Withholding tax Paid		(78,768)	(23,653)
<b>Net cash generated from operating activities</b>		<b>1,454,423</b>	<b>749,362</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(87,773)	(608,542)
Proceeds from disposal of property, plant and equipment		6,779	3,866
Interest from investment		322,175	197,093
Purchase of intangible assets		(10,440)	-
Proceeds from sale of South B estate		15,293	11,486
Redemption of Fixed interest investment		70,000	164,000
Purchase of Long term Deposit		(29,577)	(7,737)
Purchase/Redemption of unquoted investment		15,075	(78,915)
<b>Net cash generated from investing activities</b>		<b>301,532</b>	<b>(318,749)</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>1,755,955</b>	<b>430,613</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>1,869,298</b>	<b>1,438,685</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	26(b)	<b>3,625,253</b>	<b>1,869,298</b>

## **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principle accounting policies adopted in the preparation of these financial statements are set out below:

### **1. Statement of compliance and basis of preparation**

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued 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 Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Fund accounting policies.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

### **2. Revenue recognition**

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the Fund and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or expected to be received in the ordinary course of the Fund activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the Fund activities as described below.

- i) Revenue is generally recognized in the income statement on accrual basis. Best estimates of what is receivable are included in the accounts.
- ii) Rental income is recognised in the income statement as it accrues using the effective lease agreements.
- iii) Other income is recognised as it accrues.

### **3. Claims expenses**

These are payments on claims to health care providers and general claimants arising from hospitalization and any other goods or services incurred by the Fund for the direct benefit of the contributor in the approved and accredited health care providers. Health care providers report claims upon admission by way of notification and upon discharge, the health care provider presents to the fund the claims for payment. Claims are recognized as liabilities only after verification. The average length of stay in the health care providers is 5 days. Claims not received within 90 days from date of discharge are not admissible.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

**6. Intangible assets**

Intangible assets comprise purchased computer software licences, which are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful life of the intangible assets from the year that they are available for use, usually over three years.

**7. Amortisation and impairment of intangible assets**

Amortisation is calculated on the straight-line basis over the estimated useful life of computer software of three years.

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

**8. Investment property**

Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation, and which are not occupied by the Fund, are classified as investment property under non-current assets.

Investment property is carried at fair value, representing open market value determined periodically by independent external values. Changes in fair values are included in profit or loss in the income statement.

**Finance and operating leases**

Leases which confer substantially all the risks and rewards of ownership to the Fund are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, and the asset is subsequently accounted for in accordance with the accounting policy applicable to that asset.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**15. Retirement benefit obligations**

The Fund operates a defined contribution scheme for all full-time employees from July 1, 2001. The scheme is administered by an in-house team and is funded by contributions from both the company and its employees. The fund also contributes to the statutory, National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs. 200.00 per employee per month.

**16. Provision for staff leave pay**

Employees' entitlements to annual leave are recognised as they accrue at the employees. A provision is made for the estimated liability for annual leave at the reporting date.

**17. Comparative figures**

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

**18. Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2014.

**19. Contingent Asset/liability**

The Fund ensures that appropriate recognition criteria are applied to contingent liabilities and contingent assets and that sufficient information is disclosed in the notes to the financial statements to enable users to understand their nature, timing and amount. Contingent liabilities are disclosed when a possible obligation depending on whether some uncertain future event occurs or when there is a present obligation but payment is not probable or the amount cannot be measured reliably. Contingent assets are only disclosed where an inflow of economic benefits is probable.

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**NOTES TO THE FINANCIAL STATEMENT**

	2014 Kshs	2013 Kshs
<b>1 CONTRIBUTIONS</b>		
Self Employed	1,250,870	957,078
Standard Contribution	7,003,651	6,170,499
Late Contribution	945,469	638,419
Penalty	123,040	139,603
<b>Total</b>	<b><u>9,323,030</u></b>	<b><u>7,905,599</u></b>

This is recognised in accordance with the NHIF Act, through Standard Contributions and Self Employed contributions.

**2 SURPLUS FROM CIVIL SERVANTS SCHEME**

	2014 Kshs	2013 Kshs
PSC scheme contributions	4,581,650	4,324,367
<b>Expenses:</b>		
Outpatients - Civil Servants	1,561,393	2,138,470
Inpatient-Civil Servants	1,233,553	740,232
Group life - Civil Servants	756,299	717,771
Administrative Expenses -	322,075	325,189
<b>Surplus</b>	<b><u>708,330</u></b>	<b><u>402,705</u></b>

**3 OTHER INCOMES**

Interest on Investments	318,941	192,931
Accreditation Fees	2,750	4,680
Rent from Properties	271,555	238,722
Miscellaneous receipts	3,596	3,353
Recoveries out of Provisions	9,660	95
Interest - Disposal of South B estate	3,233	4,162
Agency Commission's	1,722	1,672
Gain on disposal of PPE	6,765	3,866
<b>Total</b>	<b><u>618,222</u></b>	<b><u>449,481</u></b>

Other incomes are those that accrue to the Fund from Short and long term Investments as well as services rendered to third parties.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2014 Kshs	2013 Kshs
<b>6 STAFF COSTS</b>		
Basic salary	1,580,264	1,317,963
Gratuity/ Pension Contribution	193,613	172,885
Compulsory National Social Security schemes	5,438	3,968
Other Allowances	816,955	809,684
<b>Total</b>	<b><u>2,596,270</u></b>	<b><u>2,304,500</u></b>

The number of employees at the end of the year was:

	2014 No.	2013 No.
Permanent employees - Management	468	476
Permanent employees - Unionisable	1,185	1,182
<b>Total</b>	<b><u>1,653</u></b>	<b><u>1,658</u></b>

	2014 Kshs	2013 Kshs
<b>7 BOARD EXPENSES</b>		
Sitting allowance	9,204	6,000
Seminars and Conferences	5,117	2,402
Accommodation	3,046	2,176
Honoraria	483	960
Mileage and per diem	10,835	3,888
Lunch allowance & refreshments	1,648	768
Travel - local	5,245	319
<b>Total</b>	<b><u>35,578</u></b>	<b><u>16,513</u></b>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 PROPERTY, PLANT AND EQUIPMENT (Continued)

2012/2013 FY	Land	Buildings	Motor vehicles, including motor cycles	Computers & related equipment	Office equipment, furniture & fittings	Capital work in progress	Total
<b>COST</b>							
At July 1, 2012	298,590	9,583,454	266,479	945,680	1,974,575	902,140	13,970,918
Additions	-	-	2,347	32,607	31,040	542,548	608,542
Transfers	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
<b>As at June 30, 2013</b>	<b>298,590</b>	<b>9,583,454</b>	<b>268,826</b>	<b>978,287</b>	<b>2,005,615</b>	<b>1,444,687</b>	<b>14,579,460</b>
<b>DEPRECIATION</b>							
At July 1, 2012	-	839,658	193,180	450,455	615,182	-	2,098,475
Charge for the year	-	136,132	28,125	19,622	44,956	-	228,835
Impairment loss	-	-	-	-	-	-	-
Eliminated on disposal	-	-	-	-	-	-	-
<b>As at June 30, 2013</b>	<b>-</b>	<b>975,790</b>	<b>221,305</b>	<b>470,078</b>	<b>660,137</b>	<b>-</b>	<b>2,327,310</b>
<b>NBV as at 30/06/2013</b>	<b>298,590</b>	<b>8,607,665</b>	<b>47,521</b>	<b>508,210</b>	<b>1,345,478</b>	<b>1,444,687</b>	<b>12,252,150</b>



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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**12 LOAN RECEIVABLE - SOUTH B ESTATE**

The fund sold houses in South B estate to staff members through mortgage at a rate of 6%. The recovery for the year and balance as at 30<sup>th</sup> June 2014 is shown below:

	2014 Kshs	2013 Kshs
Opening balance as at 1st July 2013	63,460	74,945
Less payments received in the year	<u>15,294</u>	<u>11,486</u>
<b>Balance receivable as at 30th June 2014</b>	<b><u>48,166</u></b>	<b><u>63,459</u></b>

**13 FIXED INTEREST INVESTMENTS (BONDS)**

In Central Bank of Kenya 12.5% 12-Year Infrastructure Bond

60,000	<u>130,000</u>
<b><u>60,000</u></b>	<b><u>130,000</u></b>

**14 LONG TERM DEPOSITS**

NBK (Car Loan)

53,072                      52,178

Savings & Loans

506,271                      477,588

**559,343**                      **529,766**

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2014	2013
<b>16 (a) PROVISIONS FOR DOUBTFUL DEBTS</b>	<b>Kshs</b>	<b>Kshs</b>
Provision for Outstanding Contributions	152,730	152,730
Provision for Imprest not surrendered	1,055	4,159
Provision for other Doubtful Receivables	7,537	7,632
Provision for lost Revenue	11,990	11,990
	<u>173,312</u>	<u>176,511</u>
<b>17 CASH AND CASH EQUIVALENTS</b>		
Short term investments (note 18)	2,120,802	1,808,262
Bank and Cash balance (note 19)	1,504,853	61,036
<b>Cash and Cash Equivalents</b>	<u>3,625,655</u>	<u>1,869,298</u>
<b>18 SHORT TERM INVESTMENTS</b>		
Treasury Bills	100,000	80,000
NBK (Call Deposit)	1,078,876	1,036,481
COOP (Call Deposit)	740,000	691,781
KCB (Call Deposit)	201,926	0
<b>Sub total</b>	<u>2,120,802</u>	<u>1,808,262</u>
Investments in non-performing Institutions	1,309,237	1,309,237
	<u>3,430,039</u>	<u>3,117,499</u>
Less: Provision for impaired Investments	(1,309,237)	(1,309,237)
	<u>2,120,802</u>	<u>1,808,262</u>

**Provision was made for investments in the following non-performing institutions**

Pioneer Building Society	6,189	6,189
Rural Urban Credit Finance	9,800	9,800
Continental Credit Finance Ltd	15,000	15,000
Inter Africa Credit Finance Ltd	833	833
Kenya Finance Bank Ltd	31,853	31,853
United Trustees Finance Ltd	4,000	4,000
Middle African Finance Ltd	12,100	12,100
Nairobi Finance Corp.	19,460	19,460

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2014 Kshs	2013 Kshs
<b>23 WITHHOLDING TAX</b>		
WHT Payable -Investment	7,081	6,641
	<u>7,081</u>	<u>6,641</u>
<b>24 TRADE AND OTHER PAYABLES</b>		
Accruals	4	-
Agency Group Life	4,808	7,755
Civil servants Group life scheme	26,097	44,519
Claims Payable	271,366	289,253
Legal Fees	157	157
Pension Payable	329	300
Rent Deposits	22,480	22,632
Retention Money	3,863	2,464
Rockefeller foundation	12	1,997
Salary clearance Accounts	5,658	90,196
Staff Payables	8	201
Tender refundable deposits	945	765
Trade Creditors	149,978	220,039
Unitid fellowship	-	1
VAT Payable	19,719	6,111
VAT Payable - Property	1,120	644
WHT Payable - Creditors	5,711	5,826
Total	<u>512,256</u>	<u>692,860</u>
<b>25 PROVISION FOR LIABILITIES</b>		
Provision for Audit Fees	2,018	1,740
Provision for civil servants scheme	450,060	542,422
Provision for renal dialysis consumable	-	9,862
Balance at end of the year	<u>452,078</u>	<u>554,023</u>

**National Hospital Insurance Fund  
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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

<b>(b) Analysis of cash and cash equivalents</b>	<b>2014</b>	<b>2013</b>
	<b>Kshs</b>	<b>Kshs</b>
Cash and cash equivalent (note 17)	3,625,655	1,869,298
Bank Overdraft ( note 22)	(402)	-
<b>Cash and Cash Equivalents at end of the year</b>	<b><u>3,625,253</u></b>	<b><u>1,869,298</u></b>

**27 COMMITMENTS**

The fund had committed and budgeted for purchase of Lifts and Generators at a cost of Kshs. 173,361,140.00 and Kshs. 25,989,810.00 respectively, in the year under review 2013/2014. However, the assets had neither been received nor paid for by the closure of the financial year on 30<sup>th</sup> June 2014. These assets will therefore, be paid for and recognized as additions in the subsequent financial period.

**28 CONTINGENT LIABILITIES**

The fund has a civil suit filed by Meridian Medical Centre in the High Court of Kenya, Milimani Commercial Courts (Civil suit No.345 of 2013).The Plaintiff filed the claim to be paid for services offered to Civil Servants and Disciplined Force Medical Pilot project. As the amount to be awarded by the courts cannot be determined, this contingent liability is hereby disclosed by the way of note as per IAS 37.

Consultants commissioned to carry out a feasibility study on the development on the parcel of land at Karen Area, Nairobi, have raised claims for services rendered. The extent of liability to the fund shall be known once the necessary approvals have received. This contingent liability is hereby disclosed by the way of note as per IAS 37.

**29 RESTATEMENT**

Adjustments made on 2012/2013 financial year's surplus and prepayment were as a result of correction of over statement of prepayment of Kshs. 3,420.00

**30 RELATED PARTY DISCLOSURES**

(a) Government of Kenya